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Form 10-Q
April 09, 2018

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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, 2018

Commission File Number: 1-11749

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

Delaware	95-4337490
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

700 Northwest 107th Avenue, Miami, Florida 33172
(Address of principal executive offices) (Zip Code)

(305) 559-4000
(Registrant's telephone number, including area code)

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

Large accelerated filer	ý	Accelerated filer	¨
Non-accelerated filer	¨	Smaller reporting company	¨
		Emerging growth company	¨

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. ¨

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 February 28, 2018:
Class A 288,004,551
Class B 37,679,938

Part I. Financial Information
Item 1. Financial Statements

Lennar Corporation and Subsidiaries
Condensed Consolidated Balance Sheets
(Dollars in thousands)
(unaudited)

	February 28, 2018 (1)	November 30, 2017 (1)
ASSETS		
Lennar Homebuilding:		
Cash and cash equivalents	$733,905	2,282,925
Restricted cash	22,842	8,740
Receivables, net	194,235	137,667
Inventories:		
Finished homes and construction in progress	9,306,606	4,676,279
Land and land under development	7,907,541	5,791,338
Consolidated inventory not owned	366,669	393,273
Total inventories	17,580,816	10,860,890
Investments in unconsolidated entities	990,723	900,769
Goodwill	3,433,477	136,566
Other assets	1,437,514	863,404
	24,393,512	15,190,961
Lennar Financial Services	1,748,432	1,689,508
Rialto	909,249	1,153,840
Lennar Multifamily	892,830	710,725
Total assets	$27,944,023	18,745,034

(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, 2018, total assets include $864.8 million related to consolidated VIEs of which $7.6 million is included in Lennar Homebuilding cash and cash equivalents, $0.1 million in Lennar Homebuilding receivables, net, $45.4 million in Lennar Homebuilding finished homes and construction in progress, $308.8 million in Lennar Homebuilding land and land under development, $366.7 million in Lennar Homebuilding consolidated inventory not owned, $4.5 million in Lennar Homebuilding investments in unconsolidated entities, $11.7 million in Lennar Homebuilding other assets, $20.0 million in Rialto assets and $100.0 million in Lennar Multifamily assets.

As of November 30, 2017, total assets include $799.4 million related to consolidated VIEs of which $15.8 million is included in Lennar Homebuilding cash and cash equivalents, $0.2 million in Lennar Homebuilding receivables, net, $53.2 million in Lennar Homebuilding finished homes and construction in progress, $229.0 million in Lennar Homebuilding land and land under development, $393.3 million in Lennar Homebuilding consolidated inventory not owned, $4.6 million in Lennar Homebuilding investments in unconsolidated entities, $11.8 million in Lennar Homebuilding other assets, $48.8 million in Rialto assets and $42.7 million in Lennar Multifamily 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, 2018 (2)	November 30, 2017 (2)
LIABILITIES AND EQUITY		
Lennar Homebuilding:		
Accounts payable	$782,797	604,953
Liabilities related to consolidated inventory not owned	347,048	380,720
Senior notes and other debts payable	10,382,540	6,410,003
Other liabilities	1,623,391	1,315,641
	13,135,776	8,711,317
Lennar Financial Services	1,005,002	1,177,814
Rialto	488,104	720,056
Lennar Multifamily	141,057	149,715
Total liabilities	14,769,939	10,758,902
Stockholders' equity:		
Preferred stock	—	—
Class A common stock of $0.10 par value; Authorized: February 28, 2018 - 400,000,000 and November 30, 2017 - 300,000,000 shares; Issued: February 28, 2018 - 289,922,064 shares and November 30, 2017 - 205,429,942 shares	28,992	20,543
Class B common stock of $0.10 par value; Authorized: February 28, 2018 and November 30, 2017 - 90,000,000 shares; Issued: February 28, 2018 - 39,368,304 shares and November 30, 2017 - 37,687,505 shares	3,937	3,769
Additional paid-in capital	8,221,423	3,142,013
Retained earnings	4,967,580	4,840,978
Treasury stock, at cost; February 28, 2018 - 1,917,513 shares of Class A common stock and 1,688,366 shares of Class B common stock; November 30, 2017 - 1,473,590 shares of Class A common stock and 1,679,650 shares of Class B common stock	(161,378)	(136,020)
Accumulated other comprehensive income	376	1,034
Total stockholders' equity	13,060,930	7,872,317
Noncontrolling interests	113,154	113,815
Total equity	13,174,084	7,986,132
Total liabilities and equity	$27,944,023	18,745,034

(2) 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, 2018, total liabilities include $366.0 million related to consolidated VIEs as to which there was no recourse against the Company, of which $4.5 million is included in Lennar Homebuilding accounts payable, $11.1 million in Lennar Homebuilding senior notes and other debts payable, $347.0 million in Lennar Homebuilding liabilities related to consolidated inventory not owned, $1.5 million in Lennar Homebuilding other liabilities, $1.8 million in Rialto liabilities and $0.1 million in Lennar Multifamily liabilities.

As of November 30, 2017, total liabilities include $389.7 million related to consolidated VIEs as to which there was no recourse against the Company, of which $5.0 million is included in Lennar Homebuilding accounts payable, $380.7 million in Lennar Homebuilding liabilities related to consolidated inventory not owned, $1.8 million in Lennar Homebuilding other liabilities and $2.2 million in Rialto liabilities.

See accompanying notes to condensed consolidated financial statements.

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

	Three Months Ended February 28,	
	2018	**2017**
Revenues:		
Lennar Homebuilding	$2,662,093	2,018,694
Lennar Financial Services	171,140	148,043
Rialto	54,302	82,006
Lennar Multifamily	93,256	88,685
Total revenues	2,980,791	2,337,428
Costs and expenses:		
Lennar Homebuilding	2,404,007	1,801,561
Lennar Financial Services	151,445	127,379
Rialto	45,413	66,913
Lennar Multifamily	97,199	92,649
Acquisition and integration costs related to CalAtlantic	104,195	—
Corporate general and administrative	67,810	60,699
Total costs and expenses	2,870,069	2,149,201
Lennar Homebuilding equity in loss from unconsolidated entities	(14,287)	(11,534)
Lennar Homebuilding other income, net	169,928	5,739
Lennar Homebuilding loss due to litigation	—	(140,000)
Rialto equity in earnings from unconsolidated entities	9,114	722
Rialto other expense, net	(8,791)	(16,658)
Lennar Multifamily equity in earnings from unconsolidated entities	2,742	23,147
Earnings before income taxes	269,428	49,643
Provision for income taxes (1)	(132,611)	(19,969)
Net earnings (including net earnings (loss) attributable to noncontrolling interests)	136,817	29,674
Less: Net earnings (loss) attributable to noncontrolling interests	602	(8,406)
Net earnings attributable to Lennar	$136,215	38,080
Other comprehensive income (loss), net of tax:		
Net unrealized gain (loss) on securities available-for-sale	(658)	972
Total other comprehensive income (loss), net of tax	$(658)	972
Total comprehensive income attributable to Lennar	$135,557	39,052
Total comprehensive income (loss) attributable to noncontrolling interests	$602	(8,406)
Basic earnings per share (2)	$0.53	0.16
Diluted earnings per share (2)	$0.53	0.16
Cash dividends per each Class A and Class B common share	$0.04	0.04

(1) Provision for income taxes for the three months ended February 28, 2018 includes a non-cash one-time write down of deferred tax assets of $68.6 million resulting from the Tax Cuts and Jobs Act enacted in December 2017.

(2) Basic and diluted average shares outstanding and earnings per share calculations for the three months ended February 28, 2017 have been adjusted to reflect 4.7 million of Class B shares distributed in the stock dividend on November 27, 2017.

See accompanying notes to condensed consolidated financial statements.

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

	Three Months Ended February 28,	
	2018	2017
Cash flows from operating activities:		
Net earnings (including net earnings (loss) attributable to noncontrolling interests)	$ 136,817	29,674
Adjustments to reconcile net earnings to net cash (used in) provided by operating activities:		
Depreciation and amortization	19,570	11,743
Amortization of discount/premium and accretion on debt, net	40	3,132
Equity in (earnings) loss from unconsolidated entities	2,431	(12,335)
Distributions of earnings from unconsolidated entities	3,542	31,949
Share-based compensation expense	17,766	12,505
Excess tax benefits from share-based awards	—	(1,953)
Deferred income tax (benefit) expense	33,788	(36,229)
Gain on sale of operating properties and equipment	(207)	—
Gain on sale of interest in unconsolidated entity	(164,880)	—
Unrealized and realized gains on real estate owned	(883)	(1,698)
Impairments of loans receivable and real estate owned	5,486	25,484
Valuation adjustments and write-offs of option deposits and pre-acquisition costs	12,048	1,930
Changes in assets and liabilities:		
Decrease in restricted cash	12,801	10,842
(Increase) decrease in receivables	(22,406)	264,714
Increase in inventories, excluding valuation adjustments and write-offs of option deposits and pre-acquisition costs	(548,725)	(601,711)
(Increase) decrease in other assets	(26,582)	12,846
Decrease in loans held-for-sale	422,991	339,492
Decrease in accounts payable and other liabilities	(46,325)	(11,061)
Net cash (used in) provided by operating activities	(142,728)	79,324
Cash flows from investing activities:		
Net additions of operating properties and equipment	(40,810)	(25,785)
Proceeds from sale of investment in unconsolidated entity	175,179	—
Investments in and contributions to unconsolidated entities	(62,575)	(151,706)
Distributions of capital from unconsolidated entities	20,927	39,961
Proceeds from sales of real estate owned	18,080	24,215
Other proceeds, net	2,627	2,029
Originations of loans receivable	—	(9,330)
Purchases of commercial mortgage-backed securities bonds	(31,068)	(40,357)
Acquisitions, net of cash acquired	(1,101,739)	(596,172)
Decrease (increase) in Lennar Financial Services loans held-for-investment, net	1,590	(2,025)
Purchases of Lennar Financial Services investment securities	(20,894)	(12,204)
Proceeds from maturities/sales of Lennar Financial Services investments securities	10,473	5,292
Net cash used in investing activities	$ (1,028,210)	(766,082)

See accompanying notes to condensed consolidated financial statements.

