

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

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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, 2013  
Commission File Number: 1-11749

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

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

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

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. YES  NO

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). YES  NO

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer," and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer  Accelerated filer   
Non-accelerated filer  Smaller reporting company

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

Common stock outstanding as of March 31, 2013:  
Class A 161,082,667  
Class B 31,303,195

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## Part I. Financial Information

## Item 1. Financial Statements

## Lennar Corporation and Subsidiaries

## Condensed Consolidated Balance Sheets

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

(unaudited)

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

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 (1) consolidated variable interest entities (“VIEs”) and liabilities of consolidated VIEs as to which neither Lennar Corporation, or any of its subsidiaries, has any obligations.

As of February 28, 2013, total assets include \$1,837.4 million related to consolidated VIEs of which \$15.9 million is included in Lennar Homebuilding cash and cash equivalents, \$6.0 million in Lennar Homebuilding receivables, net, \$65.6 million in Lennar Homebuilding finished homes and construction in progress, \$485.6 million in Lennar Homebuilding land and land under development, \$65.9 million in Lennar Homebuilding consolidated inventory not owned, \$44.5 million in Lennar Homebuilding investments in unconsolidated entities, \$223.2 million in Lennar Homebuilding other assets, \$63.3 million in Rialto Investments cash and cash equivalents, \$4.7 million in Rialto Investments defeasance cash to retire notes payable, \$318.5 million in Rialto Investments loans receivable, net, \$115.3 million in Rialto Investments real estate owned, held-for-sale, \$422.8 million in Rialto Investments real estate owned, held-and-used, net \$0.6 million in Rialto Investments in unconsolidated entities and \$5.5 million in Rialto Investments other assets.

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

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

See accompanying notes to condensed consolidated financial statements.

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

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

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

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

See accompanying notes to condensed consolidated financial statements.

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

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

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

See accompanying notes to condensed consolidated financial statements.

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

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

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

See accompanying notes to condensed consolidated financial statements.

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

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

See accompanying notes to condensed consolidated financial statements.

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

(1) Basis of Presentation

Basis of Consolidation

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

The Company has historically experienced, and expects to continue to experience, variability in quarterly results. The condensed consolidated statements of operations for the three months ended February 28, 2013 are not necessarily indicative of the results to be expected for the full year.

Rialto Management Fees Revenue

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

Reclassifications

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

Use of Estimates

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

(2) Operating and Reporting Segments

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

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

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

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

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

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

Central: Arizona, Colorado and Texas<sup>(2)</sup>

West: California and Nevada

Southeast Florida: Southeast Florida

Houston: Houston, Texas

Other: Illinois, Minnesota, Oregon and Washington

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

## (3)Lennar Homebuilding Investments in Unconsolidated Entities

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

## Statements of Operations

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

  

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

As of February 28, 2013 and November 30, 2012, the Company's recorded investments in Lennar Homebuilding unconsolidated entities were \$577.3 million and \$565.4 million, respectively, while the underlying equity in Lennar Homebuilding unconsolidated entities partners' net assets as of February 28, 2013 and November 30, 2012 was \$690.6 million, and \$681.6 million, respectively, primarily as a result of the Company buying its interest in a partner's equity in a Lennar Homebuilding unconsolidated entity at a discount to book value.

In fiscal 2007, the Company sold a portfolio of land to a strategic land investment venture with Morgan Stanley Real Estate Fund II, L.P., an affiliate of Morgan Stanley & Co., Inc., in which the Company has approximately a 20% ownership interest and 50% voting rights. Due to the nature of the Company's continuing involvement, the transaction did not qualify as a sale by the Company under GAAP; thus, the inventory has remained on the Company's condensed consolidated balance sheet in consolidated inventory not owned. As of February 28, 2013 and November 30, 2012, the portfolio of land (including land development costs) of \$255.8 million and \$264.9 million, respectively, is also reflected as inventory in the summarized condensed financial information related to Lennar Homebuilding's unconsolidated entities.

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

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

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

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

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

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

In addition, in most instances in which the Company has guaranteed debt of a Lennar Homebuilding unconsolidated entity, the Company's partners have also guaranteed that debt and are required to contribute their share of the guarantee payments. Historically, the Company has had repayment guarantees and/or maintenance guarantees. In a repayment guarantee, the Company and its venture partners guarantee repayment of a portion or all of the debt in the event of default before the lender would have to exercise its rights against the collateral. In the event of default, if the Company's venture partner does not have adequate financial resources to meet its obligations under the reimbursement agreement, the Company may be liable for more than its proportionate share, up to its maximum recourse exposure, which is the full amount covered by the joint and several guarantee. The maintenance guarantees only apply if the value of the collateral (generally land and improvements) is less than a specified percentage of the loan balance. If the Company is required to make a payment under a maintenance guarantee to bring the value of the collateral above the specified percentage of the loan balance, the payment would constitute a capital contribution or loan to the Lennar Homebuilding unconsolidated entity and increase the Company's investment in the unconsolidated entity and its share of any funds the unconsolidated entity distributes. As of both February 28, 2013 and November 30, 2012, the Company does not have any maintenance guarantees related to its Lennar Homebuilding unconsolidated entities.

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

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

The Company believes that as of February 28, 2013, in the event it becomes legally obligated to perform under a guarantee of the obligation of a Lennar Homebuilding unconsolidated entity due to a triggering event under a guarantee, most of the time the collateral should be sufficient to repay at least a significant portion of the obligation or the Company and its partners would contribute additional capital into the venture. In certain instances, the Company



has placed performance letters of credit and surety bonds with municipalities for its joint ventures (see Note 11).

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

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

#### (4) Stockholders' Equity

The following table reflects the changes in equity attributable to both Lennar Corporation and the noncontrolling interests of its consolidated subsidiaries in which it has less than a 100% ownership interest for both the three months ended February 28, 2013 and February 29, 2012:

(In thousands)	Total Equity	Stockholders' Equity		Additional Paid Capital	Treasury Stock	Retained Earnings	Noncontrolling Interests
		Class A Common Stock	Class B Common Stock				
Balance at November 30, 2012	\$4,001,208	17,240	3,298	2,421,941	(632,846 )	1,605,131	586,444
Net earnings (including net loss attributable to noncontrolling interests)	56,958	—	—	—	—	57,492	(534 )
Employee stock and directors plans	21,668	33	—	4,487	17,148	—	—
Tax benefit from employee stock plans and vesting of restricted stock	3,164	—	—	3,164	—	—	—
Amortization of restricted stock	6,486	—	—	6,486	—	—	—
Cash dividends	(7,693 )	—	—	—	—	(7,693 )	—
Receipts related to noncontrolling interests	434	—	—	—	—	—	434
Payments related to noncontrolling interests	(12,585 )	—	—	—	—	—	(12,585 )
Balance at February 28, 2013	\$4,069,640	17,273	3,298	2,436,078	(615,698 )	1,654,930	573,759

Stockholders' Equity

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

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

common stock under the stock repurchase program. As of February 28, 2013, 6.2 million shares of common stock can be repurchased in the future under the program.

During three months ended February 28, 2013 and February 29, 2012, treasury stock decreased by 0.5 million and 0.3 million, respectively, in Class A common shares due to activity related to the Company's equity compensation plan.

#### (5) Income Taxes

A reduction of the carrying amounts of deferred tax assets by a valuation allowance is required, if based on the available evidence, it is more likely than not that such assets will not be realized. Accordingly, the need to establish valuation allowances for deferred tax assets is assessed each reporting period by the Company based on the more-likely-than-not realization threshold criterion. In the assessment of the need for a valuation allowance, appropriate consideration is given to all positive and negative evidence related to the realization of the deferred tax assets. This assessment considers, among other matters, the nature, frequency and severity of current and cumulative losses, actual earnings, forecasts of future profitability, the duration of statutory carryforward periods, the Company's experience with loss carryforwards not expiring unused and tax planning alternatives.

During the year ended November 30, 2012, the Company concluded that it was more likely than not that the majority of its deferred tax assets would be utilized. This conclusion was based on a detailed evaluation of all relevant evidence, both positive and negative as detailed in the Company's Form 10-K for the year ended November 30, 2012. Accordingly, the Company reversed a majority of its valuation allowance against its deferred tax assets. As of November 30, 2012, the Company had a valuation allowance of \$88.8 million, primarily related to state net operating loss ("NOL") carryforwards.

During the three months ended February 28, 2013, the Company concluded that it was more likely than not that a portion of its state NOL carryforwards related to which a valuation allowance had been established would be utilized. This conclusion was based on additional positive evidence including actual and forecasted profitability. Accordingly, during the three months ended February 28, 2013, the Company reversed \$25.1 million of its valuation allowance against its state NOL carryforwards. This reversal was partially offset by a tax provision of \$21.5 million primarily related to pre-tax earnings during the three months ended February 28, 2013. Therefore, the Company had a \$3.6 million net benefit for income taxes during the three months ended February 28, 2013. During the three months ended February 29, 2012, the Company recorded a tax benefit of \$1.5 million, primarily related to a refund claim for certain losses carried back to a prior year. Based on an analysis utilizing objectively verifiable evidence, it was not more likely than not that certain state NOL carryforwards would be utilized due to an inability to carry back these losses in most states and short carryforward periods that exist in certain states. As a result, as of February 28, 2013, the Company had a valuation allowance of \$63.7 million against its deferred tax assets, primarily related to state NOL carryforwards. In future periods, some or all of the remaining allowance could be reversed if additional sufficient positive evidence is present indicating that it is more likely than not that a portion or all of the Company's remaining deferred tax assets will be realized.

As of February 28, 2013, the Company's deferred tax assets, net, were \$475.3 million, of which \$481.2 million were deferred tax assets included in Lennar Homebuilding's other assets on the Company's condensed consolidated balance sheets and \$5.9 million were deferred tax liabilities included in Lennar Financial Services segment's liabilities on the Company's condensed consolidated balance sheets.

At February 28, 2013 and November 30, 2012, the Company had federal tax effected NOL carryforwards totaling \$279.7 million and \$278.8 million, respectively, that may be carried forward up to 20 years to offset future taxable income and begin to expire in 2025. As of February 28, 2013, the Company needs to generate \$1.0 billion of pre-tax earnings in future periods to realize all of its federal NOL carryforwards and federal deductible temporary tax differences. At February 28, 2013 and November 30, 2012, the Company had state tax effected NOL carryforwards totaling \$173.5 million and \$173.6 million, respectively, that may be carried forward from 5 to 20 years, depending on the tax jurisdiction, with losses expiring between 2013 and 2032. As of February 28, 2013, state NOL carryforwards totaling \$7.9 million may expire over the next twelve months if sufficient taxable income is not generated to utilize the net operating losses. At February 28, 2013 and November 30, 2012, the Company had a valuation allowance of \$59.5 million and \$84.6 million, respectively, against its state NOL carryforwards because the Company believes it is more likely than not that a portion of its state NOL carryforwards will not be realized due to the limited carryforward

periods in certain states.

At February 28, 2013 and November 30, 2012, the Company had \$8.8 million and \$12.3 million of gross unrecognized tax benefits. If the Company were to recognize its gross unrecognized tax benefits as of February 28, 2013, \$5.7 million would affect the Company's effective tax rate. The Company expects the total amount of unrecognized tax benefits to decrease by \$1.6 million within twelve months as a result of anticipated settlements with various taxing authorities.

During the three months ended February 28, 2013, the Company's gross unrecognized tax benefits decreased by \$3.5 million primarily as a result of state tax payments resulting from a previously settled IRS examination. The decrease in gross

unrecognized tax benefits had no effect on the Company's effective tax rate, which was (6.75%). As a result of the partial reversal of the valuation allowance against the Company's deferred tax assets, the effective tax rate is not reflective of the Company's historical tax rate.

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

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

#### (6) Earnings Per Share

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

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

Basic and diluted earnings per share were calculated as follows:

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

Diluted earnings per share	\$0.26	0.08
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For the three months ended February 28, 2013, there were no options to purchase shares of Class A stock that were outstanding and anti-dilutive. For three months ended February 29, 2012, options to purchase 0.3 million shares of Class A stock were outstanding and anti-dilutive.

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## (7) Lennar Financial Services Segment

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

(In thousands)	February 28, 2013	November 30, 2012
<b>Assets:</b>		
Cash and cash equivalents	\$65,200	58,566
Restricted cash	12,566	12,972
Receivables, net (1)	171,580	172,230
Loans held-for-sale (2)	334,658	502,318
Loans held-for-investment, net	23,593	23,982
Investments held-to-maturity	62,746	63,924
Goodwill	34,046	34,046
Other (3)	43,776	44,957
	<b>\$748,165</b>	<b>912,995</b>
<b>Liabilities:</b>		
Notes and other debts payable	\$311,933	457,994
Other (4)	162,616	172,978
	<b>\$474,549</b>	<b>630,972</b>

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

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

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

(4) Other liabilities include \$75.7 million and \$76.1 million as of February 28, 2013 and November 30, 2012, respectively, of certain of the Company's self-insurance reserves related to general liability and workers' compensation. Other liabilities also include forward contracts carried at fair value of \$2.1 million and \$2.6 million as of February 28, 2013 and November 30, 2012, respectively.

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

The Lennar Financial Services segment uses these facilities to finance its lending activities until the mortgage loans are sold to investors and expects the facilities to be renewed or replaced with other facilities when they mature. Borrowings under the facilities were \$311.9 million and \$458.0 million at February 28, 2013 and November 30, 2012, respectively, and were collateralized by mortgage loans and receivables on loans sold to investors but not yet paid for with outstanding principal balances of \$405.7 million and \$509.1 million at February 28, 2013 and November 30, 2012, respectively. If the facilities are not renewed, the borrowings under the lines of credit will be paid off by selling the mortgage loans held-for-sale to investors and by collecting on receivables on loans sold but not yet paid. Without the facilities, the Lennar Financial Services segment would have to use cash from operations and other funding sources to finance its lending activities.

Substantially all of the loans the Lennar Financial Services segment originates are sold within a short period in the secondary mortgage market on a servicing released, non-recourse basis. After the loans are sold, the Company retains potential liability for possible claims by purchasers that it breached certain limited industry-standard representations and warranties in the loan sale agreement. There has been an increased industry-wide effort by purchasers to defray



their losses during the unfavorable economic environment by purporting to have found inaccuracies related to sellers' representations and warranties in particular loan sale agreements. The Company's mortgage operations have established reserves for possible losses associated with mortgage loans previously originated and sold to investors. The Company establishes reserves for such possible losses based upon, among other things, an analysis of repurchase requests received, an estimate of potential repurchase claims not yet

received and actual past repurchases and losses through the disposition of affected loans, as well as previous settlements. While the Company believes that it has adequately reserved for known losses and projected repurchase requests, given the volatility in the mortgage industry and the uncertainty regarding the ultimate resolution of these claims, if either actual repurchases or the losses incurred resolving those repurchases exceed the Company's expectations, additional recourse expense may be incurred. Loan origination liabilities are included in Lennar Financial Services' liabilities in the condensed consolidated balance sheets. The activity in the Company's loan origination liabilities was as follows:

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

For Lennar Financial Services loans held-for-investment, net, a loan is deemed impaired when, based on current information and events, it is probable that the Company will be unable to collect all amounts due according to the contractual terms of the loan agreement. Interest income is not accrued or recognized on impaired loans unless payment is received. Impaired loans are written-off if and when the loan is no longer secured by collateral. The total unpaid principal balance of the impaired loans as of February 28, 2013 and November 30, 2012 was \$7.8 million and \$7.3 million, respectively. At February 28, 2013, the recorded investment in the impaired loans with a valuation allowance was \$3.4 million, net of an allowance of \$4.4 million. At November 30, 2012, the recorded investment in the impaired loans with a valuation allowance was \$2.9 million, net of an allowance of \$4.4 million. The average recorded investment in impaired loans totaled \$3.2 million and \$3.6 million for the three months ended February 28, 2013 and February 29, 2012.

## (8) Rialto Investments Segment

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

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

Rialto's operating earnings were as follows:

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

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

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

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

In February 2010, the Rialto segment acquired indirectly 40% managing member equity interests in two limited liability companies ("LLCs"), in partnership with the FDIC. The LLCs hold performing and non-performing loans formerly owned by 22 failed financial institutions and when the Rialto segment acquired its interests in the LLCs, the two portfolios consisted of approximately 5,500 distressed residential and commercial real estate loans ("FDIC Portfolios"). The FDIC retained 60% equity interests in the LLCs and provided \$626.9 million of financing with 0% interest, which is non-recourse to the Company and the LLCs. As of February 28, 2013 and November 30, 2012, the notes payable balance was \$167.2 million and \$470.0 million, respectively; however, as of February 28, 2013 and November 30, 2012, \$4.7 million and \$223.8 million, respectively, of cash collections on loans in excess of expenses were deposited in a defeasance account, established for the repayment of the notes payable, under the agreement with the FDIC. The funds in the defeasance account are being and will be used to retire the notes payable upon their

maturity. During the three months ended February 28, 2013, the LLCs retired \$302.8 million principal

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amount of the notes payable under the agreement with the FDIC through the defeasance account. In February 2013, the Rialto segment and the FDIC entered into a forbearance agreement whereby the FDIC temporarily waived its right to reissue a new purchase money note for the remaining \$11.2 million balance of the portion of the notes payable that was due on February 25, 2013 until July 25, 2013. This forbearance does not meet the definition of an extension in the financing agreement and thus, no triggering event is deemed to have occurred. The Company agreed to disburse all available funds in the defeasance account on a monthly basis to the FDIC until the remaining \$11.2 million balance of the portion of the notes payable that was due on February 25, 2013 was paid in full, but no later than July 25, 2013. In March 2013, the Company paid the remaining balance of the notes payable that was due on February 25, 2013 with cash disbursed from the defeasance account.

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

In September 2010, the Rialto segment acquired approximately 400 distressed residential and commercial real estate loans (“Bank Portfolios”) and over 300 REO properties from three financial institutions. The Company paid \$310 million for the distressed real estate and real estate related assets of which \$124 million was financed through a 5-year senior unsecured note provided by one of the selling institutions of which \$33.0 million of principal amount was retired in 2012.

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

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

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

The Rialto segment periodically evaluates its estimate of cash flows expected to be collected on its FDIC Portfolios and Bank Portfolios. These evaluations require the continued use of key assumptions and estimates, similar to those used in the initial estimate of fair value of the loans to allocate purchase price. Subsequent changes in the estimated cash flows expected to be collected may result in changes in the accretable yield and nonaccretable difference or reclassifications from nonaccretable yield to accretable yield. Increases in the cash flows expected to be collected will generally result in an increase in interest income over the remaining life of the loan or pool of loans. Decreases in expected cash flows due to further credit deterioration will generally result in an impairment charge recognized as a provision for loan losses, resulting in an increase to the allowance for loan losses.

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

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



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

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

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

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

February 28, 2013

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

November 30, 2012

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

The average recorded investment in impaired loans totaled approximately \$37 million and \$69 million for the three months ended February 28, 2013 and February 29, 2012, respectively.

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

Accrual — Loans in which forecasted cash flows under the loan agreement, as it might be modified from time to time, can be reasonably estimated at the date of acquisition. The risk associated with loans in this category relates to the

possible default by the borrower with respect to principal and interest payments and the possible decline in value of the underlying

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collateral and thus, both could cause a decline in the forecasted cash flows used to determine accretable yield income and the recognition of an impairment through an allowance for loan losses. As of February 28, 2013, the Company had an allowance on these loans of \$16.9 million. During the three months ended February 28, 2013, the Company recorded \$6.1 million of provision for loan losses offset by charge-offs of \$1.4 million upon resolution of the loans. As of November 30, 2012, the Company had an allowance on these loans of \$12.2 million. During the three months ended February 29, 2012, the Company did not record any provision for loan losses or charge-offs on these loans.

Nonaccrual — Loans in which forecasted principal and interest could not be reasonably estimated at the date of acquisition. Although the Company believes the recorded investment balance will ultimately be realized, the risk of nonaccrual loans relates to a decline in the value of the collateral securing the outstanding obligation and the recognition of an impairment through an allowance for loan losses if the recorded investment in the loan exceeds the fair value of the collateral less estimated cost to sell. As of February 28, 2013 and November 30, 2012, the Company had an allowance on these loans of \$1.7 million and \$3.7 million, respectively. During the three months ended February 28, 2013 and February 29, 2012, the Company recorded \$1.0 million and \$0.9 million, respectively, of provision for loan losses offset by charge-offs of \$3.0 million and \$1.6 million, respectively, upon foreclosure of the loans.

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

February 28, 2013

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

November 30, 2012

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

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

Real Estate Owned

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

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



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

The following tables present the activity in REO:

(In thousands)	Three Months Ended	
	February 28, 2013	February 29, 2012
REO - held-for-sale, beginning of period	\$ 134,161	143,677
Additions	594	1,134
Improvements	1,016	3,963
Sales	(25,780	) (36,844
Impairments	(699	) (1,240
Transfers to/from held-and-used, net (1)	69,386	(9,111
REO - held-for-sale, end of period	\$ 178,678	101,579
(In thousands)	Three Months Ended	
	February 28, 2013	February 29, 2012
REO - held-and-used, net, beginning of period	\$ 601,022	582,111
Additions	16,192	46,241
Improvements	700	—
Sales	—	(981
Impairments	(96	) (2,597
Depreciation	(1,159	) (3,315
Transfers to/from held-for-sale (1)	(69,386	) 9,111
REO - held-and-used, net, end of period	\$ 547,273	630,570

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

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

#### Investments

In 2010, the Rialto segment invested in approximately \$43 million of non-investment grade commercial mortgage-backed securities ("CMBS") for \$19.4 million, representing a 55% discount to par value. The CMBS have a stated and assumed final distribution date of November 2020 and a stated maturity date of October 2057. The Rialto segment reviews changes in estimated cash flows periodically, to determine if other-than-temporary impairment has occurred on its investment securities. Based on the Rialto segment's assessment, no impairment charges were recorded during both the three months ended February 28, 2013 and February 29, 2012. The carrying value of the investment securities at February 28, 2013 and November 30, 2012, was \$15.3 million and \$15.0 million, respectively. The Rialto segment classified these securities as held-to-maturity based on its intent and ability to hold the securities until maturity.

In 2010, 2011 and 2012, the Rialto segment obtained investors in Fund I who made equity commitments of \$700 million (including \$75 million committed by the Company). All capital commitments have been called and funded, and Fund I is closed to additional commitments. Fund I was determined to have the attributes of an investment company in accordance with ASC 946, Financial Services – Investment Companies, the attributes of which are different from the attributes that would cause a company to be an investment company for purposes of the Investment Company Act of 1940. As a result, Fund I's assets and liabilities are recorded at fair value with increases/decreases in

fair value recorded in the statement of operations of Fund I, the

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

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

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

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

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

#### Balance Sheets

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

#### Statements of Operations

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

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



## (9)Lennar Homebuilding Cash and Cash Equivalents

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

## (10)Lennar Homebuilding Restricted Cash

Restricted cash consists of customer deposits on home sales held in restricted accounts until title transfers to the homebuyer, as required by the state and local governments in which the homes were sold.

## (11)Lennar Homebuilding Senior Notes and Other Debts Payable

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

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

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

any draws upon these bonds or letters of credit, but if any such draws occur, the Company does not believe they would have a material effect on its financial position, results of operations or cash flows.

During the three months ended February 28, 2013, the Company issued \$275 million aggregate principal amount of 4.125% senior notes due 2018 (the "4.125% Senior Notes") at a price of 99.998% in a private placement and an additional \$175



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

In November 2011, the Company issued \$350 million aggregate principal amount of 3.25% convertible senior notes due 2021 (the "3.25% Convertible Senior Notes"). During the three months ended February 29, 2012, the initial purchasers of the 3.25% Convertible Senior Notes purchased an additional \$50 million aggregate principal amount to cover over-allotments. At both February 28, 2013 and November 30, 2012, the carrying and principal amount of the 3.25% Convertible Senior Notes was \$400.0 million. The 3.25% Convertible Senior Notes are convertible into shares of Class A common stock at any time prior to maturity or redemption at the initial conversion rate of 42.5555 shares of Class A common stock per \$1,000 principal amount of the 3.25% Convertible Senior Notes or 17,022,200 Class A common shares if all the 3.25% Convertible Senior Notes are converted, which is equivalent to an initial conversion price of approximately \$23.50 per share of Class A common stock, subject to anti-dilution adjustments. The shares are included in the calculation of diluted earnings per share. Holders of the 3.25% Convertible Senior Notes have the right to require the Company to repurchase them for cash equal to 100% of their principal amount, plus accrued but unpaid interest on November 15, 2016. The Company has the right to redeem the 3.25% Convertible Senior Notes at any time on or after November 20, 2016 for 100% of their principal amount, plus accrued but unpaid interest. The 3.25% Convertible Senior Notes are unsecured and unsubordinated, but are guaranteed by substantially all of the Company's 100% owned homebuilding subsidiaries.

The 2.75% convertible senior notes due 2020 (the "2.75% Convertible Senior Notes") are convertible into cash, shares of Class A common stock or a combination of both, at the Company's election. However, it is the Company's intent to settle the face value of the 2.75% Convertible Senior Notes in cash. Prior to the second quarter of 2012, the shares were not historically included in the calculation of diluted earnings per share primarily because it is the Company's intent to settle the face value of the 2.75% Convertible Senior Notes in cash and the Company's volume weighted average stock price did not exceed the conversion price. However, the Company's volume weighted average stock price for the three months ended February 28, 2013 was \$39.54, which exceeded the conversion price, thus 8.9 million shares were included in the calculation of diluted earnings per share. Holders may convert the 2.75% Convertible Senior Notes at the initial conversion rate of 45.1794 shares of Class A common stock per \$1,000 principal amount or 20,150,012 Class A common shares if all the 2.75% Convertible Senior Notes are converted, which is equivalent to an initial conversion price of approximately \$22.13 per share of Class A common stock. Holders of the 2.75% Convertible Senior Notes have the right to require the Company to repurchase them for cash equal to 100% of their principal amount, plus accrued but unpaid interest, on December 15, 2015. The Company has the right to redeem the 2.75% Convertible Senior Notes at any time on or after December 20, 2015 for 100% of their principal amount, plus accrued but unpaid interest. The 2.75% Convertible Senior Notes are unsecured and unsubordinated, but are guaranteed by substantially all of the Company's 100% owned homebuilding subsidiaries.

Certain provisions under ASC 470, Debt, require the issuer of certain convertible debt instruments that may be settled in cash on conversion to separately account for the liability and equity components of the instrument in a manner that reflects the issuer's non-convertible debt borrowing rate. The Company has applied these provisions to its 2.75% Convertible Senior Notes. At both February 28, 2013 and November 30, 2012, the principal amount of the 2.75% Convertible Senior Notes was \$446.0 million. At February 28, 2013 and November 30, 2012, the carrying amount of the equity component included in stockholders' equity was \$40.7 million and \$44.2 million, respectively, and the net carrying amount of the 2.75% Convertible Senior Notes included in Lennar Homebuilding senior notes and other

debts payable was \$405.3 million and \$401.8 million, respectively.

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

100% of their principal amount, plus accrued but unpaid interest. The 2.00% Convertible Senior Notes are unsecured and unsubordinated, but are guaranteed by substantially all of the Company's 100% owned homebuilding subsidiaries. Although the guarantees by substantially all of the Company's 100% owned homebuilding subsidiaries are full, unconditional and joint and several while they are in effect, (i) a subsidiary will cease to be a guarantor at any time when it is not directly or indirectly guaranteeing at least \$75 million of debt of Lennar Corporation (the parent company), and (ii) a subsidiary will be released from its guarantee and any other obligations it may have regarding the senior notes if all or substantially all its assets, or all of its capital stock, are sold or otherwise disposed of.

#### (12)Product Warranty

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

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

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

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

## (13) Share-Based Payment

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

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

## (14) Financial Instruments

The following table presents the carrying amounts and estimated fair values of financial instruments held by the Company at February 28, 2013 and November 30, 2012, using available market information and what the Company believes to be appropriate valuation methodologies. Considerable judgment is required in interpreting market data to develop the estimates of fair value. The use of different market assumptions and/or estimation methodologies might have a material effect on the estimated fair value amounts. The table excludes cash and cash equivalents, restricted cash, defeasance cash to retire notes payable, receivables, net and accounts payable, all of which had fair values approximating their carrying amounts due to the short maturities of these instruments.

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

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

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

**Rialto Investments**—The fair values for loans receivable is based on discounted cash flows, or the fair value of the collateral less estimated cost to sell. The fair value for investments held-to-maturity is based on discounted cash flows. For notes payable, the fair value of the zero percent interest notes guaranteed by the FDIC was calculated based on a 2-year treasury yield, and the fair value of other notes payable was calculated based on discounted cash flows using the Company's weighted average borrowing rate.

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



## Fair Value Measurements:

GAAP provides a framework for measuring fair value, expands disclosures about fair value measurements and establishes a fair value hierarchy which prioritizes the inputs used in measuring fair value summarized as follows:

Level 1: Fair value determined based on quoted prices in active markets for identical assets.

Level 2: Fair value determined using significant other observable inputs.

Level 3: Fair value determined using significant unobservable inputs.

The Company's financial instruments measured at fair value on a recurring basis are summarized below:

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

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

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

Loans held-for-sale— Fair value is based on independent quoted market prices, where available, or the prices for other mortgage whole loans with similar characteristics. Management believes carrying loans held-for-sale at fair value improves financial reporting by mitigating volatility in reported earnings caused by measuring the fair value of the loans and the derivative instruments used to economically hedge them without having to apply complex hedge accounting provisions. In addition, the Company recognizes the fair value of its rights to service a mortgage loan as revenue upon entering into an interest rate lock loan commitment with a borrower. The fair value of these servicing rights is included in Lennar Financial Services' loans held-for-sale as of February 28, 2013 and November 30, 2012. Fair value of servicing rights is determined based on actual sales of servicing rights on loans with similar characteristics.

Mortgage loan commitments— Fair value of commitments to originate loans is based upon the difference between the current value of similar loans and the price at which the Lennar Financial Services segment has committed to originate the loans. The fair value of commitments to sell loan contracts is the estimated amount that the Lennar Financial Services segment would receive or pay to terminate the commitments at the reporting date based on market prices for similar financial instruments.

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

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

Gains and losses of Lennar Financial Services financial instruments measured at fair value from initial measurement and subsequent changes in fair value are recognized in the Lennar Financial Services segment's operating earnings. There were no gains or losses recognized for the Lennar Homebuilding investments available-for-sale during the three months ended February 28, 2013 and February 29, 2012. The changes in fair values that are included in operating earnings are shown, by financial instrument and financial statement line item below:

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

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

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

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

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

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

The Company's assets measured at fair value on a nonrecurring basis are those assets for which the Company has recorded valuation adjustments and write-offs and Rialto Investments real estate owned assets. The fair value included in the tables below represent only those assets whose carrying value were adjusted to fair value during the respective periods disclosed. The assets measured at fair value on a nonrecurring basis are summarized below:

Non-financial assets	Fair Value Hierarchy	Fair Value	Total Gains
		Three Months Ended February 28, 2013	(Losses) (1)
(In thousands)			
Lennar Homebuilding:			
Finished homes and construction in progress (2)	Level 3	\$ 2,941	(1,255
Rialto Investments:			
REO - held-for-sale (3)	Level 3	\$ 8,447	(271
REO - held-and-used, net (4)	Level 3	\$ 18,211	941

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

(2)

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

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



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

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

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

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

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

(3) REO, held-for-sale, assets are initially recorded at fair value less estimated costs to sell at the time of acquisition through, or in lieu of, loan foreclosure. Upon acquisition, the REO, held-for-sale, had a carrying value of \$0.3 million and a fair value of \$1.1 million. The fair value of REO, held-for-sale, is based upon the appraised value at the time of foreclosure or management's best estimate. The gains upon acquisition of REO, held-for-sale, were \$0.8 (3) million. As part of management's periodic valuations of its REO, held-for-sale, during the three months ended February 29, 2012, REO, held-for-sale, with an aggregate value of \$11.5 million were written down to their fair value of \$10.3 million, resulting in impairments of \$1.2 million. These gains and impairments are included within Rialto Investments other income (expense), net in the Company's statement of operations for the three months ended February 29, 2012.

(4) REO, held-and-used, net, assets are initially recorded at fair value at the time of acquisition through, or in lieu of, loan foreclosure. Upon acquisition, the REO, held-and-used, net, had a carrying value of \$41.2 million and a fair value of \$46.2 million. The fair value of REO, held-and-used, net, is based upon the appraised value at the time of foreclosure or management's best estimate. The gains upon acquisition of REO, held-and-used, net, were \$5.0 (4) million. As part of management's periodic valuations of its REO, held-and-used, net, during the three months ended February 29, 2012, REO, held-and-used, net, with an aggregate value of \$10.6 million were written down to their fair value of \$8.0 million, resulting in impairments of \$2.6 million. These gains and impairments are included within the Rialto Investments other income (expense), net, in the Company's statement of operations for the three months ended February 29, 2012.

Finished homes and construction in progress are included within inventories. Inventories are stated at cost unless the inventory within a community is determined to be impaired, in which case the impaired inventory is written down to fair value. Inventory costs include land, land development and home construction costs, real estate taxes, deposits on land purchase contracts and interest related to development and construction. Construction overhead and selling expenses are expensed as incurred. Homes held-for-sale are classified as inventories until delivered. Land, land development, amenities and other costs are accumulated by specific area and allocated to homes within the respective areas. The Company reviews its inventory for indicators of impairment by evaluating each community during each reporting period. The inventory within each community is categorized as finished homes and construction in progress or land under development based on the development state of the community. There were 482 and 424 active communities, excluding unconsolidated entities, as of February 28, 2013 and February 29, 2012, respectively. If the undiscounted cash flows expected to be generated by a community are less than its carrying amount, an impairment charge is recorded to write down the carrying amount of such community to its estimated fair

value.

In conducting its review for indicators of impairment on a community level, the Company evaluates, among other things, the margins on homes that have been delivered, margins on homes under sales contracts in backlog, projected margins with regard to future home sales over the life of the community, projected margins with regard to future land sales and the estimated fair value of the land itself. The Company pays particular attention to communities in which inventory is moving at a slower than anticipated absorption pace and communities whose average sales price and/or margins are trending downward and are anticipated to continue to trend downward. From this review, the Company identifies communities whose carrying values exceed their undiscounted cash flows.

The Company estimates the fair value of its communities using a discounted cash flow model. The projected cash flows for each community are significantly impacted by estimates related to market supply and demand, product type by community, homesite sizes, sales pace, sales prices, sales incentives, construction costs, sales and marketing expenses, the local economy, competitive conditions, labor costs, costs of materials and other factors for that particular community. Every division evaluates the historical performance of each of its communities as well as current trends in the market and economy impacting the community and its surrounding areas. These trends are analyzed for each of the estimates listed above. For example, since the start of the downturn in the housing market, the Company has found ways to reduce its construction costs in many communities, and this reduction in construction costs in addition to change in product type in many communities has impacted future estimated cash flows.

Each of the homebuilding markets in which the Company operates is unique, as homebuilding has historically been a local business driven by local market conditions and demographics. Each of the Company's homebuilding markets has specific supply and demand relationships reflective of local economic conditions. The Company's projected cash flows are impacted by many assumptions. Some of the most critical assumptions in the Company's cash flow model are projected absorption pace for home sales, sales prices and costs to build and deliver homes on a community by community basis.

In order to arrive at the assumed absorption pace for home sales included in the Company's cash flow model, the Company analyzes its historical absorption pace in the community as well as other comparable communities in the geographical area. In addition, the Company considers internal and external market studies and trends, which generally include, but are not limited to, statistics on population demographics, unemployment rates and availability of competing product in the geographic area where the community is located. When analyzing the Company's historical absorption pace for home sales and corresponding internal and external market studies, the Company places greater emphasis on more current metrics and trends such as the absorption pace realized in its most recent quarters as well as forecasted population demographics, unemployment rates and availability of competing product. Generally, if the Company notices a variation from historical results over a span of two fiscal quarters, the Company considers such variation to be the establishment of a trend and adjusts its historical information accordingly in order to develop assumptions on the projected absorption pace in the cash flow model for a community.