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

	Three Months Ended February 28,	
	2018	2017
Cash flows from financing activities:		
Net borrowings under revolving lines of credit	$45,300	250,000
Net repayments under warehouse facilities	(344,511)	(543,356)
Proceeds from senior notes	—	600,000
Debt issuance costs	(12,039)	(10,848)
Proceeds from Rialto notes payable	32,226	35,460
Principal payments on Rialto senior notes and other notes payable	(100,161)	(2,971)
Proceeds from other borrowings	581	7,395
Payments related to other liabilities	(1,478)	—
Principal payments on other borrowings	(15,387)	(16,242)
Receipts related to noncontrolling interests	3,852	153
Payments related to noncontrolling interests	(23,760)	(25,871)
Excess tax benefits from share-based awards	—	1,953
Common stock:		
Issuances	—	99
Repurchases	(25,355)	(83)
Dividends	(9,617)	(9,400)
Net cash (used in) provided by financing activities	(450,349)	286,289
Net decrease in cash and cash equivalents	(1,621,287)	(400,469)
Cash and cash equivalents at beginning of period	2,650,872	1,329,529
Cash and cash equivalents at end of period	$1,029,585	929,060
Summary of cash and cash equivalents:		
Lennar Homebuilding	$733,905	640,816
Lennar Financial Services	165,849	162,513
Rialto	113,582	119,308
Lennar Multifamily	16,249	6,423
	$1,029,585	929,060
Supplemental disclosures of non-cash investing and financing activities:		
Lennar Homebuilding and Lennar Multifamily:		
Non-cash contributions to unconsolidated entities	$523	25,315
Non-cash increase in consolidated inventory not owned	$—	115,000
Purchases of inventories and other assets financed by sellers	$23,503	80,919
Equity component of acquisition consideration	$5,070,006	—
Consolidation/deconsolidation of unconsolidated/consolidated entities, net:		
Inventories	$35,430	—
Receivables	$7,198	—
Investments in unconsolidated entities	$(25,614)	—
Other liabilities	$(17,014)	—

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 16) in which Lennar Corporation is deemed to be the primary beneficiary (the "Company"). The Company’s investments in both unconsolidated entities in which a significant, but less than controlling, interest is held and in VIEs in which the Company is not deemed to be the primary beneficiary, are accounted for by the equity method. All intercompany transactions and balances have been eliminated in consolidation. The condensed consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America ("GAAP") for interim financial information, the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by GAAP for complete financial statements. These condensed consolidated financial statements should be read in conjunction with the consolidated financial statements in the Company’s Annual Report on Form 10-K for the year ended November 30, 2017. 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, 2018 are not necessarily indicative of the results to be expected for the full year.

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.

Reclassifications/Revisions

Certain prior year amounts in the consolidated financial statements have been reclassified to conform with the 2018 presentation. These reclassifications had no impact on the Company's condensed consolidated financial statements.

(2) Business Acquisitions

Acquisition of CalAtlantic Group, Inc.

On February 12, 2018, the Company completed the acquisition of CalAtlantic Group, Inc. (“CalAtlantic”) through a transaction in which CalAtlantic was merged with and into a wholly-owned subsidiary of the Company (“Merger Sub”), with Merger Sub continuing as the surviving corporation and a wholly-owned subsidiary of the Company (the “Merger”). The Merger took place pursuant to the Agreement and Plan of Merger dated as of October 29, 2017, among CalAtlantic, the Company and Merger Sub (the “Merger Agreement”). CalAtlantic is a homebuilder which builds homes across the homebuilding spectrum, from entry level to luxury, in 43 metropolitan statistical areas spanning 19 states. CalAtlantic also provides mortgage, title and escrow services. A primary reason for the acquisition was to increase local market concentration in order to generate synergies and efficiencies.

Based on an evaluation of the provisions of Accounting Standard Codification ("ASC"), Topic 805, *Business Combinations*, ("ASC 805"), Lennar Corporation was determined to be the acquirer for accounting purposes. The purchase price accounting reflected in the accompanying financial statements is provisional and is based upon estimates and assumptions that are subject to change within the measurement period (up to one year from the acquisition date pursuant to ASC 805). The measurement period remains open pending the completion of valuation procedures related to the acquired assets and assumed liabilities. The $3.4 billion allocated to goodwill represents the excess of the purchase price over the estimated fair value of assets acquired and liabilities assumed.

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The following table summarizes the purchase price allocation based on the estimated fair value of net assets acquired and liabilities assumed at the date of acquisition:

(Dollars in thousands)	
CalAtlantic shares of common stock outstanding	118,025,879
CalAtlantic shares electing cash conversion	24,083,091
CalAtlantic shares exchanged	93,942,788
Exchange ratio for Class A common stock	0.885
Exchange ratio for Class B common stock	0.0177
Number of shares of Lennar Class A common stock issued in exchange	83,138,277
Number of shares of Lennar Class B common stock issued in exchange (due to Class B common stock dividend)	1,662,172
Consideration attributable to Class A common stock	$ 4,933,425
Consideration attributable to Class B common stock	77,823
Consideration attributable to equity awards that convert upon change of control	58,755
Consideration attributable to cash including fractional shares	1,162,344
Total purchase price	$ 6,232,347

(In thousands)	
ASSETS	
Homebuilding:	
Cash and cash equivalents, restricted cash and receivables, net	$ 57,879
Inventories	6,288,283
Intangible assets (1)	8,000
Investments in unconsolidated entities	151,858
Goodwill (2)	3,296,911
Other assets	577,623
Total Homebuilding assets	10,380,554
Financial Services (2)	322,804
Total assets	10,703,358
LIABILITIES	
Homebuilding:	
Accounts payable	85,001
Senior notes payable and other debts	3,922,987
Other liabilities (3)	349,520
Total Homebuilding liabilities	4,357,508
Financial Services	95,073
Total liabilities	4,452,581
Noncontrolling interests (4)	18,430
Total purchase price	$ 6,232,347

(1) Intangible assets includes trade name. The amortization period for the trade name is approximately six months.

(2) Goodwill represents the excess of the purchase price over the fair value of assets acquired and liabilities assumed, and it is generally not deductible for income tax purposes. As of the merger date, goodwill consisted primarily of expected greater efficiencies and opportunities due to increased concentration of local market share, reduced general and administrative costs and reduced homebuilding costs resulting from the merger and cost savings as a result of additional homebuilding and non-homebuilding synergies. The assignment of goodwill by the Company's reporting segments has not been completed yet, however, a provisional amount of goodwill of approximately$150 million was allocated to Lennar Financial Services.

(3) Other liabilities includes contingencies assumed at the Merger date, which includes warranty and legal reserves. Warranty 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. Warranty reserves are determined based on historical data and trends with respect to similar product types and geographical areas. Consistent with ASC 450, *Contingencies,* legal reserves are established when a loss is considered probable and the amount of loss can be reasonably estimated.

(4) Fair value of noncontrolling interests was measured using discounted cash flows of expected future contributions and distributions.

Lennar Homebuilding revenue and net earnings attributable to Lennar for the three months ended February 28, 2018 included $373.4 million of home sales revenue and $108.5 million of a pre-tax loss from CalAtlantic from the date of acquisition to February 28, 2018, which included acquisition and integration costs of $104.2 million from both Lennar and CalAtlantic. These transaction expenses were included within acquisition and integration costs related to CalAtlantic in the accompanying condensed consolidated statement of operations for the three months ended February 28, 2018.

The following presents summarized unaudited supplemental pro forma operating results as if CalAtlantic had been included in the Company's Consolidated Statements of Operations as of the beginning of the quarter presented.

	Three Months Ended February 28,	
(Dollars in thousands, except per share amounts)	**2018**	**2017**
Revenues from home sales	$4,194,203	3,611,375
Net earnings (1)	130,496	156,234
Earnings per share:		
Basic	$0.51	0.62
Diluted	$0.51	0.61

(1) Net earnings for three months ended February 28, 2018 include a pre-tax impact from acquisition and integration costs related to CalAtlantic of $104.2 million.