In order to determine the assumed sales prices included in its cash flow models, the Company analyzes the historical sales prices realized on homes it delivered in the community and other comparable communities in the geographical area as well as the sales prices included in its current backlog for such communities. In addition, the Company considers internal and external market studies and trends, which generally include, but are not limited to, statistics on sales prices in neighboring communities and sales prices on similar products in non-neighboring communities in the geographic area where the community is located. When analyzing its historical sales prices and corresponding market studies, the Company also places greater emphasis on more current metrics and trends such as future forecasted sales prices in neighboring communities as well as future forecasted sales prices for similar products in non-neighboring communities. Generally, if the Company notices a variation from historical results over a span of two fiscal quarters, the Company considers such variation to be the establishment of a trend and adjusts its historical information accordingly in order to develop assumptions on the projected sales prices in the cash flow model for a community.

In order to arrive at the Company's assumed costs to build and deliver homes, the Company generally assumes a cost structure reflecting contracts currently in place with its vendors adjusted for any anticipated cost reduction initiatives or increases in cost structure. Costs assumed in the cash flow model for the Company's communities are generally based on the rates the Company is currently obligated to pay under existing contracts with its vendors adjusted for any

anticipated cost reduction initiatives or increases in cost structure.

Since the estimates and assumptions included in the Company's cash flow models are based upon historical results and projected trends, they do not anticipate unexpected changes in market conditions or strategies that may lead the Company to incur additional impairment charges in the future.

Using all available information, the Company calculates its best estimate of projected cash flows for each community. While many of the estimates are calculated based on historical and projected trends, all estimates are subjective and change

from market to market and community to community as market and economic conditions change. The determination of fair value also requires discounting the estimated cash flows at a rate the Company believes a market participant would determine to be commensurate with the inherent risks associated with the assets and related estimated cash flow streams. The discount rate used in determining each asset's fair value depends on the community's projected life and development stage. The Company generally uses a discount rate of approximately 20%, subject to the perceived risks associated with the community's cash flow streams relative to its inventory.

The Company estimates the fair value of inventory evaluated for impairment based on market conditions and assumptions made by management at the time the inventory is evaluated, which may differ materially from actual results if market conditions or assumptions change. For example, further market deterioration or changes in assumptions may lead to the Company incurring additional impairment charges on previously impaired inventory, as well as on inventory not currently impaired but for which indicators of impairment may arise if further market deterioration occurs.

In the three months ended February 28, 2013, the Company reviewed its communities for potential indicators of impairments and identified 24 communities with 759 homesites and a corresponding carrying value of \$44.7 million as having potential indicators of impairment. Of those communities identified, the Company recorded impairments on 32 homesites in 3 communities with a corresponding carrying value of \$4.2 million. The table below summarizes the most significant unobservable inputs used in the Company's discounted cash flow model to determine the fair value of its communities for which the Company recorded valuation adjustments during the three months ended February 28, 2013:

Unobservable inputs	Range
Average selling price	\$163,000 - \$279,000
Absorption rate per quarter (homes)	2 - 12
Discount rate	20%

The Company evaluates its investments in unconsolidated entities for indicators of impairment during each reporting period. A series of operating losses of an investee or other factors may indicate that a decrease in value of the Company's investment in the unconsolidated entity has occurred which is other-than-temporary. The amount of impairment recognized is the excess of the investment's carrying amount over its estimated fair value.

The evaluation of the Company's investment in unconsolidated entities includes certain critical assumptions made by management: (1) projected future distributions from the unconsolidated entities, (2) discount rates applied to the future distributions and (3) various other factors.

The Company's assumptions on the projected future distributions from the unconsolidated entities are dependent on market conditions. Specifically, distributions are dependent on cash to be generated from the sale of inventory by the unconsolidated entities. Such inventory is also reviewed for potential impairment by the unconsolidated entities. The unconsolidated entities generally use a discount rate of approximately 20% in their reviews for impairment, subject to the perceived risks associated with the community's cash flow streams relative to its inventory. If a valuation adjustment is recorded by an unconsolidated entity related to its assets, the Company's proportionate share is reflected in the Company's homebuilding equity in earnings (loss) from unconsolidated entities with a corresponding decrease to its investment in unconsolidated entities. In certain instances, the Company may be required to record additional losses relating to its investment in unconsolidated entities, if the Company's investment in the unconsolidated entity, or a portion thereof, is deemed to be other than temporarily impaired. These losses are included in Lennar Homebuilding other income, net.

Additionally, the Company considers various qualitative factors to determine if a decrease in the value of the investment is other-than-temporary. These factors include age of the venture, intent and ability for the Company to recover its investment in the entity, financial condition and long-term prospects of the entity, short-term liquidity needs of the unconsolidated entity, trends in the general economic environment of the land, entitlement status of the land held by the unconsolidated entity, overall projected returns on investment, defaults under contracts with third parties (including bank debt), recoverability of the investment through future cash flows and relationships with the other partners and banks. If the Company believes that the decline in the fair value of the investment is temporary, then no impairment is recorded.

REO represents real estate that the Rialto segment has taken control or has effective control of in partial or full satisfaction of loans receivable. At the time of acquisition of a property through foreclosure of a loan, REO is recorded at fair value less estimated costs to sell if classified as held-for-sale or at fair value if classified as held-and-used, which becomes the property's new basis. The fair values of these assets are determined in part by placing reliance on third party appraisals of the properties and/or internally prepared analyses of recent offers or prices on comparable properties in the proximate vicinity. The third party appraisals and internally developed analyses are significantly impacted by the local market economy, market supply and demand, competitive conditions and prices on comparable properties, adjusted for date of sale, location, property size, and

other factors. Each REO is unique and is analyzed in the context of the particular market where the property is located. In order to establish the significant assumptions for a particular REO, the Company analyzes historical trends, including trends achieved by our local homebuilding operations, if applicable, and current trends in the market and economy impacting the REO. Using available trend information, the Company then calculates its best estimate of fair value, which can include projected cash flows discounted at a rate the Company believes a market participant would determine to be commensurate with the inherent risks associated with the assets and related estimated cash flow streams. These methods use unobservable inputs to develop fair value for the Company's REO. Due to the volume and variance of unobservable inputs, resulting from the uniqueness of each of the Company's REO, the Company does not use a standard range of unobservable inputs with respect to its evaluation of REO. However, for operating properties within REO, the Company may also use estimated cash flows multiplied by a capitalization rate to determine the fair value of the property. For the three months ended February 28, 2013, the capitalization rates used to estimate fair value ranged from 8% to 12% and varied based on the location of the asset, asset type and occupancy rates for the operating properties.

Changes in economic factors, consumer demand and market conditions, among other things, could materially impact estimates used in the third party appraisals and/or internally prepared analyses of recent offers or prices on comparable properties. Thus, estimates can differ significantly from the amounts ultimately realized by the Rialto segment from disposition of these assets. The amount by which the recorded investment in the loan is less than the REO's fair value (net of estimated cost to sell if held-for-sale), is recorded as an unrealized gain on foreclosure in the Company's statement of operations. The amount by which the recorded investment in the loan is greater than the REO's fair value (net of estimated cost to sell if held-for-sale) is initially recorded as an impairment in the Company's statement of operations.

#### (15) Consolidation of Variable Interest Entities

GAAP requires the consolidation of VIEs in which an enterprise has a controlling financial interest. A controlling financial interest will have both of the following characteristics: (a) the power to direct the activities of a VIE that most significantly impact the VIEs economic performance and (b) the obligation to absorb losses of the VIE that could potentially be significant to the VIE or the right to receive benefits from the VIE that could potentially be significant to the VIE.

The Company's variable interest in VIEs may be in the form of (1) equity ownership, (2) contracts to purchase assets, (3) management and development agreements between the Company and a VIE, (4) loans provided by the Company to a VIE or other partner and/or (5) guarantees provided by members to banks and other third parties. The Company examines specific criteria and uses its judgment when determining if the Company is the primary beneficiary of a VIE. Factors considered in determining whether the Company is the primary beneficiary include risk and reward sharing, experience and financial condition of other partner(s), voting rights, involvement in day-to-day capital and operating decisions, representation on a VIE's executive committee, existence of unilateral kick-out rights or voting rights, level of economic disproportionality, if any, between the Company and the other partner(s) and contracts to purchase assets from VIEs.

Generally, all major decision making in the Company's joint ventures is shared between all partners. In particular, business plans and budgets are generally required to be unanimously approved by all partners. Usually, management and other fees earned by the Company are nominal and believed to be at market and there is no significant economic disproportionality between the Company and other partners. Generally, the Company purchases less than a majority of the joint venture's assets and the purchase prices under the Company's option contracts are believed to be at market. Generally, Lennar Homebuilding unconsolidated entities become VIEs and consolidate when the other partner(s) lack the intent and financial wherewithal to remain in the entity. As a result, the Company continues to fund operations and debt paydowns through partner loans or substituted capital contributions.

The Company evaluated the joint venture agreements of its joint ventures that were formed or that had reconsideration events during the three months ended February 28, 2013. Based on the Company's evaluation, there were no entities that consolidated during the three months ended February 28, 2013. In addition, during the three months ended February 28, 2013, there were no VIEs that were deconsolidated.

At February 28, 2013 and November 30, 2012, the Company's recorded investments in Lennar Homebuilding unconsolidated entities were \$577.3 million and \$565.4 million, respectively, and the Rialto segment's investments in unconsolidated entities as of February 28, 2013 and November 30, 2012 were \$106.6 million and \$108.1 million, respectively.

Consolidated VIEs

As of February 28, 2013, the carrying amounts of the VIEs' assets and non-recourse liabilities that consolidated were \$1.8 billion and \$435.3 million, respectively. Those assets are owned by, and those liabilities are obligations of, the VIEs, not the Company.



A VIE's assets can only be used to settle obligations of that VIE. The VIEs are not guarantors of the Company's senior notes or other debts payable. In addition, the assets held by a VIE usually are collateral for that VIE's debt. The Company and other partners do not generally have an obligation to make capital contributions to a VIE unless the Company and/or the other partner(s) have entered into debt guarantees with a VIE's banks. Other than agreements with a VIE's banks, which may include debt guarantees and LC agreements, there are no liquidity arrangements or agreements to fund capital or purchase assets that could require the Company to provide financial support to a VIE. While the Company has option contracts to purchase land from certain of its VIEs, the Company is not required to purchase the assets and could walk away from the contracts.

#### Unconsolidated VIEs

The Company's recorded investment in VIEs that are unconsolidated and its estimated maximum exposure to loss were as follows:

As of February 28, 2013

(In thousands)	Investments in Unconsolidated VIEs	Lennar's Maximum Exposure to Loss
Lennar Homebuilding (1)	\$90,300	117,204
Rialto Investments (2)	23,626	23,626
	\$113,926	140,830

As of November 30, 2012

(In thousands)	Investments in Unconsolidated VIEs	Lennar's Maximum Exposure to Loss
Lennar Homebuilding (1)	\$85,500	109,278
Rialto Investments (2)	23,587	23,587
	\$109,087	132,865

At February 28, 2013, the maximum exposure to loss of Lennar Homebuilding's investments in unconsolidated VIEs is limited to its investment in the unconsolidated VIEs, except with regard to \$15.0 million of recourse debt of one of the unconsolidated VIEs, which is included in the Company's maximum recourse related to Lennar Homebuilding unconsolidated entities, and \$11.6 million of letters of credit outstanding for certain of the unconsolidated VIEs that in the event of default under its debt agreement the letter of credit will be drawn upon. At

(1) November 30, 2012, the maximum exposure to loss of Lennar Homebuilding's investments in unconsolidated VIEs is limited to its investment in the unconsolidated VIEs, except with regard to \$18.7 million of recourse debt of one of the unconsolidated VIEs, which is included in the Company's maximum recourse related to Lennar Homebuilding unconsolidated entities and \$4.8 million of letters of credit outstanding for certain of the unconsolidated VIEs that in the event of default under its debt agreement the letter of credit will be drawn upon.

At both February 28, 2013 and November 30, 2012, the maximum recourse exposure to loss of Rialto's investment in unconsolidated VIEs was its investments in unconsolidated entities. At February 28, 2013 and November 30, (2) 2012, investments in unconsolidated VIEs and Lennar's maximum exposure to loss include \$15.3 million and \$15.0 million, respectively, related to Rialto's investments held-to-maturity.

While these entities are VIEs, the Company has determined that the power to direct the activities of the VIEs that most significantly impact the VIEs' economic performance is generally shared. While the Company generally manages the day-to-day operations of the VIEs, each of these VIEs has an executive committee made up of representatives from each partner. The members of the executive committee have equal votes and major decisions require unanimous consent and approval from all members. The Company does not have the unilateral ability to exercise participating voting rights without partner consent. Furthermore, the Company's economic interest is not significantly disproportionate to the point where it would indicate that the Company has the power to direct these activities.

The Company and other partners do not generally have an obligation to make capital contributions to the VIEs, except for \$15.0 million of recourse debt of one of the Lennar Homebuilding unconsolidated VIEs and \$11.6 million of letters of credit outstanding for one of the Lennar Homebuilding unconsolidated VIEs that in the event of default under its debt agreement the letter of credit will be drawn upon. Except for the Lennar Homebuilding unconsolidated VIEs discussed above, the Company and the other partners did not guarantee any debt of the other unconsolidated VIEs. There are no liquidity arrangements or

agreements to fund capital or purchase assets that could require the Company to provide financial support to the VIEs. While the Company has option contracts to purchase land from certain of its unconsolidated VIEs, the Company is not required to purchase the assets and could walk away from the contracts.

#### Option Contracts

The Company has access to land through option contracts, which generally enables it to control portions of properties owned by third parties (including land funds) and unconsolidated entities until the Company has determined whether to exercise the option.

A majority of the Company's option contracts require a non-refundable cash deposit or irrevocable letter of credit based on a percentage of the purchase price of the land. The Company's option contracts sometimes include price adjustment provisions, which adjust the purchase price of the land to its approximate fair value at the time of acquisition or are based on the fair value at the time of takedown.

The Company's investments in option contracts are recorded at cost unless those investments are determined to be impaired, in which case the Company's investments are written down to fair value. The Company reviews option contracts for indicators of impairment during each reporting period. The most significant indicator of impairment is a decline in the fair value of the optioned property such that the purchase and development of the optioned property would no longer meet the Company's targeted return on investment with appropriate consideration given to the length of time available to exercise the option. Such declines could be caused by a variety of factors including increased competition, decreases in demand or changes in local regulations that adversely impact the cost of development. Changes in any of these factors would cause the Company to re-evaluate the likelihood of exercising its land options. Some option contracts contain a predetermined take-down schedule for the optioned land parcels. However, in almost all instances, the Company is not required to purchase land in accordance with those take-down schedules. In substantially all instances, the Company has the right and ability to not exercise its option and forfeit its deposit without further penalty, other than termination of the option and loss of any unapplied portion of its deposit and pre-acquisition costs. Therefore, in substantially all instances, the Company does not consider the take-down price to be a firm contractual obligation.

When the Company does not intend to exercise an option, it writes off any unapplied deposit and pre-acquisition costs associated with the option contract.

The Company evaluates all option contracts for land to determine whether they are VIEs and, if so, whether the Company is the primary beneficiary of certain of these option contracts. Although the Company does not have legal title to the optioned land, if the Company is deemed to be the primary beneficiary, it is required to consolidate the land under option at the purchase price of the optioned land. During the three months ended February 28, 2013, the effect of consolidation of these option contracts was a net increase of \$6.4 million to consolidated inventory not owned with a corresponding increase to liabilities related to consolidated inventory not owned in the accompanying condensed consolidated balance sheet as of February 28, 2013. To reflect the purchase price of the inventory consolidated, the Company reclassified the related option deposits from land under development to consolidated inventory not owned in the accompanying condensed consolidated balance sheet as of February 28, 2013. The liabilities related to consolidated inventory not owned primarily represent the difference between the option exercise prices for the optioned land and the Company's cash deposits. The increase to consolidated inventory not owned was offset by the Company exercising its options to acquire land under certain contracts previously consolidated resulting in a net decrease in consolidated inventory not owned of \$1.4 million for the three months ended February 28, 2013.

The Company's exposure to loss related to its option contracts with third parties and unconsolidated entities consisted of its non-refundable option deposits and pre-acquisition costs totaling \$134.6 million and \$176.7 million, respectively, at February 28, 2013 and November 30, 2012. Additionally, the Company had posted \$38.9 million and \$42.5 million, respectively, of letters of credit in lieu of cash deposits under certain option contracts as of February 28, 2013 and November 30, 2012.

(16) New Accounting Pronouncements

In June 2011, the FASB issued ASU 2011-05, Presentation of Comprehensive Income, (“ASU 2011-05”). ASU 2011-05 requires the presentation of comprehensive income in either (1) a continuous statement of comprehensive income or (2) two separate but consecutive statements. ASU 2011-05 was effective for the Company’s quarter ended February 28, 2013. The adoption of ASU 2011-05 did not have a material effect on the Company’s condensed consolidated financial statements, but required a change in the presentation of the Company’s comprehensive income from the notes of the consolidated financial statements to the face of the condensed consolidated financial statements.

In September 2011, the FASB issued ASU 2011-08, Testing Goodwill for Impairment, (“ASU 2011-08”), which amends the guidance in ASC 350-20, Intangibles – Goodwill and Other – Goodwill. Under ASU 2011-08, entities have the option of performing a qualitative assessment before calculating the fair value of the reporting unit when testing goodwill for impairment. If the fair value of the reporting unit is determined, based on qualitative factors, to be more likely than not less than the carrying amount of the reporting unit, then entities are required to perform the two-step goodwill impairment test. ASU 2011-08 was effective for the Company’s fiscal year beginning December 1, 2012. The adoption of ASU 2011-08 did not have a material effect on the Company’s condensed consolidated financial statements.

## (17) Supplemental Financial Information

The indentures governing the principal amounts of the Company's 5.95% senior notes due 2013, 5.50% senior notes due 2014, 5.60% senior notes due 2015, 6.50% senior notes due 2016, 4.75% senior notes due 2017, 12.25% senior notes due 2017, 4.125% senior notes due 2018, 6.95% senior notes due 2018, 2.00% convertible senior notes due 2020, 2.75% convertible senior notes due 2020, 3.25% convertible senior notes due 2021 and 4.750% senior notes due 2022 require that, if any of the Company's 100% owned subsidiaries, other than its finance company subsidiaries and foreign subsidiaries, directly or indirectly guarantee at least \$75 million principal amount of debt of Lennar Corporation, those subsidiaries must also guarantee Lennar Corporation's obligations with regard to its senior notes. The entities referred to as "guarantors" in the following tables are subsidiaries that were guaranteeing the senior notes because they were guaranteeing the \$150 million LC Agreement, the \$200 million Letter of Credit Facility and the Credit Facility at February 28, 2013. The guarantees are full, unconditional and joint and several and the guarantor subsidiaries are 100% directly or indirectly owned by Lennar Corporation. 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, and 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. For purposes of the condensed consolidating statement of cash flows included in the following supplemental financial information, the Company's accounting policy is to treat cash received from its subsidiaries, to the extent of net earnings from such subsidiaries as a dividend and accordingly a return on investment within cash flows from operating activities. Supplemental information for the subsidiaries that were guarantor subsidiaries at February 28, 2013 was as follows:

Condensed Consolidating Balance Sheet  
February 28, 2013

(In thousands)	Lennar Corporation	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Total
<b>ASSETS</b>					
Lennar Homebuilding:					
Cash and cash equivalents, restricted cash and receivables, net	\$934,338	222,307	22,343	—	1,178,988
Inventories	—	5,061,731	550,245	—	5,611,976
Investments in unconsolidated entities	—	532,882	44,460	—	577,342
Other assets	51,269	721,073	222,816	(21,593 )	973,565
Investments in subsidiaries	3,508,365	796,925	—	(4,305,290 )	—
Intercompany	3,236,190	—	—	(3,236,190 )	—
	7,730,162	7,334,918	839,864	(7,563,073 )	8,341,871
Rialto Investments	—	—	1,342,233	—	1,342,233
Lennar Financial Services	—	73,130	675,035	—	748,165
Total assets	\$7,730,162	7,408,048	2,857,132	(7,563,073 )	10,432,269
<b>LIABILITIES AND EQUITY</b>					
Lennar Homebuilding:					
Accounts payable and other liabilities	\$250,194	566,996	34,852	(21,593 )	830,449
Liabilities related to consolidated inventory not owned	—	266,803	—	—	266,803
Senior notes and other debts payable	3,984,087	286,081	235,494	—	4,505,662
Intercompany	—	2,751,152	485,038	(3,236,190 )	—
	4,234,281	3,871,032	755,384	(3,257,783 )	5,602,914
Rialto Investments	—	—	285,166	—	285,166
Lennar Financial Services	—	28,651	445,898	—	474,549
Total liabilities	4,234,281	3,899,683	1,486,448	(3,257,783 )	6,362,629
Stockholders' equity	3,495,881	3,508,365	796,925	(4,305,290 )	3,495,881

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Noncontrolling interests	—	—	573,759	—	573,759
Total equity	3,495,881	3,508,365	1,370,684	(4,305,290 )	4,069,640
Total liabilities and equity	\$7,730,162	7,408,048	2,857,132	(7,563,073 )	10,432,269

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## (17) Supplemental Financial Information - (Continued)

## Condensed Consolidating Balance Sheet

November 30, 2012

(In thousands)	Lennar Corporation	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Total
<b>ASSETS</b>					
Lennar Homebuilding:					
Cash and cash equivalents, restricted cash and receivables, net	\$962,116	226,047	20,545	—	1,208,708
Inventories	—	4,532,755	538,958	—	5,071,713
Investments in unconsolidated entities	—	521,662	43,698	—	565,360
Other assets	55,625	677,692	222,753	—	956,070
Investments in subsidiaries	3,488,054	770,119	—	(4,258,173 )	—
	4,505,795	6,728,275	825,954	(4,258,173 )	7,801,851
Rialto Investments	—	—	1,647,360	—	1,647,360
Lennar Financial Services	—	77,637	835,358	—	912,995
Total assets	\$4,505,795	6,805,912	3,308,672	(4,258,173 )	10,362,206
<b>LIABILITIES AND EQUITY</b>					
Lennar Homebuilding:					
Accounts payable and other liabilities	\$279,926	533,882	42,406	—	856,214
Liabilities related to consolidated inventory not owned	—	268,159	—	—	268,159
Senior notes and other debts payable	3,533,463	245,665	225,923	—	4,005,051
Intercompany	(2,722,358 )	2,239,096	483,262	—	—
	1,091,031	3,286,802	751,591	—	5,129,424
Rialto Investments	—	—	600,602	—	600,602
Lennar Financial Services	—	31,056	599,916	—	630,972
Total liabilities	1,091,031	3,317,858	1,952,109	—	6,360,998
Stockholders' equity	3,414,764	3,488,054	770,119	(4,258,173 )	3,414,764
Noncontrolling interests	—	—	586,444	—	586,444
Total equity	3,414,764	3,488,054	1,356,563	(4,258,173 )	4,001,208
Total liabilities and equity	\$4,505,795	6,805,912	3,308,672	(4,258,173 )	10,362,206

## (17) Supplemental Financial Information - (Continued)

Condensed Consolidating Statement of Operations  
Three Months Ended February 28, 2013

(In thousands)	Lennar Corporation	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Total
Revenues:					
Lennar Homebuilding	\$—	868,444	—	—	868,444
Lennar Financial Services	—	36,076	65,010	(5,206)	) 95,880
Rialto Investments	—	—	25,622	—	25,622
Total revenues	—	904,520	90,632	(5,206)	) 989,946
Cost and expenses:					
Lennar Homebuilding	—	776,024	3,022	(372)	) 778,674
Lennar Financial Services	—	37,018	47,656	(4,896)	) 79,778
Rialto Investments	—	—	31,771	—	31,771
Corporate general and administrative	30,005	—	—	1,265	31,270
Total costs and expenses	30,005	813,042	82,449	(4,003)	) 921,493
Lennar Homebuilding equity in earnings (loss) from	—	(1,490)	) 623	—	(867)
unconsolidated entities					
Lennar Homebuilding other income, net	228	4,256	—	(218)	) 4,266
Other interest expense	(1,421)	) (26,031)	) —	1,421	(26,031)
Rialto Investments equity in earnings from	—	—	6,173	—	6,173
unconsolidated entities					
Rialto Investments other income, net	—	—	1,327	—	1,327
Earnings (loss) before income taxes	(31,198)	) 68,213	16,306	—	53,321
Benefit (provision) for income taxes	7,402	2,950	(6,715)	) —	3,637
Equity in earnings from subsidiaries	81,288	10,125	—	(91,413)	) —
Net earnings (including net loss attributable to noncontrolling interests)	57,492	81,288	9,591	(91,413)	) 56,958
Less: Net loss attributable to noncontrolling interests	—	—	(534)	) —	(534)
Net earnings attributable to Lennar	\$57,492	81,288	10,125	(91,413)	) 57,492



## (17) Supplemental Financial Information - (Continued)

Condensed Consolidating Statement of Operations  
Three Months Ended February 29, 2012

(In thousands)	Lennar Corporation	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Total
<b>Revenues:</b>					
Lennar Homebuilding	\$—	624,028	405	—	624,433
Lennar Financial Services	—	34,550	37,982	(4,317)	68,215
Rialto Investments	—	—	32,208	—	32,208
Total revenues	—	658,578	70,595	(4,317)	724,856
<b>Cost and expenses:</b>					
Lennar Homebuilding	—	580,510	4,375	(140)	584,745
Lennar Financial Services	—	34,966	28,918	(3,919)	59,965
Rialto Investments	—	78	33,370	(78)	33,370
Corporate general and administrative	25,499	—	—	1,343	26,842
Total costs and expenses	25,499	615,554	66,663	(2,794)	704,922
Lennar Homebuilding equity in earnings (loss) from	—	1,141	(58)	—	1,083
unconsolidated entities					
Lennar Homebuilding other income (expense), net	(77)	4,058	—	86	4,067
Other interest expense	(1,437)	(24,849)	—	1,437	(24,849)
Rialto Investments equity in earnings from	—	—	18,458	—	18,458
unconsolidated entities					
Rialto Investments other expense, net	—	—	(12,240)	—	(12,240)
Earnings (loss) before income taxes	(27,013)	23,374	10,092	—	6,453
Benefit (provision) for income taxes	12,609	(6,034)	(5,051)	—	1,524
Equity in earnings from subsidiaries	29,372	12,032	—	(41,404)	—
Net earnings (including net loss attributable to noncontrolling interests)	14,968	29,372	5,041	(41,404)	7,977
Less: Net loss attributable to noncontrolling interests	—	—	(6,991)	—	(6,991)
Net earnings attributable to Lennar	\$14,968	29,372	12,032	(41,404)	14,968

## (17) Supplemental Financial Information - (Continued)

## Condensed Consolidating Statement of Cash Flows

Three Months Ended February 28, 2013

(In thousands)	Lennar Corporation	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Total
Cash flows from operating activities:					
Net earnings (including net loss attributable to noncontrolling interests)	\$57,492	81,288	9,591	(91,413 )	56,958
Adjustments to reconcile net earnings (including net loss attributable to noncontrolling interests) to net cash provided by (used in) operating activities	(30,899 )	(492,197 )	136,916	7,730	(378,450 )
Net cash provided by (used in) operating activities	26,593	(410,909 )	146,507	(83,683 )	(321,492 )
Cash flows from investing activities:					
Investments in and contributions to Lennar Homebuilding unconsolidated entities, net	—	2,940	(192 )	—	2,748
Investments in and contributions to Rialto Investments consolidated and unconsolidated entities, net	—	—	7,680	—	7,680
Decrease in Rialto Investments defeasance cash to retire notes payable	—	—	219,158	—	219,158
Receipts of principal payments on Rialto Investments loans receivable	—	—	18,434	—	18,434
Proceeds from sales of Rialto Investments real estate owned	—	—	34,451	—	34,451
Other	—	(15,924 )	(6,501 )	—	(22,425 )
Net cash provided by (used in) investing activities	—	(12,984 )	273,030	—	260,046
Cash flows from financing activities:					
Net repayments under Lennar Financial Services debt	—	(20 )	(146,041 )	—	(146,061 )
Net proceeds from senior notes	445,270	—	—	—	445,270
Principal repayments on Rialto Investments notes payable	—	—	(304,123 )	—	(304,123 )
Net borrowings (repayments) on other borrowings	—	(12,434 )	6,600	—	(5,834 )
Exercise of land option contracts from an unconsolidated land investment venture	—	(1,270 )	—	—	(1,270 )
Net payments related to noncontrolling interests	—	—	(12,151 )	—	(12,151 )
Excess tax benefits from share-based awards	3,013	—	—	—	3,013
Common stock:					
Issuances	21,668	—	—	—	21,668
Dividends	(7,693 )	—	—	—	(7,693 )

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Intercompany	(523,037 )	433,966	5,388	83,683	—
Net cash provided by (used in) financing activities	(60,779 )	420,242	(450,327 )	83,683	(7,181 )
Net decrease in cash and cash equivalents	(34,186 )	(3,651 )	(30,790 )	—	(68,627 )
Cash and cash equivalents at beginning of period	953,478	192,373	164,892	—	1,310,743
Cash and cash equivalents at end of period	\$919,292	188,722	134,102	—	1,242,116

## (17) Supplemental Financial Information - (Continued)

## Condensed Consolidating Statement of Cash Flows

Three Months Ended February 29, 2012

(In thousands)	Lennar Corporation	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Total
Cash flows from operating activities:					
Net earnings (including net loss attributable to noncontrolling interests)	\$14,968	29,372	5,041	(41,404 )	7,977
Adjustments to reconcile net earnings (including net loss attributable to noncontrolling interests) to net cash provided by (used in) operating activities	(46,874 )	(229,062 )	94,111	41,404	(140,421 )
Net cash provided by (used in) operating activities	(31,906 )	(199,690 )	99,152	—	(132,444 )
Cash flows from investing activities:					
Investments in and contributions to Lennar Homebuilding unconsolidated entities, net	—	(16,465 )	(448 )	—	(16,913 )
Investments in and contributions to Rialto Investments consolidated and unconsolidated entities, net	—	—	(7,213 )	—	(7,213 )
Decrease in Rialto Investments defeasance cash to retire notes payable	—	—	108,163	—	108,163
Receipts of principal payments on Rialto Investments loans receivable	—	—	33,549	—	33,549
Proceeds from sales of Rialto Investments real estate owned	—	—	37,868	—	37,868
Other	—	5,147	(3,895 )	—	1,252
Net cash provided by (used) in investing activities	—	(11,318 )	168,024	—	156,706
Cash flows from financing activities:					
Net repayments under Lennar Financial Services debt	—	(55 )	(150,629 )	—	(150,684 )
Net proceeds from convertible senior notes	48,965	—	—	—	48,965
Principal repayments on Rialto Investments notes payable	—	—	(170,026 )	—	(170,026 )
Net borrowings (repayments) on other borrowings	—	12,296	(4,473 )	—	7,823
Exercise of land option contracts from an unconsolidated land investment venture	—	(4,628 )	—	—	(4,628 )
Net receipts related to noncontrolling interests	—	—	391	—	391
Common stock:					
Issuances	10,761	—	—	—	10,761
Dividends	(7,562 )	—	—	—	(7,562 )
Intercompany	(212,652 )	165,478	47,174	—	—
	(160,488 )	173,091	(277,563 )	—	(264,960 )

Net cash provided by (used in) financing activities					
Net decrease in cash and cash equivalents	(192,394 )	(37,917 )	(10,387 )	—	(240,698 )
Cash and cash equivalents at beginning of period	864,237	172,018	127,349	—	1,163,604
Cash and cash equivalents at end of period	\$671,843	134,101	116,962	—	922,906

## Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

The following discussion and analysis of our financial condition and results of operations should be read in conjunction with our unaudited condensed consolidated financial statements and accompanying notes included under Item 1 of this Report and our audited consolidated financial statements and accompanying notes included in our Annual Report on Form 10-K for our fiscal year ended November 30, 2012.

Some of the statements in this Management's Discussion and Analysis of Financial Condition and Results of Operations, and elsewhere in this Quarterly Report on Form 10-Q, are "forward-looking statements," as that term is defined in the Private Securities Litigation Reform Act of 1995. These forward-looking statements may include statements regarding our business, financial condition, results of operations, cash flows, strategies and prospects. You can identify forward-looking statements by the fact that these statements do not relate strictly to historical or current matters. Rather, forward-looking statements relate to anticipated or expected events, activities, trends or results. Because forward-looking statements relate to matters that have not yet occurred, these statements are inherently subject to risks and uncertainties. Many factors could cause our actual activities or results to differ materially from the activities and results anticipated in forward-looking statements. These factors include those described under the caption "Risk Factors" included in Item 1A of our Annual Report on Form 10-K for our fiscal year ended November 30, 2012. We do not undertake any obligation to update forward-looking statements, except as required by Federal securities laws.

### Outlook

During the first quarter of 2013, we continued to see improvement in the marketplace. Current market conditions are being driven by strong demand resulting from low interest rates and attractive home prices, which have led to very affordable monthly payments, compared to rising rental rates. Overall, we are experiencing more traffic in our communities, and have improved our sales pace while increasing prices in many of our communities during the first quarter of 2013. Our new orders and backlog increased 34% and 82%, respectively, from the prior year.

In fiscal 2013, our principal focus in our homebuilding operations will continue to be on improving our operating margin on the homes we sell by increasing sales prices and reducing sales incentives, to offset increasing labor and material costs, as well as taking advantage of the steps we have taken over the past several years to reduce costs and right-size our overhead structure. In addition, we continue to invest in carefully underwritten strategic land acquisitions in well-positioned markets that we expect to continue to support our homebuilding operations going forward and help us increase operating leverage as deliveries increase. Our Financial Services segment benefited during the first quarter of 2013 from an increase in refinancing transactions and our growing homebuilding operations resulting in a strong quarter with operating earnings of \$16.1 million compared to \$8.3 million prior year. Although we expect a less robust refinancing market in the remainder of 2013, our Financial Services segment should continue to be a strong profit generator in 2013. We believe that 2013 will be a transitional year for our Rialto Investments segment as the PPIP fund was successfully completed at the end of fiscal 2012 and the first closing of our second fund was completed in December of 2012 and it will be ramping up throughout 2013.

As we enter fiscal 2013, we believe that all the segments of our company are well positioned. Our company's main driver of earnings will continue to be our homebuilding operations, but we are also focused on multiple platforms including Rialto, Mutlifamily, Financial Services and FivePoint, which manages several of our strategic long-term joint ventures, in order to create additional shareholder value. We are on track to achieve another year of substantial profitability in 2013 as the housing market recovery continues and we continue to benefit from our strategic land acquisitions and new community openings.

## (1) Results of Operations

## Overview

We historically have experienced, and expect to continue to experience, variability in quarterly results. Our results of operations for the three months ended February 28, 2013 are not necessarily indicative of the results to be expected for the full year. Gross margin percentages tend to increase as the year progresses since there are a lower number of deliveries and more community start-ups in the first two quarters of our fiscal year.

Our net earnings attributable to Lennar were \$57.5 million, or \$0.30 per basic share and \$0.26 per diluted share, in the first quarter of 2013, which included a net benefit for income taxes of \$3.6 million. The benefit for income taxes included a reversal of our deferred tax asset valuation allowance of \$25.1 million, partially offset by a tax provision of \$21.5 million primarily related to first quarter 2013 pre-tax earnings. This compared to net earnings attributable to Lennar of \$15.0 million, or \$0.08 per basic and diluted share, in the first quarter of 2012. During the three months ended February 28, 2013, there was an increase in our homebuilding operating earnings primarily due to an increase in the number of home deliveries and in the average sales price of homes delivered in our homebuilding operations, partially offset by an increase in materials and labor costs. We believe it is likely that our price increases will continue to out pace cost increases. In addition, there was an increase in the operating earnings of our Lennar Financial Services segment primarily due to increased volume and margins as a result of an increase in refinance transactions and homebuilding deliveries. These increases in operating earnings were partially offset by a decrease in the operating earnings of our Rialto segment primarily due to a decrease in equity in earnings of its unconsolidated entities as a result of the PPIP fund being liquidated at the end of 2012 and no contributions from the second fund which is just starting to ramp up operations.