The supplemental pro forma operating results have been determined after adjusting the operating results of CalAtlantic to reflect additional amortization that would have been recorded assuming the fair value adjustment to intangible assets had been applied beginning December 1, 2016. Certain other adjustments, including those related to conforming accounting policies and adjusting acquired inventory to fair value, have not been reflected in the supplemental pro forma operating results due to the impracticability of estimating their impacts.

Acquisition of WCI Communities, Inc. in February 2017

On February 10, 2017, the Company acquired WCI Communities, Inc. ("WCI") a homebuilder of luxury single and multifamily homes, including a small percentage of luxury high-rise tower units, with operations in Florida. WCI stockholders received $642.6 million in cash. The cash consideration was funded primarily from working capital and proceeds from the issuance of 4.125% senior notes due 2022 (see Note 12).

Based on an evaluation of the provisions of ASC 805, Lennar Corporation was determined to be the acquirer for accounting purposes. The following table summarizes the purchase price allocation based on the estimated fair value of net assets acquired and liabilities assumed at the date of acquisition:

(In thousands)	
ASSETS	
Cash and cash equivalents, restricted cash and receivables, net	$42,079
Inventories	613,495
Intangible assets (1)	59,283
Goodwill (2)	156,566
Deferred tax assets, net	88,147
Other assets	66,173
Total assets	1,025,743
LIABILITIES	
Accounts payable	26,735
Senior notes and other debts payable	282,793
Other liabilities	73,593
Total liabilities	383,121
Total purchase price	$642,622

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(1) Intangible assets include non-compete agreements and a trade name. The amortization period for these intangible assets was six months for the non-compete agreements and 20 years for the trade name.

(2) Goodwill represents the excess of the purchase price over the fair value of assets acquired and liabilities assumed, and it is not deductible for income tax purposes. As of the merger date, goodwill consisted primarily of purchasing and other synergies resulting from the merger, expected production, savings in corporate and division overhead costs and expected expanded opportunities for growth through a higher-end more luxurious product, greater presence in the state of Florida and customer diversity. The amount of goodwill allocated to the Company's Homebuilding East segment was $136.6 million and to the Lennar Financial Services segment was $20.0 million. These amounts were based on the relative fair value of each acquired reporting unit in accordance with ASC 350, *Intangibles-Goodwill and Other*.

For the three months ended February 28, 2017, Lennar Homebuilding revenues included $19.5 million of home sales revenues from WCI and earnings before income taxes included $8.9 million of pre-tax earnings from WCI since the date of acquisition, which included transaction-related expenses of $11.0 million comprised mainly of severance costs, general and administrative expenses, and amortization expense related to non-compete agreements and trade name since the date of acquisition. These transaction expenses were included primarily within Lennar Homebuilding selling, general and administrative expenses in the accompanying condensed consolidated statement of operations for the three months ended February 28, 2017. The pro forma effect of the acquisition on the results of operations is not presented as this acquisition was not considered material.

(3) 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) Lennar Financial Services
(5) Rialto
(6) Lennar Multifamily

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

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

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

East: Florida, Georgia, Maryland, New Jersey, North Carolina, South Carolina and Virginia
Central: Arizona, Colorado and Texas
West: California and Nevada
Other: Illinois, Indiana, Minnesota, Oregon, Tennessee, Utah and Washington

Operations of the Lennar Financial Services segment include primarily mortgage financing, title insurance, closing services and property and casualty insurance for both buyers of the Company’s homes and others. It also includes a real estate brokerage business acquired as part of the WCI transaction. The Lennar Financial Services segment sells substantially all of the loans it originates within a short period in the secondary mortgage market, the majority of which are sold on a servicing released, non-recourse basis. After the loans are sold, the Company retains potential liability for possible claims by purchasers that it breached certain limited industry-standard representations and warranties in the loan sale agreements. Lennar Financial Services’ operating earnings consist of revenues generated primarily from mortgage financing, title insurance, property and casualty insurance, closing services and real estate brokerage, 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 segment include raising, investing and managing third-party capital, originating and securitizing commercial mortgage loans as well as investing its own capital in real estate related mortgage loans, properties and related securities. Rialto utilizes its vertically-integrated investment and operating platform to underwrite, diligence, acquire, manage, workout and add value to diverse portfolios of real estate loans, properties and real estate related securities as well as providing

strategic real estate capital. Rialto's operating earnings(loss) consist of revenues generated primarily from gains from securitization transactions and interest income from the Rialto Mortgage Finance ("RMF") business, interest income associated with portfolios of real estate loans acquired and other portfolios of real estate loans and assets acquired, asset management, due diligence and underwriting fees derived from the real estate investment funds managed by the Rialto segment, fees for sub-advisory services, other income (expense), net and equity in earnings (loss) from unconsolidated entities, less the costs incurred by the segment for managing portfolios, costs related to RMF and other general and administrative expenses.

Operations of the Lennar Multifamily segment include revenues generated from the sales of land, revenue from construction activities and management fees generated from joint ventures and equity in earnings (loss) from unconsolidated entities, less the cost of sales of land sold, expenses related to construction activities and general and administrative expenses.

Each reportable segment follows the same accounting policies described in Note 1 – "Summary of Significant Accounting Policies" to the consolidated financial statements in the Company's Form 10-K for the year ended November 30, 2017. 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, 2018**	**November 30, 2017**
Assets:		
Homebuilding East	$7,537,607	4,754,581
Homebuilding Central	3,609,537	2,037,905
Homebuilding West	7,668,640	5,165,218
Homebuilding Other	1,547,102	960,541
Lennar Financial Services	1,748,432	1,689,508
Rialto	909,249	1,153,840
Lennar Multifamily	892,830	710,725
Corporate and unallocated	4,030,626	2,272,716
Total assets	$27,944,023	18,745,034
Lennar Homebuilding goodwill (1)	$3,433,477	136,566
Lennar Financial Services goodwill (1)	$210,628	59,838
Rialto goodwill	$5,396	5,396

(1) In connection with the CalAtlantic acquisition, the Company recorded a provisional amount of homebuilding goodwill of $3.3 billion. The allocation of goodwill by homebuilding reporting segment has not yet been finalized. A provisional amount of goodwill related to the CalAtlantic acquisition of $150 million was allocated to Lennar Financial Services. In connection with the WCI acquisition in 2017, the Company allocated $136.6 million of goodwill to the Lennar Homebuilding East reportable segment and $20.0 million to the Lennar Financial Services segment.

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	Three Months Ended February 28,	
(In thousands)	**2018**	**2017**
Revenues:		
Homebuilding East	$ 1,070,654	767,726
Homebuilding Central	611,780	516,181
Homebuilding West	779,879	552,798
Homebuilding Other	199,780	181,989
Lennar Financial Services	171,140	148,043
Rialto	54,302	82,006
Lennar Multifamily	93,256	88,685
Total revenues (1)	$ 2,980,791	2,337,428
Operating earnings (loss) (2):		
Homebuilding East (3)	$ 105,921	(55,709)
Homebuilding Central (4)	42,546	52,858
Homebuilding West (5)	251,276	53,360
Homebuilding Other (6)	13,984	20,829
Lennar Financial Services	19,695	20,664
Rialto	9,212	(843)
Lennar Multifamily	(1,201)	19,183
Total operating earnings	441,433	110,342
Acquisition and integration costs related to CalAtlantic	104,195	—
Corporate general and administrative expenses	67,810	60,699
Earnings before income taxes	$ 269,428	49,643

(1) Total revenues were net of sales incentives of $149.9 million ($22,300 per home delivered) for the three months ended February 28, 2018, compared to $123.5 million ($22,700 per home delivered) for the three months ended February 28, 2017.

(2) All homebuilding segments and Homebuilding other were impacted by purchase accounting adjustments for three months ended February 28, 2018.

(3) Homebuilding East operating earnings for the three months ended February 28, 2017 included a $140 million loss due to litigation (see Note 17).

(4) Homebuilding Central operating earnings for the three months ended February 28, 2018 included a $6.9 million valuation adjustment.

(5) Homebuilding West operating earnings includes $164.9 million related to a gain on the sale of an 80% interest in one of Lennar Homebuilding's strategic joint ventures, Treasure Island Holdings.

(6) Homebuilding Other operating earnings for the three months ended February 28, 2018 were impacted by the timing of opening and closing of communities.

(4) 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 February 28,	
(In thousands)	**2018**	**2017**
Revenues	$ 68,872	46,136
Costs and expenses	108,424	79,066
Net loss of unconsolidated entities	$ (39,552)	(32,930)
Lennar Homebuilding equity in loss from unconsolidated entities	$ (14,287)	(11,534)

For the three months ended February 28, 2018, Lennar Homebuilding equity in loss from unconsolidated entities was primarily attributable to the Company's share of valuation adjustments related to assets of Lennar Homebuilding's

unconsolidated entities and the Company's share of net operating losses from its unconsolidated entities.
For the three months ended February 28, 2017, Lennar Homebuilding equity in loss from unconsolidated entities was primarily attributable to the Company’s share of net operating losses from its unconsolidated entities. The operating losses from

the Company's unconsolidated entities were primarily driven by general and administrative expenses, as there were not sufficient land sale transactions to offset those expenses during the three months ended February 28, 2017.