Financial information relating to our operations was as follows:

(In thousands)	Three Months Ended	
	February 28, 2013	February 29, 2012
Lennar Homebuilding revenues:		
Sales of homes	\$855,081	610,700
Sales of land	13,363	13,733
Total Lennar Homebuilding revenues	868,444	624,433
Lennar Homebuilding costs and expenses:		
Costs of homes sold	666,084	482,822
Cost of land sold	10,348	10,836
Selling, general and administrative	102,242	91,087
Total Lennar Homebuilding costs and expenses	778,674	584,745
Lennar Homebuilding operating margins	89,770	39,688
Lennar Homebuilding equity in earnings (loss) from unconsolidated entities	(867	) 1,083
Lennar Homebuilding other income, net	4,266	4,067
Other interest expense	(26,031	) (24,849
Lennar Homebuilding operating earnings	\$67,138	19,989
Lennar Financial Services revenues	\$95,880	68,215
Lennar Financial Services costs and expenses	79,778	59,965
Lennar Financial Services operating earnings	\$16,102	8,250
Rialto Investments revenues	\$25,622	32,208
Rialto Investments costs and expenses	31,771	33,370
Rialto Investments equity in earnings from unconsolidated entities	6,173	18,458
Rialto Investments other income (expense), net	1,327	(12,240
Rialto Investments operating earnings	\$1,351	5,056
Total operating earnings	\$84,591	33,295
Corporate general administrative expenses	(31,270	) (26,842

Earnings before income taxes	\$53,321	6,453
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## Three Months Ended February 28, 2013 versus Three Months Ended February 29, 2012

Revenues from home sales increased 40% in the first quarter of 2013 to \$855.1 million from \$610.7 million in 2012. Revenues were higher primarily due to a 28% increase in the number of home deliveries, excluding unconsolidated entities, and a 9% increase in the average sales price of homes delivered. New home deliveries, excluding unconsolidated entities, increased to 3,174 homes in the first quarter of 2013 from 2,472 homes in the first quarter of 2012. There was an increase in home deliveries in all our Homebuilding segments and Homebuilding Other. The average sales price of homes delivered increased to \$269,000 in the first quarter of 2013 from \$246,000 in the same period last year, driven primarily by an increase in the average sales price of home deliveries in all of our homebuilding segments, except our Homebuilding West segment and Homebuilding Other, primarily due to increase in pricing in many of our markets as the market recovery continues. The average sales price of home deliveries decreased in our Homebuilding West segment primarily due to a shift in product mix in California due to the timing of deliveries from active communities with a lower average sales price. In Homebuilding Other the average sales price decreased primarily due to new home deliveries from our new operations in Washington and Oregon which have a lower average sales price than the other states in Homebuilding Other. Sales incentives offered to homebuyers were \$23,300 per home delivered in the first quarter of 2013, or 8.0% as a percentage of home sales revenue, compared to \$34,200 per home delivered in the same period last year, or 12.2% as a percentage of home sales revenue, and \$25,800 per home delivered in the fourth quarter of 2012, or 9.0% as a percentage of home sales revenue. Gross margins on home sales were \$189.0 million, or 22.1%, in the first quarter of 2013, compared to \$127.9 million, or 20.9%, in the first quarter of 2012. Gross margin percentage on home sales improved compared to last year, primarily due to a greater percentage of deliveries from our new higher margin communities (communities where land was acquired subsequent to November 30, 2008), which made up 57% of our deliveries, a decrease in sales incentives offered to homebuyers as a percentage of revenue from home sales, an increase in the average sales price of homes delivered and lower valuation adjustments, partially offset by an increase in materials and labor costs. Gross profits on land sales totaled \$3.0 million in the first quarter of 2013, compared to \$2.9 million in the first quarter of 2012. Selling, general and administrative expenses were \$102.2 million in the first quarter of 2013, compared to \$91.1 million in the first quarter of 2012. As a percentage of revenues from home sales, selling, general and administrative expenses improved to 12.0% in the first quarter of 2013, from 14.9% in the first quarter of 2012, due to improved operating leverage as a result of increased absorption per community.

Lennar Homebuilding equity in earnings (loss) from unconsolidated entities was (\$0.9) million in the first quarter of 2013, related to our share of operating losses of Lennar Homebuilding unconsolidated entities, compared to Lennar Homebuilding equity in earnings (loss) of \$1.1 million in the first quarter of 2012.

Lennar Homebuilding other income, net, totaled \$4.3 million in the first quarter of 2013, compared to \$4.1 million in the first quarter of 2012.

Lennar Homebuilding interest expense was \$46.3 million in the first quarter of 2013 (\$19.4 million was included in cost of homes sold, \$0.8 million in cost of land sold and \$26.0 million in other interest expense), compared to \$41.3 million in the first quarter of 2012 (\$16.1 million was included in cost of homes sold, \$0.4 million in cost of land sold and \$24.8 million in other interest expense). Interest expense increased due to an increase in our outstanding debt and an increase in deliveries, partially offset by a lower weighted average interest rate compared to the same period last year.

Operating earnings for the Lennar Financial Services segment were \$16.1 million in the first quarter of 2013, compared to \$8.3 million in the first quarter of 2012. The increase in profitability was primarily due to increased volume and margins in the segment's mortgage operations as a result of an increase in refinance transactions and homebuilding deliveries.

In the first quarter of 2013, operating earnings for the Rialto Investments segment were \$1.7 million (which included \$1.4 million operating earnings and an add back of \$0.3 million of net loss attributable to noncontrolling interests), compared to operating earnings of \$9.4 million (which included \$5.1 million of operating earnings and an add back \$4.3 million of net loss attributable to noncontrolling interests) in the same period last year. In the first quarter of 2013, revenues in this segment were \$25.6 million, which consisted primarily of accretable interest income associated with the segment's portfolio of real estate loans and fees for managing and servicing assets, compared to revenues of

\$32.2 million in the same period last year. Revenues decreased primarily due to lower interest income as a result of a decrease in the portfolio of loans, reflecting Rialto Investments segment's shift in focus to managing assets for funds it creates rather than acquiring assets. Expenses in this segment were \$31.8 million, in the first quarter of 2013, which consisted primarily of costs related to its portfolio operations, loan impairments of \$7.1 million primarily associated with the segment's FDIC loan portfolio (before noncontrolling interests) and other general and administrative expenses, compared to expenses of \$33.4 million, which consisted primarily of costs related to its portfolio operations, due diligence expenses related to both completed and abandoned transactions, and other general and administrative expenses in the same period last year.

The segment also had equity in earnings from unconsolidated entities of \$6.2 million in the first quarter of 2013, which included \$6.4 million of equity in earnings related to our share of earnings from the Rialto Real Estate Fund (the "Fund I"). This compared to equity in earnings from unconsolidated entities of \$18.5 million in the first quarter of 2012, which included \$8.4 million of net gains primarily related to unrealized gains for our share of the mark-to-market adjustments of the investment portfolio underlying the AllianceBernstein L.P. ("AB") fund formed under the Federal government's Public-Private Investment Program ("PPIP") that was liquidated at the end of 2012, \$2.6 million of interest income earned by the AB PPIP fund and \$7.6 million of equity in earnings related to our share of Fund I.

In the first quarter of 2013, Rialto Investments other income (expense), net, was \$1.3 million, which consisted primarily of rental income and gains realized on the sale of real estate owned ("REO"), partially offset by expenses related to owning and maintaining REO. In the first quarter of 2012, Rialto Investments other income (expense), net, was (\$12.2) million, which consisted primarily of expenses related to owning and maintaining real estate owned, partially offset by rental income and gains from acquisition of REO through foreclosure.

Corporate general and administrative expenses were \$31.3 million, or 3.2% as a percentage of total revenues, in the first quarter of 2013, compared to \$26.8 million, or 3.7% as a percentage of total revenues, in the first quarter of 2012. The increase in corporate general and administrative expenses was primarily due to an increase in personnel related expenses as a result of variable compensation expense.

Net loss attributable to noncontrolling interests were (\$0.5) million and (\$7.0) million, respectively, in the first quarter of 2013 and 2012, primarily attributable to noncontrolling interests related to our homebuilding and Rialto Investments segments. Net loss attributable to noncontrolling interests of our Rialto Investments segment was primarily related to the FDIC's interest in the portfolio of real estate loans that we acquired in partnership with the FDIC.

A reduction of the carrying amounts of deferred tax assets by a valuation allowance is required if, based on available evidence, it is more likely than not that such assets will not be realized. Accordingly, the need to establish valuation allowances for deferred tax assets is assessed quarterly based on the more-likely-than-not realization threshold criterion. In the assessment of the need for a valuation allowance, appropriate consideration is given to all positive and negative evidence related to the realization of the deferred tax assets. This assessment considers, among other matters, the nature, frequency and severity of current and cumulative losses, forecasts of future profitability, the duration of statutory carryforward periods, our experience with loss carryforwards not expiring unused and tax planning alternatives.

During the first quarter of 2013, we concluded that it was more likely than not that a portion of our state net operating loss ("NOL") carryforwards related to which a valuation allowance had been established would be utilized. This conclusion was based on additional positive evidence including actual and forecasted profitability. Accordingly, during the first quarter of 2013, we reversed \$25.1 million of the valuation allowance against the state NOL carryforwards. This reversal was partially offset by a tax provision of \$21.5 million primarily related to first quarter 2013 pre-tax earnings. Therefore, we had a \$3.6 million net benefit for income taxes for the first quarter of 2013. During the first quarter of 2012, we recorded a tax benefit of \$1.5 million, primarily related to a refund claim for certain losses carried back to a prior year. Based on an analysis utilizing objectively verifiable evidence, it was not more likely than not that certain state NOL carryforwards would be utilized due to an inability to carry back these losses in most states and short carryforward periods that exist in certain states. As a result, as of February 28, 2013, we had a valuation allowance of \$63.7 million against our deferred tax assets, primarily related to state NOL carryforwards. In future periods, some or all of the remaining allowance could be reversed if sufficient additional positive evidence is present indicating that it is more likely than not that a portion or all of our remaining deferred tax assets will be realized. Our overall effective income tax rates were (6.75%) and (11.33%), respectively, for the three months ended February 28, 2013 and February 29, 2012. The negative effective tax rates were primarily related to the reversal of our valuation allowance in the three months ended February 28, 2013 and a refund claim for certain losses carried back to a prior year in the three months ended February 29, 2012.



## Homebuilding Segments

We have grouped our homebuilding activities into five reportable segments, which we refer to as Homebuilding East, Homebuilding Central, Homebuilding West, Homebuilding Southeast Florida and Homebuilding Houston, based primarily upon similar economic characteristics, geography and product type. Information about homebuilding activities in states that do not have economic characteristics that are similar to those in other states in the same geographic area is grouped under "Homebuilding Other," which is not a reportable segment. References in this Management's Discussion and Analysis of Financial Condition and Results of Operations to homebuilding segments are to those reportable segments.

At February 28, 2013, our reportable homebuilding segments and Homebuilding Other consisted of homebuilding divisions located in:

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

Central: Arizona, Colorado and Texas<sup>(2)</sup>

West: California and Nevada

Southeast Florida: Southeast Florida

Houston: Houston, Texas

Other: Illinois, Minnesota, Oregon and Washington

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

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

The following tables set forth selected financial and operational information related to our homebuilding operations for the periods indicated:

## Selected Financial and Operational Data

(In thousands)	Three Months Ended	
	February 28, 2013	February 29, 2012
East:		
Sales of homes	\$286,854	236,264
Sales of land	2,038	8,569
Total East	288,892	244,833
Central:		
Sales of homes	147,958	84,927
Sales of land	1,074	786
Total Central	149,032	85,713
West:		
Sales of homes	173,585	122,850
Sales of land	490	235
Total West	174,075	123,085
Southeast Florida:		
Sales of homes	71,851	49,789
Total Southeast Florida	71,851	49,789
Houston:		
Sales of homes	98,995	80,768
Sales of land	9,523	4,066
Total Houston	108,518	84,834
Other:		
Sales of homes	75,838	36,102
Sales of land	238	77
Total Other	76,076	36,179
Total homebuilding revenues	\$868,444	624,433



	Three Months Ended	
	February 28, 2013	February 29, 2012
(In thousands)		
Operating earnings (loss):		
East:		
Sales of homes	\$30,785	17,627
Sales of land	351	1,800
Equity in earnings from unconsolidated entities	83	31
Other income (expense), net	(1,251 )	1,431
Other interest expense	(7,093 )	(6,942 )
Total East	22,875	13,947
Central:		
Sales of homes	17,487	4,039
Sales of land	161	92
Equity in loss from unconsolidated entities	(2 )	(36 )
Other income (expense), net	(330 )	709
Other interest expense	(3,359 )	(3,740 )
Total Central	13,957	1,064
West:		
Sales of homes	13,806	(2,227 )
Sales of land	(42 )	(73 )
Equity in earnings (loss) from unconsolidated entities	(263 )	1,340
Other income, net	8,057	1,823
Other interest expense	(8,955 )	(8,436 )
Total West	12,603	(7,573 )
Southeast Florida:		
Sales of homes	10,577	8,580
Equity in loss from unconsolidated entities	(230 )	(245 )
Other income, net	1,405	444
Other interest expense	(2,344 )	(2,145 )
Total Southeast Florida	9,408	6,634
Houston:		
Sales of homes	8,151	4,686
Sales of land	2,494	1,057
Equity in loss from unconsolidated entities	(4 )	(7 )
Other income (expense), net	113	(50 )
Other interest expense	(1,248 )	(1,170 )
Total Houston	9,506	4,516
Other:		
Sales of homes	5,949	4,086
Sales of land	51	21
Equity in loss from unconsolidated entities	(451 )	—
Other expense, net	(3,728 )	(290 )
Other interest expense	(3,032 )	(2,416 )
Total Other	(1,211 )	1,401
Total homebuilding operating earnings	\$67,138	19,989





## Summary of Homebuilding Data

## Deliveries:

	Three Months Ended					
	Homes		Dollar Value (In thousands)		Average Sales Price	
	February 28, 2013	February 29, 2012	February 28, 2013	February 29, 2012	February 28, 2013	February 29, 2012
East	1,140	1,062	\$288,205	237,021	\$253,000	223,000
Central	575	387	147,957	84,927	257,000	219,000
West	599	394	180,749	126,015	302,000	320,000
Southeast Florida	265	187	71,851	49,788	271,000	266,000
Houston	383	352	98,995	80,768	258,000	229,000
Other	224	100	75,837	36,103	339,000	361,000
Total	3,186	2,482	\$863,594	614,622	\$271,000	248,000

Of the total homes delivered listed above, 12 homes with a dollar value of \$8.5 million and an average sales price of \$709,000 represent home deliveries from unconsolidated entities for the three months ended February 28, 2013, compared to 10 deliveries with a dollar value of \$3.9 million and an average sales price of \$392,000 for the three months ended February 29, 2012.

## Sales Incentives (1):

	Three Months Ended					
	Sales Incentives (In thousands)		Average Sales Incentives Per Home Delivered		Sales Incentives as a % of Revenue	
	February 28, 2013	February 29, 2012	February 28, 2013	February 29, 2012	February 28, 2013	February 29, 2012
East	\$32,902	36,077	\$28,900	34,100	10.3 %	13.3 %
Central	10,010	12,991	17,400	33,600	6.3 %	13.2 %
West	6,253	11,985	10,600	31,000	3.5 %	8.9 %
Southeast Florida	7,997	6,820	30,200	36,500	10.0 %	12.1 %
Houston	13,017	12,608	34,000	35,800	11.6 %	13.5 %
Other	3,844	3,973	17,200	39,700	4.8 %	9.9 %
Total	\$74,023	84,454	\$23,300	34,200	8.0 %	12.2 %

(1) Sales incentives relate to home deliveries during the period, excluding deliveries by unconsolidated entities.

## New Orders (2):

	Three Months Ended					
	Homes		Dollar Value (In thousands)		Average Sales Price	
	February 28, 2013	February 29, 2012	February 28, 2013	February 29, 2012	February 28, 2013	February 29, 2012
East	1,552	1,246	\$412,769	292,490	\$266,000	235,000
Central	655	481	175,092	104,051	267,000	216,000
West	578	515	190,097	157,598	329,000	306,000
Southeast Florida	501	225	150,673	62,462	301,000	278,000
Houston	517	424	137,846	97,947	267,000	231,000
Other	252	131	91,104	48,786	362,000	372,000
Total	4,055	3,022	\$1,157,581	763,334	\$285,000	253,000

(2) New orders represent the number of new sales contracts executed with homebuyers, net of cancellations, during the three months ended February 28, 2013 and February 29, 2012.

Of the total new orders listed above, 13 homes with a dollar value of \$8.6 million and an average sales price of \$661,000 represent new orders from unconsolidated entities for the three months ended February 28, 2013, compared to 23 new orders with a dollar value of \$8.9 million and an average sales price of \$387,000 for the three months ended February 29, 2012.

## Backlog:

	Homes		Dollar Value (In thousands)		Average Sales Price	
	February 28, 2013	February 29, 2012	February 28, 2013	February 29, 2012	February 28, 2013	February 29, 2012
East	1,788	1,132	\$494,760	278,092	\$277,000	246,000
Central	733	403	195,762	84,245	267,000	209,000
West	687	419	212,545	129,173	309,000	308,000
Southeast Florida	705	204	220,098	64,920	312,000	318,000
Houston	650	427	174,370	96,948	268,000	227,000
Other	359	126	158,845	58,007	442,000	460,000
Total	4,922	2,711	\$1,456,380	711,385	\$296,000	262,000

Of the total homes in backlog listed above, 6 homes with a backlog dollar value of \$3.6 million and an average sales price of \$601,000 represent the backlog from unconsolidated entities at February 28, 2013, compared with backlog from unconsolidated entities of 15 homes with a backlog dollar value of \$6.0 million and an average sales price of \$399,000 at February 29, 2012.

Backlog represents the number of homes under sales contracts. Homes are sold using sales contracts, which are generally accompanied by sales deposits. In some instances, purchasers are permitted to cancel sales if they fail to qualify for financing or under certain other circumstances. The cancellation rates for the three months ended February 28, 2013 was within a range that is consistent with our historical cancellation rates. We experienced cancellation rates in our homebuilding segments and Homebuilding Other as follows:

	Three Months Ended		
	February 28, 2013	February 29, 2012	
East	14	% 18	%
Central	18	% 19	%
West	16	% 15	%
Southeast Florida	11	% 14	%
Houston	18	% 22	%
Other	12	% 7	%
Total	15	% 18	%

## Active Communities:

	February 28, 2013	February 29, 2012
East	190	153
Central	72	70
West	62	68
Southeast Florida	27	29
Houston	79	74
Other	54	32
Total	484	426

Of the total active communities listed above, 2 communities represent active communities being developed by unconsolidated entities during the periods ended February 28, 2013 and February 29, 2012.

## Deliveries from New Higher Margin Communities (3):

	Homes		Dollar Value (In thousands)		Average Sales Price	
	February 28, 2013	February 29, 2012	February 28, 2013	February 29, 2012	February 28, 2013	February 29, 2012
East	765	528	\$190,948	111,496	\$250,000	211,000
Central	238	144	59,344	32,807	249,000	228,000
West	371	214	101,432	67,939	273,000	317,000
Southeast Florida	177	128	52,609	37,527	297,000	293,000
Houston	92	58	26,014	11,905	283,000	205,000
Other	174	36	58,611	16,957	337,000	471,000
Total	1,817	1,108	\$488,958	278,631	\$269,000	251,000

(3) Deliveries from new higher margin communities represent deliveries from communities where land was acquired subsequent to November 30, 2008, and is a subset of the deliveries included in the deliveries table.

## Three Months Ended February 28, 2013 versus Three Months Ended February 29, 2012

Homebuilding East: Homebuilding revenues increased for the three months ended February 28, 2013, compared to the three months ended February 29, 2012, primarily due to an increase in the number of home deliveries and average sales price of homes delivered in all of the states in the segment, except Maryland and Virginia, in which deliveries and average sales price decreased for the three months ended February 28, 2013, compared to the same period last year. The increase in the number of deliveries was primarily driven by an increase in demand as evidenced by higher traffic volume in some of our communities, compared to the same period last year, resulting in an increase in our home sales per community. The increase in the average sales price of homes delivered was primarily because we have been able to increase the sales price of homes delivered and/or reduce sales incentives in certain of our communities as the market recovers in certain areas. The decrease in deliveries in Maryland and Virginia is due to the timing of opening and closing of communities. The average sales price decrease in Maryland and Virginia was primarily related to product mix as the prior year results included a community with a high average sales price that did not have deliveries in the first quarter of 2013. Gross margins on home sales were \$67.6 million, or 23.6%, for the three months ended February 28, 2013, compared to gross margins on home sales of \$50.8 million, or 21.5%, for the three months ended February 29, 2012. Gross margin percentage on homes increased compared to last year primarily due to a greater percentage of deliveries from our new higher margin communities, a decrease in sales incentives offered to homebuyers as a percentage of revenues from home sales (10.3% in 2013, compared to 13.3% in 2012) and lower valuation adjustments, partially offset by a 12% increase in direct construction and land costs per home due to increases in material and labor costs.

Homebuilding Central: Homebuilding revenues increased for the three months ended February 28, 2013 compared to the three months ended February 29, 2012, primarily due to an increase in the number of home deliveries in all of the states in the segment and an increase in the average sales price of homes delivered in all states in the segment. The increase in the number of deliveries was primarily driven by an increase in demand as evidenced by higher traffic volume in some of our communities, compared to the same period last year, resulting in an increase in our home sales per community. The increase in the average sales price of homes delivered was primarily because we have been able to increase the sales price of homes delivered and/or reduce sales incentives in certain of our communities as the market recovers in certain areas. Gross margins on home sales were \$29.5 million, or 19.9%, for the three months ended February 28, 2013, compared to gross margins on home sales of \$15.0 million, or 17.7%, for the three months ended February 29, 2012. Gross margin percentage on homes sales improved compared to last year primarily due to a greater percentage of deliveries from our new higher margin communities, a decrease in sales incentives offered to homebuyers as a percentage of revenues from home sales (6.3% in 2013, compared to 13.2% in 2012) and lower valuation adjustments, partially offset by a 12% increase in direct construction and land costs per home due to increases in material and labor costs.

Homebuilding West: Homebuilding revenues increased for the three months ended February 28, 2013, compared to the three months ended February 29, 2012, primarily due to an increase in the number of home deliveries in all of the

states in the segment, partially offset by a 6% decrease in the average sales price in California. The increase in the number of deliveries was primarily driven by an increase in demand as evidenced by higher traffic volume in some of our communities, compared to the same period last year, resulting in an increase in our home sales per community. The decrease in the average sales price of homes delivered in California, was primarily related to a change in product mix due to the timing of deliveries from active communities with a lower average sales price, which also resulted in lower direct construction and land costs per home. Gross margins on home sales were \$37.6 million, or 21.6%, for the three months ended February 28, 2013, compared to gross margins on home sales of \$23.0 million, or 18.7%, for the three months ended February 29, 2012. Gross margin percentage on homes

sales increased compared to last year primarily due to a greater percentage of deliveries from our new higher margin communities, a decrease in sales incentives offered to homebuyers as a percentage of revenues from home sales (3.5% in 2013, compared to 8.9% in 2012) and lower valuation adjustments, partially offset by the decrease in average sales price per home delivered.

**Homebuilding Southeast Florida:** Homebuilding revenues increased for the three months ended February 28, 2013, compared to the three months ended February 29, 2012, primarily due to an increase in the number of home deliveries in this segment driven by an increase in demand as evidenced by higher traffic volume in some of our communities, compared to the same period last year, resulting in an increase in our home sales per community. Gross margins on home sales were \$18.4 million, or 25.6%, for the three months ended February 28, 2013, compared to gross margins on home sales of \$14.3 million, or 28.8%, for the three months ended February 29, 2012. Gross margin percentage on homes sales decreased compared to last year primarily due to higher valuation adjustments and a 18% increase in direct construction costs per home due to increases in material and labor costs, partially offset by a 17% decrease in land costs per home due to the mix of home deliveries and a decrease in sales incentives offered to homebuyers as a percentage of revenues from home sales (10.0% in 2013, compared to 12.1% in 2012).

**Homebuilding Houston:** Homebuilding revenues increased for the three months ended February 28, 2013, compared to the three months ended February 29, 2012, primarily due to an increase in the number of home deliveries and an increase in the average sales price of homes delivered in this segment. The increase in the number of home deliveries was primarily driven by an increase in demand, compared to the same period last year, resulting in an increase in our home sales per community. The increase in the average sales price of homes delivered was primarily because we have been able to increase the sales price of homes delivered and/or reduce sales incentives in certain of our communities as the market recovers in certain areas. Gross margins on home sales were \$20.7 million, or 20.9%, for the three months ended February 28, 2013, compared to gross margins on home sales of \$15.2 million, or 18.8%, for the three months ended February 29, 2012. Gross margin percentage on homes sales increased compared to last year primarily due to a greater percentage of deliveries from our new higher margin communities, a decrease in sales incentives offered to homebuyers as a percentage of revenues from home sales (11.6% in 2013, compared to 13.5% in 2012), partially offset by a 9% increase in direct construction and land costs per home due to increases in material and labor costs.

**Homebuilding Other:** Homebuilding revenues increased for the three months ended February 28, 2013, compared to the three months ended February 29, 2012, primarily due to an increase in the number of home deliveries in all of the states of Homebuilding Other except for New York and Illinois, which are states with only a few active communities. The increase in homebuilding revenues was partially offset by a decrease in the average sales price of homes delivered. The increase in deliveries was primarily driven by an increase in demand, compared to the same period last year, resulting in an increase in our home sales per community and increased deliveries in Oregon and Washington, which are new operations. The average sales price decreased primarily due to new home deliveries from our new operations in Washington and Oregon which have a lower average sales price than the other states in Homebuilding Other, which also resulted in lower direct construction and land costs per home. Gross margins on home sales were \$15.2 million, or 20.0%, for the three months ended February 28, 2013, compared to gross margins on home sales of \$9.6 million, or 26.5%, for the three months ended February 29, 2012. Gross margin percentage on homes sales decreased primarily due to lower gross margins in Minnesota as a result of non-recurring benefits recorded during the three months ended February 29, 2012 related to changes in cost-to-complete estimates for certain communities in their close-out phase, as well as lower gross margins from the new operations in Washington due to start up costs. This decrease was offset by a decrease in sales incentives offered to homebuyers as a percentage of revenues from home sales (4.8% in 2013, compared to 9.9% in 2012) and lower valuation adjustments.

At February 28, 2013 and February 29, 2012, we owned 112,068 homesites and 100,465 homesites, respectively, and had access to an additional 22,542 homesites and 16,621 homesites, respectively, through either option contracts with third parties or agreements with unconsolidated entities in which we have investments. At November 30, 2012, we owned 107,138 homesites and had access to an additional 21,346 homesites through either option contracts with third parties or agreements with unconsolidated entities in which we have investments. At February 28, 2013, 3.7% of the homesites we owned were subject to home purchase contracts. At February 28, 2013 and February 29, 2012, our

backlog of sales contracts was 4,922 homes (\$1,456.4 million) and 2,711 homes (\$711.4 million), respectively. The increase in backlog was primarily attributable to an increase in new orders in the three months ended February 28, 2013, compared to the three months ended February 29, 2012.

## Lennar Financial Services Segment

Our Lennar Financial Services reportable segment provides mortgage financing, title insurance and closing services for both buyers of our homes and others. Substantially all of the loans the Lennar Financial Services segment originates are sold within a short period in the secondary mortgage market on a servicing released, non-recourse basis. After the loans are sold, we retain potential liability for possible claims by purchasers that we breached certain limited industry-standard representations and warranties in the loan sale agreements. The following table sets forth selected financial and operation information related to our Lennar Financial Services segment:

(Dollars in thousands)	Three Months Ended			
	February 28, 2013	February 29, 2012		
Revenues	\$95,880	68,215		
Costs and expenses	79,778	59,965		
Operating earnings	\$16,102	8,250		
Dollar value of mortgages originated	\$1,188,000	743,000		
Number of mortgages originated	5,100	3,500		
Mortgage capture rate of Lennar homebuyers	79	% 78	%	%
Number of title and closing service transactions	25,500	22,600		
Number of title policies issued	41,200	27,300		

## Rialto Investments Segment

Our Rialto reportable segment focuses on real estate investments and asset management. Rialto utilizes its vertically-integrated investment and operating platform to underwrite, diligence, acquire, manage, workout and add value to diverse portfolios of real estate loans, properties and securities, as well as providing strategic real estate capital. Rialto's primary focus is to manage third party capital and funds or entities it manages have invested in, and primarily on their behalf. Rialto has commenced the workout and/or oversight of billions of dollars of real estate assets across the United States, including commercial and residential real estate loans and properties, as well as mortgage backed securities with the objective of generating superior, risk-adjusted returns. To date, many of the investment and management opportunities have arisen from the dislocation in the United States real estate markets and the restructuring and recapitalization of those markets.

Rialto is the sponsor of and an investor in private equity vehicles that invest in and manage real estate related assets. This has included Fund I in which investors have committed and contributed a total of \$700 million of equity (including \$75 million by us). In addition, in December 2012, Rialto Real Estate Fund II, LP ("Fund II") had its first closing of investor commitments of \$260 million (including \$100 million by us). Rialto also earns fees for its role as a manager of these vehicles and for providing asset management and other services to those vehicles and other third parties. The following table presents the results of operations of our Rialto segment for the periods indicated:

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

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



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

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

#### Distressed Asset Portfolios

In February 2010, the Rialto segment acquired indirectly 40% managing member equity interests in two limited liability companies (“LLCs”), in partnership with the FDIC. The LLCs hold performing and non-performing loans formerly owned by 22 failed financial institutions and when the Rialto segment acquired its interests in the LLCs, the two portfolios consisted of approximately 5,500 distressed residential and commercial real estate loans. The FDIC retained 60% equity interests in the LLCs and provided \$626.9 million of financing with 0% interest, which is non-recourse to us and the LLCs. As of February 28, 2013, and November 30, 2012, the notes payable balance was \$167.2 million and \$470.0 million, respectively; however, as of February 28, 2013 and November 30, 2012, \$4.7 million and \$223.8 million, respectively, of cash collections on loans in excess of expenses had been deposited in a defeasance account, established for the repayment of the notes payable, under the agreement with the FDIC. The funds in the defeasance account will be used to retire the notes payable upon their maturity. During the three months ended February 28, 2013, the LLCs retired \$302.8 million principal amount of the notes payable under the agreement with the FDIC through the defeasance account. In February 2013, the Rialto segment and the FDIC entered into a forbearance agreement whereby the FDIC temporarily waived its right to reissue a new purchase money note for the remaining \$11.2 million balance of the portion of the notes payable that was due on February 25, 2013 until July 25, 2013. This forbearance does not meet the definition of an extension in the financing agreement and thus, no triggering event is deemed to have occurred. We agreed to disburse all available funds in the defeasance account on a monthly basis to the FDIC until the remaining \$11.2 million balance of the portion of the notes payable that was due on February 25, 2013 was paid in full, but no later than July 25, 2013. In March 2013, we paid the remaining balance of the notes payable that was due on February 25, 2013 with cash disbursed from the defeasance account.

The LLCs met the accounting definition of variable interest entities (“VIEs”) and since we were determined to be the primary beneficiary, we consolidated the LLCs. At February 28, 2013, these consolidated LLCs had total combined assets and liabilities of \$930.7 million and \$188.2 million, respectively. At November 30, 2012, these consolidated LLCs had total combined assets and liabilities of \$1,236.4 million and \$493.4 million, respectively.

In September 2010, the Rialto segment acquired approximately 400 distressed residential and commercial real estate loans and over 300 REO properties from three financial institutions. We paid \$310 million for the distressed real estate and real estate related assets of which, \$124 million was financed through a 5-year senior unsecured note provided by one of the selling institutions. As of February 28, 2013, there was \$90.9 million outstanding.

#### Investments

In 2010, 2011 and 2012, the Rialto segment obtained investors in Fund I who made equity commitments of \$700 million (including \$75 million committed by us). All capital commitments have been called and funded, and Fund I is closed to additional commitments. During the three months ended February 28, 2013, we received distributions of \$7.7 million as a return of capital. During the three months ended February 29, 2012, we contributed \$7.3 million to Fund I. As of February 28, 2013 and November 30, 2012, the carrying value of our investment in Fund I was \$97.6 million and \$98.9 million, respectively. For the three months ended February 28, 2013, and February 29, 2012, our share of earnings from Fund I was \$6.4 million and \$7.6 million, respectively.

In addition, in 2010, the Rialto segment also invested in approximately \$43 million of non-investment grade CMBS for \$19.4 million, representing a 55% discount to par value. As of February 28, 2013 and November 30, 2012, the carrying value of the investment securities was \$15.3 million and \$15.0 million, respectively.

In December 2012, our Rialto segment completed the first closing of its second real estate investment fund ("Fund II") with initial equity commitments of approximately \$260 million, including \$100 million committed by us. Among other things, Fund II's documents prohibit us, including our Rialto segment, from acquiring real estate assets that might be suitable for Fund

II, before Fund II is fully invested or committed, other than residential properties we acquire in connection with our homebuilding activities. In March 2013, \$75 million of the \$260 million in equity commitments was called, of which, we contributed our portion of approximately \$29 million.

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

## 2) Financial Condition and Capital Resources

At February 28, 2013, we had cash and cash equivalents related to our homebuilding, financial services and Rialto operations of \$1.2 billion, compared to \$1.3 billion at November 30, 2012 and \$0.9 billion at February 29, 2012.

We finance our land acquisition and development activities, construction activities, financial services activities, Rialto activities and general operating needs primarily with cash generated from our operations, debt issuances and equity offerings, as well as cash borrowed under our warehouse lines of credit and our credit facility.

### Operating Cash Flow Activities

During the three months ended February 28, 2013 and February 29, 2012, cash used in operating activities totaled \$321.5 million and \$132.4 million, respectively. During the three months ended February 28, 2013, cash used in operating activities were impacted by an increase in inventories due to strategic land purchases and a decrease in accounts payable and other liabilities, partially offset by our net earnings (net of our deferred income tax benefit) and a decrease in Lennar Financial Services loans held-for-sale.

During the three months ended February 29, 2012, cash used in operating activities were impacted by a decrease in accounts payable and other liabilities, an increase in inventories due to strategic land purchases, partially offset by a decrease in receivables and a decrease in Lennar Financial Services loans held-for-sale.

### Investing Cash Flow Activities

During the three months ended February 28, 2013 and February 29, 2012, cash provided by investing activities totaled \$260.0 million and \$156.7 million, respectively. During the three months ended February 28, 2013, we received \$18.4 million of principal payments on Rialto Investments loans receivable and \$34.5 million of proceeds from the sales of REO. In addition, cash increased due to a \$219.2 million decrease in Rialto Investments defeasance cash, \$17.5 million of distributions of capital from Lennar Homebuilding unconsolidated entities and \$7.7 million of distributions of capital from the Rialto Investments' unconsolidated entities, primarily related to Fund I. This was partially offset by \$14.7 million of cash contributions to Lennar Homebuilding unconsolidated entities primarily for working capital.

During the three months ended February 29, 2012, we received \$33.5 million of principal payments on Rialto Investments loans receivable and \$37.9 million of proceeds from the sale of REO. In addition, cash increased due to a \$108.2 million decrease in Rialto Investments defeasance cash and \$9.9 million of distributions of capital from Lennar Homebuilding unconsolidated entities. This was offset by \$26.8 million of cash contributions to Lennar Homebuilding unconsolidated entities primarily for working capital and debt reduction and \$7.3 million of cash contributions to the Fund I, a Rialto Investments' unconsolidated entity.

We are always evaluating the possibility of acquiring homebuilders and other companies. However, at February 28, 2013, we had no agreements or understandings regarding any significant transactions.

### Financing Cash Flow Activities

During the three months ended February 28, 2013, our cash used in financing activities of \$7.2 million was primarily attributed to principal payments on Rialto Investments notes payable, net repayments under our Lennar Financial Services' 364-day warehouse repurchase facilities and principal payments on other borrowings, offset by the receipt of proceeds related to the sale of \$275 million principal amount of our 4.125% senior notes due 2018 (the "4.125% Senior Notes") and the sale of an additional \$175 million aggregate principal amount of our 4.750% senior notes due 2022 (the "4.750% Senior Notes"). During the three months ended February 29, 2012, our cash used in financing activities of \$265.0 million was primarily attributed to principal payments on Rialto Investments notes payable, net repayments under our Lennar Financial Services' 364-day warehouse repurchase facilities and principal payments on other borrowings, partially offset by the receipt of proceeds of the sale of an additional \$50 million aggregate principal

amount of our 3.25% convertible senior notes due 2021 that the initial purchasers acquired to cover over-allotments.