Balance Sheets

(In thousands)	February 28, 2018	November 30, 2017
Assets:		
Cash and cash equivalents	$ 816,965	953,261
Inventories	4,155,615	3,751,525
Other assets	1,063,853	1,061,507
	$ 6,036,433	5,766,293
Liabilities and equity:		
Accounts payable and other liabilities	$ 907,108	832,151
Debt (1)	736,596	737,331
Equity	4,392,729	4,196,811
	$ 6,036,433	5,766,293

(1) Debt presented above is net of debt issuance costs of $5.3 million and $5.7 million, as of February 28, 2018 and November 30, 2017, respectively.

In May 2017, FivePoint Holdings, LLC ("FivePoint") completed its initial public offering ("IPO"). Concurrent with the IPO, the Company invested an additional $100 million in FivePoint in a private placement. As of February 28, 2018, the Company owns approximately 40% of FivePoint and the carrying amount of the Company's investment is $352.0 million.

As of February 28, 2018 and November 30, 2017, the Company's recorded investments in Lennar Homebuilding unconsolidated entities were $990.7 million and $900.8 million, respectively, while the underlying equity in Lennar Homebuilding unconsolidated entities partners' net assets as of February 28, 2018 and November 30, 2017 was $1.4 billion and $1.3 billion, respectively. The basis difference is primarily as a result of the Company contributing its investment in three strategic joint ventures with a higher fair value than book value for an investment in the FivePoint entity and deferring equity in earnings on land sales to the Company.

In 2017, the Company entered into a Membership Interest Purchase Agreement and a Payment Escrow Agreement ("Agreement") with one of its strategic joint ventures under which the Company agreed to sell 80% to a third-party. Under the terms of the Agreement, the sale transaction was contingent upon the satisfaction of certain conditions. In January 2018, conditions were fulfilled and the transaction was closed resulting in gains of $164.9 million recorded in Lennar Homebuilding other income, net within the accompanying condensed consolidated statement of operations for the three months ended February 28, 2018.

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

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

(Dollars in thousands)	February 28, 2018	November 30, 2017
Non-recourse bank debt and other debt (partner's share of several recourse)	$ 62,720	64,197
Non-recourse land seller debt and other debt	1,997	1,997
Non-recourse debt with completion guarantees	251,235	255,903
Non-recourse debt without completion guarantees	355,844	351,800
Non-recourse debt to the Company	671,796	673,897
The Company's maximum recourse exposure (1)	70,096	69,181
Debt issue costs	(5,296)	(5,747)
Total debt	$ 736,596	737,331
The Company's maximum recourse exposure as a % of total JV debt	10 %	9 %

(1) As of both February 28, 2018 and November 30, 2017, the Company's maximum recourse exposure was primarily related to the Company providing repayment guarantees on three unconsolidated entities' debt.

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. 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 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.

If the Company is required to make a payment under any guarantee, the payment would constitute a capital contribution or loan to the Lennar Homebuilding unconsolidated entity and increase the Company's investment in the unconsolidated entity and its share of any funds the unconsolidated entity distributes.

As of both February 28, 2018 and November 30, 2017, the fair values of the repayment guarantees and completion guarantees were not material. The Company believes that as of February 28, 2018, 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, the collateral would 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 with regard to obligations of its joint ventures (see Note 12).

(5) 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, 2018 and 2017:

		Stockholders' Equity						
(In thousands)	Total Equity	Class A Common Stock	Class B Common Stock	Additional Paid - in Capital	Treasury Stock	Accumulated Other Comprehensive Income (Loss)	Retained Earnings	Noncontrolling Interests
Balance at November 30, 2017	$7,986,132	20,543	3,769	3,142,013	(136,020)	1,034	4,840,978	113,815
Net earnings (including net earnings attributable to noncontrolling interests)	136,817	—	—	—	—	—	136,215	602
Employee stock and directors plans	(2,557)	41	—	214	(2,816)	—	4	—
Stock issuance in connection with CalAtlantic acquisition	5,047,464	8,408	168	5,061,430	(22,542)	—	—	—
Amortization of restricted stock	17,766	—	—	17,766	—	—	—	—
Cash dividends	(9,617)	—	—	—	—	—	(9,617)	—
Receipts related to noncontrolling interests	3,852	—	—	—	—	—	—	3,852
Payments related to noncontrolling interests	(23,760)	—	—	—	—	—	—	(23,760)
Non-cash activity related to noncontrolling interests	18,645	—	—	—	—	—	—	18,645
Total other comprehensive loss, net of tax	(658)	—	—	—	—	(658)	—	—
Balance at February 28, 2018	$13,174,084	28,992	3,937	8,221,423	(161,378)	376	4,967,580	113,154

	Stockholders' Equity							
(In thousands)	**Total Equity**	**Class A Common Stock**	**Class B Common Stock**	**Additional Paid - in Capital**	**Treasury Stock**	**Accumulated Other Comprehensive Income (Loss)**	**Retained Earnings**	**Noncontrolling Interests**
Balance at November 30, 2016	$7,211,567	20,409	3,298	2,805,349	(108,961)	(309)	4,306,256	185,525
Net earnings (including net loss attributable to noncontrolling interests)	29,674	—	—	—	—	—	38,080	(8,406)
Employee stock and directors plans	72	2	—	157	(87)	—	—	—
Tax benefit from employee stock plans, vesting of restricted stock and conversions of convertible senior notes	35,515	—	—	35,515	—	—	—	—
Amortization of restricted stock	12,505	—	—	12,505	—	—	—	—
Cash dividends	(9,400)	—	—	—	—	—	(9,400)	—
Receipts related to noncontrolling interests	153	—	—	—	—	—	—	153
Payments related to noncontrolling interests	(25,871)	—	—	—	—	—	—	(25,871)
Non-cash activity to noncontrolling interests	588	—	—	2,267	—	—	—	(1,679)
Total other comprehensive income, net of tax	972	—	—	—	—	972	—	—
Balance at February 28, 2017	$7,255,775	20,411	3,298	2,855,793	(109,048)	663	4,334,936	149,722

(6) Income Taxes

The provision for income taxes and effective tax rate were as follows:

	Three Months Ended February 28,	
(Dollars in thousands)	**2018**	**2017**
Provision for income taxes	($132,611)	(19,969)
Effective tax rate (1)	49.3 %	34.4 %

(1) For the three months ended February 28, 2018, the effective tax rate included a $68.6 million non-cash one-time write down of the deferred tax assets due to the enactment of the Tax Cuts and Jobs Act and state income tax expense, offset primarily by tax benefits for the domestic production activities deduction, and solar tax credits. Excluding the impact of the write down of the deferred tax assets, the effective tax rate for the three months ended February 28, 2018 was 23.8%. For the three months ended February 28, 2017, the effective tax rate included tax benefits for the domestic production activities deduction and energy tax credits, offset primarily by state income tax expense.

As of February 28, 2018 and November 30, 2017, the Company's deferred tax assets, net, included in the condensed consolidated balance sheets were $759.0 million and $297.7 million, respectively. The increase in the deferred tax assets is primarily due to deferred tax assets recorded from the acquisition of CalAtlantic, partially offset by the write down of the deferred tax assets related to the Tax Cuts and Jobs Act, as described below.

As of February 28, 2018 and November 30, 2017, the Company had $25.8 million and $12.3 million, respectively, of gross unrecognized tax benefits.

At February 28, 2018, the Company had $52.2 million accrued for interest and penalties, of which $1.5 million was due to the CalAtlantic acquisition and an additional $1.0 million was accrued during the three months ended February 28, 2018. At November 30, 2017, the Company had $49.7 million accrued for interest and penalties.

On December 22, 2017, the President signed into law the Tax Cuts and Jobs Act. This Act will materially affect the taxes owed by the Company in 2018 and subsequent years. Among other things, it reduced the maximum federal corporate income tax rate to 21%, which should have a positive effect on the Company's net earnings and earnings per share. It also limited or eliminated certain deductions to which the Company has been entitled in past years and reduced the value of the Company's deferred tax assets, which required the Company to recognize in the first quarter of fiscal year 2018 an income tax expense of $68.6 million.

(7) 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 February 28,	
(In thousands, except per share amounts)	**2018**	**2017**
Numerator:		
Net earnings attributable to Lennar	$136,215	38,080
Less: distributed earnings allocated to nonvested shares	115	112
Less: undistributed earnings allocated to nonvested shares	1,282	273
Numerator for basic earnings per share	134,818	37,695
Less: net amount attributable to noncontrolling interests in Rialto's Carried Interest Incentive Plan (1)	210	339
Plus: interest on convertible senior notes	26	—
Plus: undistributed earnings allocated to convertible shares	1	—
Numerator for diluted earnings per share	$134,635	37,356
Denominator:		
Denominator for basic earnings per share - weighted average common shares outstanding (2)	253,665	236,852
Effect of dilutive securities:		
Shared based payments	55	2
Convertible senior notes	728	—
Denominator for diluted earnings per share - weighted average common shares outstanding	254,448	236,854
Basic earnings per share (2)	$0.53	0.16
Diluted earnings per share (2)	$0.53	0.16

(1) The amounts presented relate to Rialto's Carried Interest Incentive Plan adopted in June 2015 (see Note 9) and represents the difference between the advanced tax distributions received by Rialto's subsidiary and the amount Lennar, as the parent company, is assumed to own.

(2) The weighted average common shares for the three months ended February 28, 2017 has been retroactively adjusted to include 4.7 million of Class B shares distributed in the stock dividend on November 27, 2017. As a result, basic and diluted earnings per share have also been retroactively adjusted.

For both the three months ended February 28, 2018 and 2017, there were no options to purchase shares of common stock that were outstanding and anti-dilutive.

(8) Lennar Financial Services Segment

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

(In thousands)	February 28, 2018	November 30, 2017
Assets:		
Cash and cash equivalents	$ 165,849	117,410
Restricted cash	11,251	12,006
Receivables, net (1)	366,100	313,252
Loans held-for-sale (2)	689,172	937,516
Loans held-for-investment, net	69,832	44,193
Investments held-to-maturity	60,831	52,327
Investments available-for-sale (3)	57,768	57,439
Goodwill (4)	210,628	59,838
Other (5)	117,001	95,527
	$ 1,748,432	1,689,508
Liabilities:		
Notes and other debts payable	$ 772,240	937,431
Other (6)	232,762	240,383
	$ 1,005,002	1,177,814

(1) Receivables, net primarily related to loans sold to investors for which the Company had not yet been paid as of February 28, 2018 and November 30, 2017, respectively.

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

(3) Investments available-for-sale are carried at fair value with changes in fair value recorded as a component of accumulated other comprehensive income (loss) on the condensed consolidated balance sheet.

(4) As of February 28, 2018, goodwill included $20.0 million of goodwill related to the WCI acquisition. The assignment of goodwill to the Company's reporting segments related to the CalAtlantic acquisition has not been completed yet, however, a provisional amount of goodwill of approximately $150 million was allocated to Lennar Financial Services (see Note 2).

(5) As of February 28, 2018 and November 30, 2017, other assets included mortgage loan commitments carried at fair value of $11.7 million and $9.9 million, respectively, and mortgage servicing rights carried at fair value of $36.8 million and $31.2 million, respectively. In addition, other assets also included forward contracts carried at fair value of $4.8 million and $1.7 million as of February 28, 2018 and November 30, 2017, respectively.

(6) As of February 28, 2018 and November 30, 2017, other liabilities included $57.2 million and $57.7 million, respectively, of certain of the Company’s self-insurance reserves related to construction defects, general liability and workers’ compensation.

At February 28, 2018, the Lennar Financial Services segment warehouse facilities were as follows:

(In thousands)	Maximum Aggregate Commitment
364-day warehouse repurchase facility that matures March 2018 (1)	$ 150,000
364-day warehouse repurchase facility that matures June 2018	400,000
364-day warehouse repurchase facility that matures June 2018 (2)	300,000
364-day warehouse repurchase facility that matures September 2018	300,000
364-day warehouse repurchase facility that matures December 2018 (3)	400,000
Total	$ 1,550,000

(1) Maximum aggregate commitment includes an uncommitted amount of $75 million. Subsequent to February 28, 2018, the warehouse repurchase facility maturity was extended to March 2019.

(2) Maximum aggregate commitment includes an uncommitted amount of $300 million.

(3) Maximum aggregate commitment includes an uncommitted amount of $250 million.

The Lennar Financial Services segment uses these facilities to finance its lending activities until the mortgage loans are sold to investors and the proceeds are collected. The facilities are non-recourse to the Company and are expected to be renewed or replaced with other facilities when they mature. Borrowings under the facilities and their prior year predecessors were $772.1 million and $937.2 million at February 28, 2018 and November 30, 2017, respectively, and were collateralized by mortgage loans and receivables on loans sold to investors but not yet paid for with outstanding principal balances of $800.2 million and $974.1 million at February 28, 2018 and November 30, 2017, respectively. If the facilities are not renewed or replaced, 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 for. 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 agreements. Over the last several years there has been an industry-wide effort by purchasers to defray their losses by purporting to have found inaccuracies related to sellers' representations and warranties in particular loan sale agreements. Mortgage investors could seek to have the Company buy back mortgage loans or compensate them for losses incurred on mortgage loans that the Company has sold based on claims that the Company breached its limited representations or warranties. The Company's mortgage operations have established accruals for possible losses associated with mortgage loans previously originated and sold to investors. The Company establishes accruals for such possible losses based upon, among other things, an analysis of repurchase requests received, an estimate of potential repurchase claims not yet received and actual past repurchases and losses through the disposition of affected loans as well as previous settlements. While the Company believes that it has adequately reserved for known losses and projected repurchase requests, given the volatility in the mortgage industry and the uncertainty regarding the ultimate resolution of these claims, if either actual repurchases or the losses incurred resolving those repurchases exceed the Company's expectations, additional recourse expense may be incurred. Loan origination liabilities are included in Lennar Financial Services' liabilities in the Company's condensed consolidated balance sheets.
The activity in the Company's loan origination liabilities was as follows:

	Three Months Ended February 28,	
(In thousands)	**2018**	**2017**
Loan origination liabilities, beginning of period	$22,543	24,905
Provision for losses	647	878
Origination liabilities assumed related to CalAtlantic acquisition	3,959	—
Payments/settlements	(39)	(780)
Loan origination liabilities, end of period	$27,110	25,003

(9) <u>Rialto Segment</u>

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

(In thousands)	**February 28, 2018**	**November 30, 2017**
Assets:		
Cash and cash equivalents	$ 113,582	241,861
Restricted cash (1)	20,536	22,466
Loans held-for-sale (2)	125,013	236,018
Loans receivable, net	1,932	1,933
Real estate owned, net	63,284	86,047
Investments in unconsolidated entities	275,850	265,418
Investments held-to-maturity	210,882	179,659
Other	98,170	120,438
	$ 909,249	1,153,840
Liabilities:		
Notes and other debts payable (3)	$ 438,879	625,081
Other	49,225	94,975
	$ 488,104	720,056

(1)

Restricted cash primarily consisted of cash set aside for future investments on behalf of a real estate investment trust that Rialto is a sub-advisor to. It also included upfront deposits and application fees Rialto Mortgage Finance ("RMF") receives before originating loans and is recognized as income once the loan has been originated, as well as cash held in escrow by the Company's loan servicer provider on behalf of customers and lenders and is disbursed in accordance with agreements between the transacting parties.

(2) Loans held-for-sale related to unsold loans originated by RMF carried at fair value and loans in the FDIC Portfolios carried at lower of cost or market.

(3) As of February 28, 2018 and November 30, 2017, notes and other debts payable primarily included $249.1 million and $349.4 million, respectively, related to Rialto's 7.00% senior notes due December 2018, and $45.9 million and $162.1 million, respectively, related to

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Rialto's warehouse repurchase facilities. Subsequent to February 28, 2018, the remaining principal balance of Rialto's 7.00% senior notes due December 2018 was paid off.

Rialto Mortgage Finance - loans held-for-sale

During the three months ended February 28, 2018, RMF originated loans with a total principal balance of $238.0 million, all of which was recorded as loans held-for-sale, and sold $347.7 million of loans into three separate securitizations. During the three months ended February 28, 2017, RMF originated loans with a total principal balance of $403.7 million of which $394.3 million were recorded as loans held-for-sale and $9.3 million as accrual loans within loans receivable, net, and sold $477.7 million of loans into three separate securitizations. As of February 28, 2018 and November 30, 2017, there were no unsettled transactions.

FDIC Portfolios

In 2010, the Rialto segment acquired indirectly 40% managing member equity interests in two limited liability companies ("LLCs") in partnership with the FDIC ("FDIC Portfolios"). The LLCs met the accounting definition of VIEs and since the Company was determined to be the primary beneficiary, the Company consolidated the LLCs. The Company was determined to be the primary beneficiary because it has the power to direct the activities of the LLCs that most significantly impact the LLCs' performance through Rialto's management and servicer contracts.

In February 2017, the FDIC exercised its "clean-up call rights" under the Amended and Restated Limited Liability Company Agreement. As a result, Rialto had until July 10, 2017 to liquidate and sell the assets in the FDIC Portfolios. On July 10, 2017, Rialto and the FDIC entered into an agreement which extended the original agreement date to January 10, 2018. At February 28, 2018, the consolidated LLCs had total combined assets of $20.0 million, which primarily included $10.1 million in cash, $7.4 million of real estate owned, net, and $1.6 million of loans held-for-sale. Since January 11, 2018, (1) the FDIC has had the right, at its discretion, to sell any remaining assets, or (2) Rialto has had the option to purchase the FDIC's interest in the portfolios. At February 28, 2018, the consolidated LLCs had total combined assets of $20.0 million, which primarily included $10.1 million in cash, $7.4 million of real estate owned, net, and $1.6 million of loans held-for-sale. At February 28, 2018, all remaining assets with carrying values were under contract to be sold. At November 30, 2017, the consolidated LLCs had total combined assets of $48.8 million, which primarily included $23.8 million in cash, $20.0 million of real estate owned, net and $1.6 million of loans held-for-sale.