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Debt to total capital ratios are financial measures commonly used in the homebuilding industry and are presented to assist in understanding the leverage of our Lennar Homebuilding operations. Management believes providing this measure of leverage of our Lennar Homebuilding operations enables management and readers of our financial statements to better understand our financial position and performance. Lennar Homebuilding debt to total capital and net Lennar Homebuilding debt to total capital are calculated as follows:

(Dollars in thousands)	February 28, 2013	November 30, 2012	February 29, 2012	
Lennar Homebuilding debt	\$4,505,662	4,005,051	3,472,937	
Stockholders' equity	3,495,881	3,414,764	2,722,796	
Total capital	\$8,001,543	7,419,815	6,195,733	
Lennar Homebuilding debt to total capital	56.3	% 54.0	% 56.1	%
Lennar Homebuilding debt	\$4,505,662	4,005,051	3,472,937	
Less: Lennar Homebuilding cash and cash equivalents	1,112,728	1,146,867	792,165	
Net Lennar Homebuilding debt	\$3,392,934	2,858,184	2,680,772	
Net Lennar Homebuilding debt to total capital (1)	49.3	% 45.6	% 49.6	%

Net Lennar Homebuilding debt to total capital consists of net Lennar Homebuilding debt (Lennar Homebuilding (1) debt less Lennar Homebuilding cash and cash equivalents) divided by total capital (net Lennar Homebuilding debt plus stockholders' equity).

At February 28, 2013, Lennar Homebuilding debt to total capital was higher compared to February 29, 2012, due to an increase in Lennar Homebuilding debt primarily as a result of an increase in our senior notes, partially offset by an increase in stockholder's equity primarily related to our net earnings, which included the partial reversal of our deferred tax asset valuation allowance of \$491.5 million during 2012.

In addition to the use of capital in our homebuilding, financial services and Rialto operations, we actively evaluate various other uses of capital, which fit into our homebuilding, financial services and Rialto strategies and appear to meet our profitability and return on capital goals. This may include acquisitions of, or investments in, other entities, the payment of dividends or repurchases of our outstanding common stock or debt. These activities may be funded through any combination of our warehouse lines of credit, cash generated from operations, sales of assets or the issuance into capital markets of debt, common stock or preferred stock.

Our Lennar Homebuilding average debt outstanding was \$4.2 billion with an average rate for interest incurred of 5.1% for the three months ended February 28, 2013, compared to \$3.4 billion with an average rate for interest incurred of 5.5% for the three months ended February 29, 2012. Interest incurred related to homebuilding debt for the three months ended February 28, 2013 was \$61.4 million, compared to \$53.3 million in the same period last year.

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

Our performance letters of credit outstanding were \$115.8 million and \$107.5 million, respectively, at February 28, 2013 and November 30, 2012. Our financial letters of credit outstanding were \$209.0 million and \$204.7 million, respectively, at February 28, 2013 and November 30, 2012. Performance letters of credit are generally posted with regulatory bodies to guarantee our performance of certain development and construction activities, and financial letters of credit are generally posted in lieu of cash deposits on option contracts, for insurance risks, credit enhancements and as other collateral.

During the three months ended February 28, 2013, we issued \$275 million aggregate principal amount of our 4.125% senior notes due 2018 at a price of 99.998% in a private placement and an additional \$175 million aggregate principal amount of our 4.750% senior notes due 2022 at a price of 98.073% in a private placement. Proceeds from the offerings, after payment of expenses, were \$272.0 million and \$172.2 million, respectively. We will use the net proceeds of the sale of the 4.125% Senior Notes and the 4.750% Senior Notes for working capital and general corporate purposes, which may include repayment

or repurchase of our other outstanding senior notes. Interest on the 4.125% Senior Notes is due semi-annually beginning September 15, 2013. Our 4.125% Senior Notes are unsecured and unsubordinated, but are guaranteed by substantially all of our 100% owned homebuilding subsidiaries. Interest on our 4.750% Senior Notes is due semi-annually beginning May 15, 2013. Our 4.750% Senior Notes are unsecured and unsubordinated, but are guaranteed by substantially all of our 100% owned homebuilding subsidiaries. At February 28, 2013, the carrying amount of our 4.125% Senior Notes was \$275.0 million. At February 28, 2013 and November 30, 2012, the carrying amount of our 4.750% Senior Notes was \$521.6 million and \$350.0 million, respectively.

Currently, substantially all of our 100% owned homebuilding subsidiaries are guaranteeing all our Senior Notes (the "Guaranteed Notes"). The guarantees are full and unconditional. The principal reason our 100% owned homebuilding subsidiaries guaranteed the Guaranteed Notes is so holders of the Guaranteed Notes will have rights at least as great with regard to our subsidiaries as any other holders of a material amount of our unsecured debt. Therefore, the guarantees of the Guaranteed Notes will remain in effect only while the guarantor subsidiaries guarantee a material amount of the debt of Lennar Corporation, as a separate entity, to others. At any time when a guarantor subsidiary is no longer guaranteeing at least \$75 million of Lennar Corporation's debt other than the Guaranteed Notes, either directly or by guaranteeing other subsidiaries' obligations as guarantors of Lennar Corporation's debt, the guarantor subsidiaries' guarantee of the Guaranteed Notes will be suspended. Therefore, if the guarantor subsidiaries cease guaranteeing Lennar Corporation's obligations under our Credit Facility and our letter of credit facilities and are not guarantors of any new debt, the guarantor subsidiaries' guarantees of the Guaranteed Notes will be suspended until such time, if any, as they again are guaranteeing at least \$75 million of Lennar Corporation's debt other than the Guaranteed Notes.

If our guarantor subsidiaries are guaranteeing revolving credit lines totaling at least \$75 million, we will treat the guarantees of the Guaranteed Notes as remaining in effect even during periods when Lennar Corporation's borrowings under the revolving credit lines are less than \$75 million.

In addition, 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.

Under the Credit Facility agreement (the "Agreement"), as of the end of each fiscal quarter, we are required to maintain minimum consolidated tangible net worth of approximately \$1.5 billion plus the sum of 50% of the cumulative consolidated net income from February 29, 2012, if positive, and 50% of the net cash proceeds from any equity offerings from and after February 29, 2012. We are required to maintain a leverage ratio of 67% or less at the end of each fiscal quarter during our 2012 fiscal year, starting with our second fiscal quarter of 2012, and through the first two fiscal quarters of our 2013 fiscal year; a leverage ratio of 65% or less at the end of the last two fiscal quarters of our 2013 fiscal year and through the first two fiscal quarters of our 2014 fiscal year; and a leverage ratio of 60% or less at the end of the last two fiscal quarters of our 2014 fiscal year through the maturity of the Agreement in May 2015. As of the end of each fiscal quarter, we are also required to maintain either (1) liquidity in an amount equal to or greater than 1.00x consolidated interest incurred for the last twelve months then ended or (2) an interest coverage ratio of equal to or greater than 1.50:1.00 for the last twelve months then ended.

The following are computations of the minimum net worth test, maximum leverage ratio, and liquidity test, as calculated per the Agreement as of February 28, 2013:

(Dollars in thousands)	Covenant Level	Level Achieved as of February 28, 2013	
Minimum net worth test (1)	\$1,789,673	2,598,445	
Maximum leverage ratio (2)	67.0	% 48.2	%
Liquidity test (3)	1.00	5.00	

The terms minimum net worth test, maximum leverage ratio and liquidity test used in the Agreement are specifically calculated per the Agreement and differ in specified ways from comparable GAAP or common usage terms. Our minimum net worth test, maximum leverage ratio and liquidity test were calculated for purposes of the Agreement as of February 28, 2013 as follows:

(1) The minimum consolidated tangible net worth and the consolidated tangible net worth as calculated per the Agreement are as follows:

Minimum consolidated tangible net worth

(Dollars in thousands)	As of February 28, 2013
Stated minimum consolidated tangible net worth per the Agreement	\$1,459,657
Plus: 50% of cumulative consolidated net income as calculated per the Agreement, if positive	330,016
Required minimum consolidated tangible net worth per the Agreement	\$1,789,673

(Dollars in thousands)	As of February 28, 2013	
Total equity	\$4,069,640	
Less: Intangible assets (a)	(51,972	)
Tangible net worth as calculated per the Agreement	4,017,668	
Less: Consolidated equity of mortgage banking, Rialto and other designated subsidiaries (b)	(1,295,422	)
Less: Lennar Homebuilding noncontrolling interests	(123,801	)
Consolidated tangible net worth as calculated per the Agreement	\$2,598,445	

(a) Intangible assets represent the Financial Services' title operations goodwill and title plant assets.

Consolidated equity of mortgage banking subsidiaries represents the equity of the Lennar Financial Services segment's mortgage banking operations. Consolidated equity of other designated subsidiaries represents the equity of certain subsidiaries included within the Lennar Financial Services segment's title operations that are prohibited from being guarantors under this Agreement. The consolidated equity of Rialto, as calculated per the Agreement, represents Rialto total assets minus Rialto total liabilities as disclosed in Note 8 of the notes to our condensed consolidated financial statements as of February 28, 2013. The consolidated equity of mortgage banking subsidiaries, Rialto and other designated subsidiaries are included in equity in our condensed consolidated balance sheet as of February 28, 2013.



(2) The leverage ratio as calculated per the Agreement is as follows:

Leverage ratio:

(Dollars in thousands)	As of February 28, 2013	
Lennar Homebuilding senior notes and other debts payable	\$4,505,662	
Less: Debt of Lennar Homebuilding consolidated entities (a)	(235,494	)
Funded debt as calculated per the Agreement	4,270,168	
Plus: Financial letters of credit (b)	209,593	
Plus: Lennar's recourse exposure related to Lennar Homebuilding unconsolidated/consolidated entities, net (c)	91,047	
Consolidated indebtedness as calculated per the Agreement	4,570,808	
Less: Unrestricted cash and cash equivalents in excess of required liquidity per the Agreement (d)	(1,118,337	)
Numerator as calculated per the Agreement	\$3,452,471	
Denominator as calculated per the Agreement	\$7,169,253	
Leverage ratio (e)	48.2	%

(a) Debt of our Lennar Homebuilding consolidated entities is included in Lennar Homebuilding senior notes and other debts payable in our condensed consolidated balance sheet as of February 28, 2013.

Our financial letters of credit outstanding include \$209.0 million disclosed in Note 11 of the notes to our

(b) condensed consolidated financial statements as of February 28, 2013 and \$0.6 million of financial letters of credit related to the Financial Services segment's title operations.

Lennar's recourse exposure related to the Lennar Homebuilding unconsolidated and consolidated entities, net

includes \$42.3 million of net recourse exposure related to Lennar Homebuilding unconsolidated entities and \$48.8

(c) million of recourse exposure related to Lennar Homebuilding consolidated entities, which is included in Lennar Homebuilding senior notes and other debts payable in our condensed consolidated balance sheet as of February 28, 2013.

Unrestricted cash and cash equivalents include \$1,112.7 million of Lennar Homebuilding cash and cash

(d) equivalents and \$15.6 million of Lennar Financial Services cash and cash equivalents, excluding cash and cash equivalents from mortgage banking subsidiaries and other designated subsidiaries within the Lennar Financial Services segment.

(e) Leverage ratio consists of the numerator as calculated per the Agreement divided by the denominator as calculated per the Agreement (consolidated indebtedness as calculated per the Agreement, plus consolidated tangible net worth as calculated per the Agreement).

(3) Liquidity as calculated per the Agreement is as follows:

Liquidity test

(Dollars in thousands)	As of February 28, 2013
Unrestricted cash and cash equivalents as calculated per the Agreement (a)	\$1,112,401
Consolidated interest incurred as calculated per the Agreement (b)	\$222,535
Liquidity (c)	5.00

Unrestricted cash and cash and cash equivalents at February 28, 2013 for the liquidity test calculation includes

\$1,112.7 million of Lennar Homebuilding cash and cash equivalents plus \$15.6 million of Lennar Financial

(a) Services cash and cash equivalents, excluding cash and cash equivalents from mortgage banking subsidiaries and other designated subsidiaries within the Lennar Financial Services segment, minus \$15.9 million of cash and cash equivalents of Lennar Homebuilding consolidated joint ventures.

(b) Consolidated interest incurred as calculated per the Agreement for the last twelve months ended February 28, 2013 includes Lennar Homebuilding interest incurred of \$230.1 million, minus (1) interest incurred related to our partner's share of Lennar Homebuilding consolidated joint ventures included within Lennar Homebuilding interest incurred, (2) Lennar Homebuilding interest income included within Lennar Homebuilding other income, net, and

- (3) Lennar Financial Services interest income, excluding interest income from mortgage banking subsidiaries and other designated subsidiaries within the Lennar Financial Services operations.
- (c) We are only required to maintain either (1) liquidity in an amount equal to or greater than 1.00x consolidated interest incurred for the last twelve months then ended or (2) an interest coverage ratio of equal to or greater

than 1.50:1.00 for the last twelve months then ended. Since we passed the liquidity test, we were not required to disclose the interest coverage ratio test, which we also passed.

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

Our Lennar Financial Services segment uses these facilities to finance its lending activities until the mortgage loans are sold to investors and expects the facilities to be renewed or replaced with other facilities when they mature. Borrowings under the facilities were \$311.9 million and \$458.0 million at February 28, 2013 and November 30, 2012, respectively, and were collateralized by mortgage loans and receivables on loans sold to investors but not yet paid for with outstanding principal balances of \$405.7 million and \$509.1 million, at February 28, 2013 and November 30, 2012, respectively.

Since our Lennar Financial Services segment's borrowings under the warehouse repurchase facilities are generally repaid with the proceeds from the sale of mortgage loans and receivables on loans that secure those borrowings, the facilities are not likely to be a call on our current cash or future cash resources. If the facilities are not renewed, the borrowings under the lines of credit will be paid off by selling mortgage loans held-for-sale and by collecting on receivables on loans sold to investors but not yet paid. Without the facilities, our Lennar Financial Services segment would have to use cash from operations and other funding sources to finance its lending activities.

#### Changes in Capital Structure

We have a stock repurchase program which permits the purchase of up to 20 million shares of our outstanding common stock. During both the three months ended February 28, 2013 and February 29, 2012, there were no repurchases of common stock under the stock repurchase program. As of February 28, 2013, 6.2 million shares of common stock can be repurchased in the future under the program.

During the three months ended February 28, 2013 and February 29, 2012 treasury stock decreased by 0.5 million and 0.3 million, respectively, in Class A common shares due to activity related to our equity compensation plan.

On February 15, 2013, we paid cash dividends of \$0.04 per share for both our Class A and Class B common stock to holders of record at the close of business on February 1, 2013, as declared by our Board of Directors on January 17, 2013.

Based on our current financial condition and credit relationships, we believe that our operations and borrowing resources will provide for our current and long-term capital requirements at our anticipated levels of activity.

#### Off-Balance Sheet Arrangements

##### Lennar Homebuilding: Investments in Unconsolidated Entities

At February 28, 2013, we had equity investments in 38 homebuilding and land unconsolidated entities (of which 7 had recourse debt, 4 non-recourse debt and 27 had no debt), compared to 36 homebuilding and land unconsolidated entities at November 30, 2012. In addition, we had 4 multifamily unconsolidated entities as of February 28, 2013, compared to 2 multifamily unconsolidated entities as November 30, 2012, as we continued to grow our multifamily business during the first quarter. Historically, we invested in unconsolidated entities that acquired and developed land (1) for our homebuilding operations or for sale to third parties or (2) for the construction of homes for sale to third-party homebuyers. Through these entities, we primarily sought to reduce and share our risk by limiting the amount of our capital invested in land, while obtaining access to potential future homesites and allowing us to participate in strategic ventures. The use of these entities also, in some instances, enabled us to acquire land to which we could not otherwise obtain access, or could not obtain access on as favorable terms, without the participation of a strategic partner. Participants in these joint ventures have been land owners/developers, other homebuilders and financial or strategic partners. Joint ventures with land owners/developers have given us access to homesites owned or controlled by our partners. Joint ventures with other homebuilders have provided us with the ability to bid jointly with

our partners for large land parcels. Joint ventures with financial partners have allowed us to combine our homebuilding expertise with access to our partners' capital. Joint ventures with strategic partners have allowed us to combine our homebuilding expertise with the specific expertise (e.g. commercial or infill experience) of our partner. Each joint venture is governed by an executive committee consisting of members from the partners.

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 and Selected Information

(Dollars in thousands)	Three Months Ended	
	February 28, 2013	February 29, 2012
Revenues	\$81,224	82,644
Costs and expenses	81,637	83,422
Other income	13,361	—
Net earnings (loss) of unconsolidated entities	\$12,948	(778)
Our share of net earnings	\$1,385	607
Lennar Homebuilding equity in earnings (loss) from unconsolidated entities	\$(867)	) 1,083
Our cumulative share of net earnings - deferred at February 28, 2013 and February 29, 2012, respectively	\$1,482	4,321
Our investments in unconsolidated entities	\$577,342	563,364
Equity of the unconsolidated entities	\$2,179,129	2,089,703
Our investment % in the unconsolidated entities	26	% 27
Balance Sheets		
(In thousands)	February 28, 2013	November 30, 2012
Assets:		
Cash and cash equivalents	\$167,418	157,340
Inventories	2,802,210	2,792,064
Other assets	183,024	250,940
	\$3,152,652	3,200,344
Liabilities and equity:		
Accounts payable and other liabilities	\$255,369	310,496
Debt	718,154	759,803
Equity	2,179,129	2,130,045
	\$3,152,652	3,200,344

As of February 28, 2013 and November 30, 2012, our recorded investments in Lennar Homebuilding unconsolidated entities were \$577.3 million and \$565.4 million, respectively, while the underlying equity in Lennar Homebuilding unconsolidated entities partners' net assets as of February 28, 2013 and November 30, 2012 was \$690.6 million and \$681.6 million, respectively, primarily as a result of us buying an interest in a partner's equity in a Lennar Homebuilding unconsolidated entity at a discount to book value.

In fiscal 2007, we sold a portfolio of land to a strategic land investment venture with Morgan Stanley Real Estate Fund II, L.P., an affiliate of Morgan Stanley & Co., Inc., in which we have approximately a 20% ownership interest and 50% voting rights. Due to the nature of our continuing involvement, the transaction did not qualify as a sale by us under GAAP; thus, the inventory has remained on our condensed consolidated balance sheets in consolidated inventory not owned. As of February 28, 2013 and November 30, 2012, the portfolio of land (including land development costs) of \$255.8 million and \$264.9 million, respectively, is also reflected as inventory in the summarized condensed financial information related to Lennar Homebuilding's unconsolidated entities.