Warehouse Facilities

At February 28, 2018, Rialto's warehouse facilities were as follows:

(In thousands)	**Maximum Aggregate Commitment**
364-day warehouse repurchase facility that matures October 2018 (one year extension)	$ 400,000
364-day warehouse repurchase facility that matures November 2018	200,000
364-day warehouse repurchase facility that matures December 2018	200,000
364-day warehouse repurchase facility that matures December 2019	200,000
Total - Loan origination and securitization business (RMF)	$ 1,000,000
Warehouse repurchase facility that matures August 2018 (two - one year extensions) (1)	100,000
Total	$ 1,100,000

(1) Rialto uses this warehouse repurchase facility to finance the origination of floating rate accrual loans, which are reported as accrual loans within loans receivable, net. There were no borrowings under this facility as of both February 28, 2018 and November 30, 2017.

Borrowings under the facilities that finance RMF's loan originations and securitization activities were $45.9 million and $162.1 million as of February 28, 2018 and November 30, 2017, respectively, and were secured by a 75% interest in the originated commercial loans financed. The facilities require immediate repayment of the 75% interest in the secured commercial loans when the loans are sold in a securitization and the proceeds are collected. These warehouse repurchase facilities are non-recourse to the Company and are expected to be renewed or replaced with other facilities when they mature. If the facilities are not renewed or replaced, the borrowings under the lines of credit will be paid off by selling the loans held-for-sale to investors. Without the facilities, the Rialto segment would have to use cash from operations and other funding sources to finance its lending activities.

Investments in Unconsolidated Entities

Generally, all of Rialto's investments in funds have the attributes of an investment company in accordance with ASC 946, *Financial Services – Investment Companies*, as amended by ASU 2013-08, *Financial Services - Investment Companies (Topic 946): Amendments to the Scope, Measurement, and Disclosure Requirements,* the attributes of which are different from the

attributes that would cause a company to be an investment company for purposes of the Investment Company Act of 1940. As a result, the assets and liabilities of the funds in which Rialto has investments in are recorded at fair value with increases/decreases in fair value recorded in their respective statements of operations and the Company's share is recorded in Rialto equity in earnings from unconsolidated entities in the Company's statement of operations.
The following table reflects Rialto's investments in funds that invest in and manage real estate related assets and other investments:

(Dollars in thousands)	**Inception Year**	**Equity Commitments**	**Equity Commitments Called**	**Commitment to Fund by the Company**	**February 28, 2018 Funds Contributed by the Company**	**February 28, 2018 Investment**	**November 30, 2017**
Rialto Real Estate Fund, LP	2010	$ 700,006	$ 700,006	$ 75,000	$ 75,000	$41,871	41,860
Rialto Real Estate Fund II, LP	2012	1,305,000	1,305,000	100,000	100,000	87,884	86,904
Rialto Mezzanine Partners Fund, LP	2013	300,000	300,000	33,799	33,799	14,917	19,189
Rialto Capital CMBS Funds	2014	119,174	119,177	52,474	52,474	54,409	54,018
Rialto Real Estate Fund III	2015	1,887,000	699,590	140,000	49,962	49,882	41,223
Rialto Credit Partnership, LP	2016	220,000	208,181	19,999	18,925	17,190	13,288
Other investments						9,697	8,936
						$275,850	265,418

During the three months ended February 28, 2018 and 2017, Rialto received $3.1 million and $0.9 million, respectively, of advance distributions with regard to Rialto's carried interests in its real estate funds in order to cover income tax obligations resulting from allocations of taxable income to Rialto's carried interests in these funds. In addition, during the three months ended February 28, 2018 and 2017, Rialto received $2.4 million and $10.0 million, respectively, of distributions with regard to its carried interest in Rialto Real Estate Fund, LP. These incentive income distributions are not subject to clawbacks and therefore are included in Rialto's revenues.
During 2015, Rialto adopted a Carried Interest Incentive Plan (the "Plan"), under which participating employees in the aggregate may receive up to 40% of the equity units of a limited liability company (a "Carried Interest Entity") that is entitled to carried interest distributions made by a fund or other investment vehicle (a "Fund") managed by a subsidiary of Rialto. As such, those employees receiving equity units in a Carried Interest Entity may benefit from distributions made by a Fund to the extent the Carried Interest Entity makes distributions to its equity holders. The units issued to employees are equity awards and are subject to vesting schedules and forfeiture or repurchase provisions in the case of a termination of employment.
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, 2018**	**November 30, 2017**
Assets:		
Cash and cash equivalents	$44,270	95,552
Loans receivable	591,157	538,317
Real estate owned	346,320	348,601
Investment securities	1,942,045	1,849,795
Investments in partnerships	416,311	393,874
Other assets	58,014	42,949
	$3,398,117	3,269,088
Liabilities and equity:		
Accounts payable and other liabilities	$42,177	48,374
Notes payable (1)	535,790	576,810
Equity	2,820,150	2,643,904
	$3,398,117	3,269,088

(1) Notes payable are net of debt issuance costs of $4.1 million and $3.1 million, as of February 28, 2018 and November 30, 2017, respectively.

Statements of Operations

(In thousands)	Three Months Ended February 28, 2018	2017
Revenues	$89,764	57,156
Costs and expenses	22,071	28,001
Other income, net (1)	49,187	327
Net earnings of unconsolidated entities	$116,880	29,482
Rialto equity in earnings from unconsolidated entities	$9,114	722

(1) Other income, net, includes realized and unrealized gains (losses) on investments.

Investments held-to-maturity

At February 28, 2018 and November 30, 2017, the carrying value of Rialto's commercial mortgage-backed securities ("CMBS") was $210.9 million and $179.7 million, respectively. These securities were purchased at discounts ranging from 9% to 84% with coupon rates ranging from 1.3% to 5.0%, stated and assumed final distribution dates between November 2020 and December 2027, and stated maturity dates between November 2043 and March 2059.

The Rialto segment reviews changes in estimated cash flows periodically to determine if an other-than-temporary impairment has occurred on its CMBS. Based on the Rialto segment’s assessment, no impairment charges were recorded during either the three months ended February 28, 2018 or 2017. The Rialto segment classifies these securities as held-to-maturity based on its intent and ability to hold the securities until maturity.

(10) Lennar Multifamily Segment

The Company is actively involved, primarily through unconsolidated entities, in the development, construction and property management of multifamily rental properties. The Lennar Multifamily segment focuses on developing a geographically diversified portfolio of institutional quality multifamily rental properties in select U.S. markets.

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

(In thousands)	February 28, 2018	November 30, 2017
Assets:		
Cash and cash equivalents	$ 16,249	8,676
Receivables (1)	72,613	69,678
Land under development	332,291	208,618
Investment in unconsolidated entities	437,367	407,544
Other assets	34,310	16,209
	$ 892,830	710,725
Liabilities:		
Accounts payable and other liabilities	$ 141,057	149,715

(1) Receivables primarily related to general contractor services, net of deferrals and management fee income receivables due from unconsolidated entities.

The unconsolidated entities in which the Lennar Multifamily segment has investments usually finance their activities with a combination of partner equity and debt financing. In connection with many of the loans to Lennar Multifamily unconsolidated entities, the Company (or entities related to them) has been required to give guarantees of completion and cost over-runs to the lenders and partners. Those completion guarantees may require that the guarantors complete the construction of the improvements for which the financing was obtained. Additionally, the Company guarantees the construction costs of the project as construction cost over-runs would be paid by the Company. Generally, these payments would be increases to the Company's investment in the entities and would increase its share of funds the entities distribute after the achievement of certain thresholds. As of both February 28, 2018 and November 30, 2017, the fair value of the completion guarantees was immaterial. Additionally, as of February 28, 2018 and November 30, 2017, the Lennar Multifamily segment had $4.6 million and $4.7 million, respectively, of letters of credit outstanding primarily for credit enhancements for the bank debt of certain of its unconsolidated entities and deposits on land purchase contracts. These letters of credit outstanding are included in the disclosure in Note 12 related to the Company's performance and financial letters of credit. As of February 28, 2018 and November 30, 2017, Lennar

Multifamily segment's unconsolidated entities had non-recourse debt with completion guarantees of $977.1 million and $896.7 million, respectively.

In many instances, the Lennar Multifamily segment is appointed as the construction, development and property manager for certain of its Lennar Multifamily unconsolidated entities and receives fees for performing this function. During the three months ended February 28, 2018 and 2017, the Lennar Multifamily segment recorded fee income, net of deferrals, from its unconsolidated entities of $11.5 million and $13.0 million, respectively.

The Lennar Multifamily segment also provides general contractor services for construction of some of the rental properties owned by unconsolidated entities in which the Company has an investment. During the three months ended February 28, 2018 and 2017, the Lennar Multifamily segment provided general contractor services, net of deferrals totaling $81.7 million and $75.7 million, respectively, which were partially offset by costs related to those services of $78.6 million and $73.7 million, respectively.

The Lennar Multifamily Venture (the "Venture") is a long-term multifamily development investment vehicle involved in the development, construction and property management of class-A multifamily assets with $2.2 billion in equity commitments, including a $504 million co-investment commitment by Lennar comprised of cash, undeveloped land and preacquisition costs. During the three months ended February 28, 2018, $131.9 million in equity commitments were called, of which the Company contributed its portion of $31.7 million. During the three months ended February 28, 2018, the Company received $0.9 million distributions as a return of capital from the Venture. As of February 28, 2018, $1.6 billion of the $2.2 billion in equity commitments had been called, of which the Company has contributed $382.4 million, representing its pro-rata portion of the called equity, resulting in a remaining equity commitment for the Company of $121.6 million. As of February 28, 2018 and November 30, 2017, the carrying value of the Company's investment in the Venture was $353.4 million and $323.8 million, respectively.

In March 2018, the Lennar Multifamily segment completed the first closing of a second Lennar Multifamily Venture, Lennar Multifamily Venture II LP ("Venture II") for the development, construction and property management of class-A multifamily assets. With the first close, Venture II will have approximately $500 million of equity commitments, including a $255 million co-investment commitment by Lennar comprised of cash, undeveloped land and preacquisition costs. It will be seeded initially with six undeveloped multifamily assets that were previously purchased by the Lennar Multifamily segment totaling approximately 2,200 apartments with projected project costs of approximately $900 million.

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

<u>Balance Sheets</u>

(In thousands)	**February 28, 2018**	**November 30, 2017**
Assets:		
Cash and cash equivalents	$ 33,666	37,073
Operating properties and equipment	3,167,040	2,952,070
Other assets	31,431	36,772
	$ 3,232,137	3,025,915
Liabilities and equity:		
Accounts payable and other liabilities	$ 211,429	212,123
Notes payable (1)	959,563	879,047
Equity	2,061,145	1,934,745
	$ 3,232,137	3,025,915

(1) Notes payable are net of debt issuance costs of $17.6 million as of both February 28, 2018 and November 30, 2017, respectively.

Statements of Operations

	Three Months Ended February 28,	
(In thousands)	**2018**	**2017**
Revenues	$23,952	11,617
Costs and expenses	31,795	22,346
Other income, net	7,307	50,539
Net earnings (loss) of unconsolidated entities	$(536)	39,810
Lennar Multifamily equity in earnings from unconsolidated entities (1)	$2,742	23,147

(1) During the three months ended February 28, 2018, the Lennar Multifamily segment sold one operating property through an unconsolidated entity resulting in the segment's $4.1 million share of gains. During the three months ended February 28, 2017, the Lennar Multifamily segment sold two operating properties through its unconsolidated entities resulting in the segment's $26.0 million share of gains.

(11) Lennar Homebuilding Cash and Cash Equivalents

Cash and cash equivalents as of February 28, 2018 and November 30, 2017 included $438.7 million and $569.8 million, respectively, of cash held in escrow for approximately 3 days.

(12) Lennar Homebuilding Senior Notes and Other Debts Payable

(Dollars in thousands)	**February 28, 2018**	**November 30, 2017**
Unsecured revolving credit facility	$500,000	—
1.625% convertible senior notes due 2018 (1)	11,323	—
8.375% senior notes due 2018 (2)	582,032	—
6.95% senior notes due 2018	249,667	249,342
4.125% senior notes due December 2018	274,602	274,459
0.25% convertible senior notes due 2019 (1)	268,838	—
4.500% senior notes due 2019	498,968	498,793
4.50% senior notes due 2019	598,571	598,325
6.625% senior notes due 2020 (2)	318,171	—
2.95% senior notes due 2020	298,403	298,305
8.375% senior notes due 2021 (2)	449,464	—
4.750% senior notes due 2021	497,524	497,329
6.25% senior notes due December 2021 (2)	319,301	—
4.125% senior notes due 2022	596,152	595,904
5.375% senior notes due 2022 (2)	263,339	—
4.750% senior notes due 2022	569,645	569,484
4.875% senior notes due December 2023	395,265	394,964
4.500% senior notes due 2024	645,534	645,353
5.875% senior notes due 2024 (2)	456,569	—
4.750% senior notes due 2025	496,781	496,671
5.25% senior notes due 2026 (2)	410,115	—
5.00% senior notes due 2027 (2)	353,597	—
4.75% senior notes due 2027	892,706	892,657
Mortgage notes on land and other debt	435,973	398,417
	$10,382,540	6,410,003

(1) As part of purchase accounting, the senior notes have been recorded at their fair value as of the date of acquisition (February 12, 2018), which is the amount included in the table above. In March 2018, holders of $6.7 million principal amount of CalAtlantic's1.625% convertible senior notes due 2018 and $266.2 million principal amount of CalAtlantic's0.25% convertible senior notes due 2019 either caused the Company to purchase them for cash or converted them into a combination of the Company's Class A and Class B common stock and cash, resulting in the Company's issuing approximately3,654,000 shares of Class A common stock and 72,000 shares of Class B common stock,

and paying $59.1 million in cash to former noteholders. All but $1.3 million of the convertible senior notes had either been converted or redeemed.

(2) These notes were obligations of CalAtlantic when it was acquired, and were subsequently exchanged in part for notes of Lennar Corporation as follows: $485.6 million principal amount of 8.375% Senior Notes due 2018, $267.7 million principal amount of 6.625% Senior Notes due 2020, $397.6 million principal amount of 8.375% Senior Notes due 2021, $292.0 million million principal amount of 6.25% Senior Notes due 2021, $240.8 million principal amount of 5.375% Senior Notes due 2022, $421.4 million principal amount of 5.875% Senior Notes due 2024, $395.5 million principal amount of 5.25% Senior Notes due 2026 and $347.3 million principal amount of 5.00% Senior Notes due 2027. As part of purchase accounting, the senior notes have been recorded at their fair value as of the date of acquisition (February 12, 2018).

The carrying amounts of the senior notes listed above are net of debt issuance costs of $38.6 million and $33.5 million, as of February 28, 2018 and November 30, 2017, respectively.

In February 2018, the Company amended the credit agreement governing its unsecured revolving credit facility (the "Credit Facility") to increase the maximum borrowings from $2.0 billion to $2.6 billion and extend the maturity on $2.1 billion of the Credit Facility from June 2022 to April 2023, with $70 million maturing in June 2018 and the remaining $50 million maturing in June 2020. As of February 28, 2018, the Credit Facility included a $420 million accordion feature, subject to additional commitments. Subsequent to February 28, 2018, an additional $175 million was committed to, reducing the accordion feature to $245 million. The proceeds available under the Credit Facility, which are subject to specified conditions for borrowing, may be used for working capital and general corporate purposes. The credit agreement also provides that up to $500 million in commitments may be used for letters of credit. Under the Credit Facility agreement, the Company is required to maintain a minimum consolidated tangible net worth, a maximum leverage ratio and either a liquidity or an interest coverage ratio. These ratios are calculated per the Credit Facility agreement, which involves adjustments to GAAP financial measures. The Company believes it was in compliance with its debt covenants at February 28, 2018. In addition, the Company had $260 million of letter of credit facilities with different financial institutions.

The Company’s performance letters of credit outstanding were $471.0 million and $384.4 million, respectively, at February 28, 2018 and November 30, 2017. The Company’s financial letters of credit outstanding were $164.7 million and $127.4 million, at February 28, 2018 and November 30, 2017, respectively. Performance letters of credit are generally posted with regulatory bodies to guarantee the Company’s performance of certain development and construction activities. Financial letters of credit are generally posted in lieu of cash deposits on option contracts, for insurance risks, credit enhancements and as other collateral. Additionally, at February 28, 2018, the Company had outstanding surety bonds of $2.4 billion including performance surety bonds related to site improvements at various projects (including certain projects in the Company’s joint ventures) and financial surety bonds. 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, 2018, there were approximately $1.2 billion, or 50%, 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.

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

(13) Product Warranty

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

	Three Months Ended February 28,	
(In thousands)	**2018**	**2017**
Warranty reserve, beginning of the period	$164,619	135,403
Warranties issued	24,689	20,720
Adjustments to pre-existing warranties from changes in estimates (1)	2,868	2,346
Warranties assumed related to acquisitions	108,404	6,345
Payments	(30,524)	(25,827)
Warranty reserve, end of period	$270,056	138,987

(1) The adjustments to pre-existing warranties from changes in estimates during the three months ended February 28, 2018 and 2017 primarily related to specific claims related to certain of the Company's homebuilding communities and other adjustments.

(14) Share-Based Payments

During the three months ended February 28, 2018, the Company granted employees 0.4 million of nonvested shares. During the three months ended February 28, 2017, the Company granted an immaterial number of nonvested shares. Compensation expense related to the Company's nonvested shares for the three months ended February 28, 2018 and 2017 was $17.8 million and $12.5 million, respectively.

(15) **Financial Instruments and Fair Value Disclosures**

The following table presents the carrying amounts and estimated fair values of financial instruments held by the Company at February 28, 2018 and November 30, 2017, using available market information and what the Company believes to be appropriate valuation methodologies. Considerable judgment is required in interpreting market data to develop the estimates of fair value. The use of different market assumptions and/or estimation methodologies might have a material effect on the estimated fair value amounts. The table excludes cash and cash equivalents, restricted cash, receivables, net and accounts payable, all of which had fair values approximating their carrying amounts due to the short maturities and liquidity of these instruments.

		February 28, 2018		**November 30, 2017**	
(In thousands)	**Fair Value Hierarchy**	**Carrying Amount**	**Fair Value**	**Carrying Amount**	**Fair Value**
ASSETS					
Rialto:					
Loans receivable, net	Level 3	$1,932	1,932	1,933	1,933
Investments held-to-maturity	Level 3	$210,882	229,551	179,659	199,190
Lennar Financial Services:					
Loans held-for-investment, net	Level 3	$69,832	63,171	44,193	41,795
Investments held-to-maturity	Level 2	$60,831	60,441	52,327	52,189
LIABILITIES					
Lennar Homebuilding senior notes and other debts payable	Level 2	$10,382,540	10,476,731	6,410,003	6,598,848
Rialto notes payable and other debts payable	Level 2	$438,879	448,114	625,081	644,644
Lennar financial Services notes and other debts payable	Level 2	$772,240	772,240	937,431	937,431

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

Rialto—The fair values for loans receivable, net are based on the fair value of the collateral less estimated cost to sell or discounted cash flows, if estimable. The fair value for investments held-to-maturity is based on discounted cash flows. For notes and other debts payable, the fair value is calculated based on discounted cash flows using quoted interest rates and for the warehouse repurchase financing agreements fair values approximate their carrying value due to their short-term maturities.

Lennar Financial Services—The fair values above are based on quoted market prices, if available. The fair values for instruments that do not have quoted market prices are estimated by the Company on the basis of discounted cash flows or other financial information. For notes and other debts payable, the fair values approximate their carrying value due to variable interest pricing terms and the short-term nature of the borrowings.

Lennar Homebuilding—For senior notes and other debts payable, the fair value of fixed-rate borrowings is primarily 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.

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:

(In thousands)	Fair Value Hierarchy	Fair Value at February 28, 2018	Fair Value at November 30, 2017
Rialto Financial Assets:			
RMF loans held-for-sale (1)	Level 3	$ 123,398	234,403
Credit default swaps (2)	Level 2	$ 1,084	995
Lennar Financial Services Assets (Liabilities):			
Loans held-for-sale (3)	Level 2	$ 689,172	937,516
Investments available-for-sale	Level 1	$ 57,768	57,439
Mortgage loan commitments	Level 2	$ 11,654	9,873
Forward contracts	Level 2	$ 4,844	1,681
Mortgage servicing rights	Level 3	$ 36,772	31,163

(1) The aggregate fair value of Rialto loans held-for-sale of $123.4 million at February 28, 2018 is below their aggregate principal balance of $125.5 million by $2.1 million. The aggregate fair value of loans held-for-sale of $234.4 million at November 30, 2017 was below their aggregate principal balance of $235.4 million by $1.0 million.

(2) Rialto's credit default swaps are included within Rialto's other assets.

(3) The aggregate fair value of Lennar Financial Services loans held-for-sale of $689.2 million at February 28, 2018 exceeds their aggregate principal balance of $676.8 million by $12.4 million. The aggregate fair value of Lennar Financial Services loans held-for-sale of $937.5 million at November 30, 2017 exceeded their aggregate principal balance of $908.8 million by $28.7 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:

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

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

Lennar Financial Services loans held-for-sale- Fair value is based on independent quoted market prices, where available, or the prices for other mortgage whole loans with similar characteristics. Management believes carrying loans held-for-sale at fair value improves financial reporting by mitigating volatility in reported earnings caused by measuring the fair value of the loans and the derivative instruments used to economically hedge them without having to apply complex hedge accounting provisions. In addition, the Company recognizes the fair value of its rights to service a mortgage loan as revenue upon entering into an interest rate lock loan commitment with a borrower. The fair value of these servicing rights is included in Lennar Financial Services’ loans held-for-sale as of February 28, 2018 and November 30, 2017. Fair value of servicing rights is determined based on actual sales of servicing rights on loans with similar characteristics.

Lennar Financial Services investments available-for-sale- The fair value of these investments is based on the quoted market prices for similar financial instruments.

Lennar Financial Services mortgage loan commitments- Fair value of commitments to originate loans is based upon the difference between the current value of similar loans and the price at which the Lennar Financial Services segment has committed to originate the loans. The fair value of commitments to sell loan contracts is the estimated amount that the Lennar Financial Services segment would receive or pay to terminate the commitments at the reporting date based on market prices for similar financial instruments. In addition, the Company recognizes the fair value of its rights to service a mortgage loan as revenue upon entering into an interest rate lock loan commitment with a borrower. The fair value of servicing rights is

determined based on actual sales of servicing rights on loans with similar characteristics. The fair value of the mortgage loan commitments and related servicing rights is included in Lennar Financial Services’ other assets.
Lennar Financial Services forward contracts- Fair value is based on quoted market prices for similar financial instruments. The fair value of forward contracts is included in the Lennar Financial Services segment's other assets as of February 28, 2018 and November 30, 2017, respectively.
The Lennar Financial Services segment uses mandatory mortgage-backed securities ("MBS") forward commitments, option contracts and investor commitments to hedge its mortgage-related interest rate exposure. These instruments involve, to varying degrees, elements of credit and interest rate risk. Credit risk associated with MBS forward commitments, option contracts and loan sales transactions is managed by limiting the Company’s counterparties to investment banks, federally regulated bank affiliates and other investors meeting the Company’s credit standards. The segment’s risk, in the event of default by the purchaser, is the difference between the contract price and fair value of the MBS forward commitments and option contracts. At February 28, 2018, the segment had open commitments amounting to $1.3 billion to sell MBS with varying settlement dates through May 2018.
Lennar Financial Services mortgage servicing rights- Lennar Financial Services records mortgage servicing rights when it sells loans on a servicing-retained basis or through the acquisition or assumption of the right to service a financial asset. The fair value of the mortgage servicing rights is calculated using third-party valuations. The key assumptions, which are generally unobservable inputs, used in the valuation of the mortgage servicing rights include mortgage prepayment rates, discount rates and delinquency rates. As of February 28, 2018, the key assumptions used in determining the fair value include a 11.6% mortgage prepayment rate, a 12.3% discount rate and a 6.1% delinquency rate. The fair value of mortgage servicing rights is included in the Lennar Financial Services segment's other assets.
The changes in fair values for Level 1 and Level 2 financial instruments measured on a recurring basis are shown below by financial instrument and financial statement line item:

	Three Months Ended February 28,	
(In thousands)	**2018**	**2017**
Changes in fair value included in Lennar Financial Services revenues:		
Loans held-for-sale	$(16,297)	13,300
Mortgage loan commitments	$1,781	6,220
Forward contracts	$3,163	(28,214)
Changes in fair value included in Rialto revenues:		
Financial Assets:		
Credit default swaps	$89	(431)
Changes in fair value included in other comprehensive income (loss), net of tax:		
Lennar Financial Services investment available-for-sale	$(658)	972

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

The following table represents the reconciliation of the beginning and ending balance for the Level 3 recurring fair value measurements:

	Three Months Ended February 28,			
	2018		2017	
(In thousands)	Lennar Financial Services Mortgage servicing rights	Rialto RMF loans held-for-sale	Lennar Financial Services Mortgage servicing rights	Rialto RMF loans held-for-sale
Beginning balance	$31,163	234,403	23,930	126,947
Purchases/loan originations	2,288	237,965	2,846	394,340
Sales/loan originations sold, including those not settled	—	(347,712)	—	(477,716)
Disposals/settlements	(1,213)	—	(891)	—
Changes in fair value (1)	4,534	753	612	1,420
Interest and principal paydowns	—	(2,011)	—	(52)
Ending balance	$36,772	123,398	26,497	44,939

(1) Changes in fair value for Rialto loans held-for-sale and Lennar Financial Services mortgage servicing rights are included in Rialto's and Lennar Financial Services' revenues, respectively.

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. The fair values included in the table below represent only those assets whose carrying values were adjusted to fair value during the respective periods disclosed. The assets measured at fair value on a nonrecurring basis are summarized below:

		Three Months Ended February 28,					
		2018			2017		
(In thousands)	Fair Value Hierarchy	Carrying Value	Fair Value	Total Gains (Losses), Net (1)	Carrying Value	Fair Value	Total Losses, Net (1)
Financial assets							
Rialto:							
Impaired loans receivable	Level 3	$—	—	—	31,550	18,885	(12,665)
Non-financial assets							
Lennar Homebuilding:							
Land and land under development (2)	Level 3	$52,929	43,565	(9,364)	—	—	—
Rialto:							
REO, net (3):							
Upon acquisition/transfer	Level 3	$—	—	—	8,850	8,394	(456)
Upon management periodic valuations	Level 3	$16,453	10,968				