Debt to total capital of the Lennar Homebuilding unconsolidated entities in which we have investments was calculated as follows:

(Dollars in thousands)	February 28, 2013	November 30, 2012		
Debt	\$718,154	759,803		
Equity	2,179,129	2,130,045		
Total capital	\$2,897,283	2,889,848		
Debt to total capital of our unconsolidated entities	24.8	% 26.3		%

Our investments in Lennar Homebuilding unconsolidated entities by type of venture were as follows:

(In thousands)	February 28, 2013	November 30, 2012
Land development	\$508,235	493,917
Homebuilding	69,107	71,443
Total investments	\$577,342	565,360

The summary of our net recourse exposure related to the Lennar Homebuilding unconsolidated entities in which we have investments was as follows:

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

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

Indebtedness of an unconsolidated entity is secured by its own assets. Some unconsolidated entities own multiple properties and other assets. There is no cross collateralization of debt to different unconsolidated entities. We also do not use our investment in one unconsolidated entity as collateral for the debt in another unconsolidated entity or commingle funds among Lennar Homebuilding unconsolidated entities.

In connection with a loan to a Lennar Homebuilding unconsolidated entity, we and our partners often guarantee to a lender either jointly and severally or on a several basis, any or all of the following: (i) the completion of the development, in whole or in part, (ii) indemnification of the lender from environmental issues, (iii) indemnification of the lender from "bad boy acts" of the unconsolidated entity (or full recourse liability in the event of unauthorized transfer or bankruptcy) and (iv) that the loan to value and/or loan to cost will not exceed a certain percentage (maintenance or remargining guarantee) or that a percentage of the outstanding loan will be repaid (repayment guarantee).

In connection with loans to an unconsolidated entity where there is a joint and several guarantee, we generally have a reimbursement agreement with our partner. The reimbursement agreement provides that neither party is responsible for more than its proportionate share of the guarantee. However, if our joint venture partner does not have adequate financial resources to meet its obligations under the reimbursement agreement, we may be liable for more than our proportionate share, up to our maximum exposure, which is the full amount covered by the joint and several guarantee.

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

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

In addition, in most instances in which we have guaranteed debt of a Lennar Homebuilding unconsolidated entity, our partners have also guaranteed that debt and are required to contribute their share of the guarantee payment.

Historically, we have had repayment guarantees and maintenance guarantees. In a repayment guarantee, we and our venture partners guarantee repayment of a portion or all of the debt in the event of a default before the lender would have to exercise its rights against the collateral. In the event of default, if our venture partner does not have adequate financial resources to meet its obligation under our reimbursement agreement, we may be liable for more than our proportionate share, up to our maximum recourse exposure, which is the full amount covered by the joint and several guarantee. The maintenance guarantees only apply if the value of the collateral (generally land and improvements) is less than a specified percentage of the loan balance. If we are required to make a payment under a maintenance guarantee to bring the value of the collateral above the specified percentage of the loan balance, the payment would generally constitute a capital contribution or loan to the Lennar Homebuilding unconsolidated entity and increase our share of any funds the unconsolidated entity distributes. As of both February 28, 2013 and November 30, 2012, we do not have any maintenance guarantees related to our Lennar Homebuilding unconsolidated entities.

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

During the three months ended February 28, 2013, there were no loan paydowns by Lennar relating to recourse debt. During the three months ended February 29, 2012, there were other loan paydowns of \$3.4 million. During both the three months ended February 28, 2013 and February 29, 2012, there were no payments under completion guarantees.

As of February 28, 2013, the fair values of the repayment guarantees and completion guarantees were not material.

We believe that as of February 28, 2013, in the event we become legally obligated to perform under a guarantee of the obligation of a Lennar Homebuilding unconsolidated entity due to a triggering event under a guarantee, most of the time the collateral should be sufficient to repay at least a significant portion of the obligation or we and our partners would contribute additional capital into the venture. In certain instances, we have placed performance letters of credit and surety bonds with municipalities for our joint ventures.

The total debt of Lennar Homebuilding unconsolidated entities in which we have investments was as follows:

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

Lennar's maximum recourse exposure as a % of total JV debt 8 % 9 %  
In view of recent credit market conditions, it is not uncommon for lenders to real estate developers, including joint ventures in which we have interests, to assert non-monetary defaults (such as failure to meet construction completion deadlines



or declines in the market value of collateral below required amounts) or technical monetary defaults against the real estate developers. In most instances, those asserted defaults are resolved by modifications of the loan terms, additional equity investments or other concessions by the borrowers. In addition, in some instances, real estate developers, including joint ventures in which we have interests, are forced to request temporary waivers of covenants in loan documents or modifications of loan terms, which are often, but not always obtained. However, in some instances developers, including joint ventures in which we have interests, are not able to meet their monetary obligations to lenders, and are thus declared in default. Because we sometimes guarantee all or portions of the obligations to lenders of joint ventures in which we have interests, when these joint ventures default on their obligations, lenders may or may not have claims against us. Normally, we do not make payments with regard to guarantees of joint venture obligations while the joint ventures are contesting assertions regarding sums due to their lenders. When it is determined that a joint venture is obligated to make a payment that we have guaranteed and the joint venture will not be able to make that payment, we accrue the amounts probable to be paid by us as a liability. Although we generally fulfill our guarantee obligations within a reasonable time after we determine that we are obligated with regard to them, at any point in time it is likely that we will have some balance of unpaid guarantee liability. At both February 28, 2013 and November 30, 2012, we had no liabilities accrued for unpaid guarantees of joint venture indebtedness on our condensed consolidated balance sheets.

The following table summarizes the principal maturities of our Lennar Homebuilding unconsolidated entities (“JVs”) debt as per current debt arrangements as of February 28, 2013 and does not represent estimates of future cash payments that will be made to reduce debt balances. Many JV loans have extension options in the loan agreements that would allow the loans to be extended into future years.

(In thousands)	Total JV Assets (1)	Principal Maturities of Unconsolidated JVs by Period					Other Debt (2)
		Total JV Debt	2013	2014	2015	Thereafter	
Net recourse debt to Lennar	\$	42,273	16,298	4,412	1,500	20,063	—
Reimbursement agreements		13,500	—	—	13,500	—	—
Maximum recourse debt exposure to Lennar	1,811,292	55,773	16,298	4,412	15,000	20,063	—
Debt without recourse to Lennar	253,879	662,381	92,275	26,895	34,953	486,255	22,003
Total	\$2,065,171	718,154	108,573	31,307	49,953	506,318	22,003

(1) Excludes unconsolidated joint venture assets where the joint venture has no debt.

(2) Represents land seller debt and other debt.

The following table is a breakdown of the assets, debt and equity of the Lennar Homebuilding unconsolidated joint ventures by partner type as of February 28, 2013:

(Dollars in thousands)	Total JV Assets	Maximum Recourse Debt Exposure to Lennar	Reimbursement Agreements	Net Recourse Debt to Lennar	Total Debt Without Recourse to Lennar	Total JV Debt	Total JV Equity	JV Debt to Total Capital Ratio	Remaining Homes/Homesites in JV
Partner Type:									
Financial	\$2,322,780	33,434	13,500	19,934	510,448	543,882	1,543,995	26 %	38,921
Land Owners/Developers	401,931	17,928	—	17,928	82,729	100,657	287,267	26 %	14,432
Strategic	145,360	1,911	—	1,911	17,912	19,823	118,979	14 %	2,014
Other Builders	282,581	2,500	—	2,500	29,289	31,789	228,888	12 %	4,549
Total	\$3,152,652	55,773	13,500	42,273	640,378	696,151	2,179,129	24 %	59,916
		\$—	—	—	22,003	22,003			

Land seller debt and  
other debt

Total JV debt	\$ 55,773	13,500	42,273	662,381	718,154
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The table below indicates the assets, debt and equity of our 10 largest Lennar Homebuilding unconsolidated joint venture investments as of February 28, 2013:

(Dollars in thousands)	Lennar's Investment	Total JV Assets	Maximum Recourse Debt Exposure to Lennar	Reimbursement Agreements	Net Recourse Debt to Lennar	Total Debt Without Recourse to Lennar	Total JV Debt	Total JV Equity	JV Debt to Total Capital Ratio
Top Ten JVs (1):									
Heritage Fields El Toro	\$ 143,663	1,499,646	18,434	—	18,434	484,416	502,850	898,044	36 %
Central Park West Holdings	54,435	87,311	15,000	13,500	1,500	26,031	41,031	44,748	48 %
Newhall Land Development	47,620	396,244	—	—	—	—	—	277,286	— %
Ballpark Village	42,727	132,471	—	—	—	46,910	46,910	85,135	36 %
Runkle Canyon	38,472	78,070	—	—	—	—	—	76,944	— %
MS Rialto Residential Holdings	33,172	267,361	—	—	—	—	—	259,943	— %
Treasure Island Community Development	27,750	56,862	—	—	—	—	—	55,531	— %
LS College Park	27,343	54,970	—	—	—	—	—	53,530	— %
Rocking Horse Partners	20,496	47,874	—	—	—	5,958	5,958	40,980	13 %
Krome Groves Land Trust	19,321	90,001	11,684	—	11,684	23,366	35,050	49,591	41 %
10 largest JV investments	454,999	2,710,810	45,118	13,500	31,618	586,681	631,799	1,841,732	26 %
Other JVs	122,343	441,842	10,655	—	10,655	53,697	64,352	337,397	16 %
Total	\$ 577,342	3,152,652	55,773	13,500	42,273	640,378	696,151	2,179,129	24 %
Land seller debt and other debt			\$ —	—	—	22,003	22,003		
Total JV debt			\$ 55,773	13,500	42,273	662,381	718,154		

All of the joint ventures presented in the table above operate in our Homebuilding West segment except for (1) Rocking Horse Partners and Willow Springs Properties, which operate in our Homebuilding Central segment and MS Rialto Residential Holdings, which operates in all of our homebuilding segments and Homebuilding Other.

The table below indicates the percentage of assets, debt and equity of our 10 largest Lennar Homebuilding unconsolidated joint venture investments, as of February 28, 2013:

	% of Total JV Assets	% of Maximum Recourse Debt Exposure to Lennar	% of Net Recourse Debt to Lennar	% of Total Debt Without Recourse to Lennar	% of Total JV Equity
10 largest JVs	86 %	81 %	75 %	92 %	85 %
Other JVs	14 %	19 %	25 %	8 %	15 %
Total	100 %	100 %	100 %	100 %	100 %

Rialto Investments: Investments in Unconsolidated Entities

In 2010, 2011 and 2012, the Rialto segment obtained investors in Fund I who made equity commitments of \$700 million (including \$75 million committed by us). All capital commitments have been called and funded. Fund I is closed to additional commitments. During the three months ended February 28, 2013, we received distributions of \$7.7 million as a return of capital. During the three months ended February 29, 2012, we contributed \$7.3 million to Fund I. As of February 28, 2013 and November 30, 2012, the carrying value of our investment in Fund I was \$97.6 million and \$98.9 million, respectively. For the three months ended February 28, 2013 and February 29, 2012, our share of earnings from Fund I was \$6.4 million and \$7.6 million, respectively.

In December 2012, our Rialto segment completed the first closing of its second real estate investment fund ("Fund II") with initial equity commitments of approximately \$260 million (including \$100 million committed by us). Among other things, Fund II's documents prohibit us, including our Rialto segment, from acquiring real estate assets that might be suitable for Fund II, before Fund II is fully invested or committed, other than residential properties we acquire in connection with our

homebuilding activities. In March 2013, \$75 million of the \$260 million in equity commitments was called, of which, we contributed our portion of approximately \$29 million.

Additionally, another subsidiary in our Rialto segment has approximately a 5% investment in the Servicer Provider, which provides services to the consolidated LLCs, among others. As of both February 28, 2013 and November 30, 2012, the carrying value of our investment in the Servicer Provider was \$8.4 million.

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

#### Balance Sheets

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

#### Statements of Operations

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

Other income, net, for the three months ended February 29, 2012 includes the AB PPIP Fund's mark-to-market (1) unrealized gains and unrealized losses, as well as realized gains from the sale of investments in the portfolio underlying the AB PPIP fund, all of which our portion is a small percentage.

## Option Contracts

We have access to land through option contracts, which generally enables us to control portions of properties owned by third parties (including land funds) and unconsolidated entities until we have determined whether to exercise the options.

The table below indicates the number of homesites owned and homesites to which we had access through option contracts with third parties (“optioned”) or unconsolidated JVs (i.e., controlled homesites) at February 28, 2013 and February 29, 2012:

	Controlled Homesites			Owned Homesites	Total Homesites
	Optioned	JVs	Total		
February 28, 2013					
East	4,709	283	4,992	35,241	40,233
Central	3,293	1,175	4,468	18,290	22,758
West	2,345	5,803	8,148	32,011	40,159
Southeast Florida	1,925	351	2,276	8,281	10,557
Houston	1,143	272	1,415	12,356	13,771
Other	1,205	38	1,243	5,889	7,132
Total homesites	14,620	7,922	22,542	112,068	134,610
	Controlled Homesites			Owned Homesites	Total Homesites
	Optioned	JVs	Total		
February 29, 2012					
East	4,389	379	4,768	33,066	37,834
Central	996	1,199	2,195	16,137	18,332
West	996	6,045	7,041	27,860	34,901
Southeast Florida	961	333	1,294	8,402	9,696
Houston	903	295	1,198	9,800	10,998
Other	107	18	125	5,200	5,325
Total homesites	8,352	8,269	16,621	100,465	117,086

We evaluate all option contracts for land to determine whether they are VIEs and, if so, whether we are the primary beneficiary of certain of these option contracts. Although we do not have legal title to the optioned land, if we are deemed to be the primary beneficiary, we are required to consolidate the land under option at the purchase price of the optioned land. During the three months ended February 28, 2013, the effect of consolidation of these option contracts was a net increase of \$6.4 million to consolidated inventory not owned with a corresponding increase to liabilities related to consolidated inventory not owned in our condensed consolidated balance sheet as of February 28, 2013. To reflect the purchase price of the inventory consolidated, we reclassified the related option deposits from land under development to consolidated inventory not owned in the accompanying condensed consolidated balance sheet as of February 28, 2013. The liabilities related to consolidated inventory not owned primarily represent the difference between the option exercise prices for the optioned land and our cash deposits. The increase to consolidated inventory not owned was offset by our exercise of options to acquire land under certain contracts previously consolidated, resulting in a net decrease in consolidated inventory not owned of \$1.4 million for the three months ended February 28, 2013.

Our exposure to loss related to our option contracts with third parties and unconsolidated entities consisted of our non-refundable option deposits and pre-acquisitions costs totaling \$134.6 million and \$176.7 million, respectively, at February 28, 2013 and November 30, 2012. Additionally, we had posted \$38.9 million and \$42.5 million, respectively, of letters of credit in lieu of cash deposits under certain option contracts as of February 28, 2013 and November 30, 2012.

## Contractual Obligations and Commercial Commitments

During the three months ended February 28, 2013, our contractual obligations and commercial commitments with regard to debt related to our operations changed. During the three months ended February 28, 2013, we issued \$275 million aggregate principal amount of our 4.125% senior notes due 2017 and an additional \$175 million aggregate principal amount of our 4.750% senior notes due 2022. During the three months ended February 28, 2013, we also retired \$304.1 million of Rialto Investments notes payable. The following summarizes our contractual debt obligations as of February 28, 2013:

(In thousands)	Payments Due by Period	Total				
		Nine Months ending November 30, 2013	December 1, 2013 through November 30, 2014	December 1, 2014 through November 30, 2016	December 1, 2016 through November 30, 2018	Thereafter
Lennar Homebuilding - Senior notes and other debts payable	\$4,505,662	212,138	389,327	902,673	1,086,588	1,914,936
Lennar Financial Services - Notes and other debts payable	311,933	311,933	—	—	—	—
Interest commitments under interest bearing debt (1)	1,117,967	168,143	215,323	347,177	205,514	181,810
Rialto Investments - Notes payable (2)	270,357	12,323	191,510	64,048	2,324	152
Operating leases	103,922	20,633	22,693	28,039	16,677	15,880
Total contractual obligations (3)	\$6,309,841	725,170	818,853	1,341,937	1,311,103	2,112,778

(1) Interest commitments on variable interest-bearing debt are determined based on the interest rate as of February 28, 2013.

Amount includes \$167.2 million of notes payable that was consolidated as part of the LLC consolidation related to (2) the FDIC transaction and is non-recourse to Lennar; however, \$4.7 million of cash collections on loans in excess of expenses had been deposited in a defeasance account established for the repayment of the FDIC notes payable.

Total contractual obligations excludes our gross unrecognized tax benefits of \$8.8 million as of February 28, 2013 (3) because we are unable to make reasonable estimates as to the period of cash settlement with the respective taxing authorities.

We are subject to the usual obligations associated with entering into contracts (including option contracts) for the purchase, development and sale of real estate in the routine conduct of our business. Option contracts for the purchase of land generally enable us to defer acquiring portions of properties owned by third parties and unconsolidated entities until we have determined whether to exercise our options. This reduces our financial risk associated with land holdings. At February 28, 2013, we had access to 22,542 homesites through option contracts with third parties and unconsolidated entities in which we have investments. At February 28, 2013, we had \$134.6 million of non-refundable option deposits and pre-acquisition costs related to certain of these homesites and \$38.9 million of letters of credit posted in lieu of cash deposits under certain option contracts.

At February 28, 2013, we had letters of credit outstanding in the amount of \$324.8 million (which included the \$38.9 million of letters of credit discussed above). These letters of credit are generally posted either with regulatory bodies to guarantee our performance of certain development and construction activities, or in lieu of cash deposits on option contracts, for insurance risks, credit enhancements and as other collateral. Additionally, at February 28, 2013, we had outstanding performance and surety bonds related to site improvements at various projects (including certain projects in our joint ventures) of \$614.7 million. Although significant development and construction activities have been completed related to these site improvements, these bonds are generally not released until all of the development and construction activities are completed. As of February 28, 2013, there were approximately \$360.6 million, or 59%, of

anticipated future costs to complete related to these site improvements. We do not presently anticipate any draws upon these bonds or letters of credit, but if any such draws occur, we do not believe they would have a material effect on our financial position, results of operations or cash flows.

Our Lennar Financial Services segment had a pipeline of loan applications in process of \$1.3 billion at February 28, 2013. Loans in process for which interest rates were committed to the borrowers and builder commitments for loan programs totaled approximately \$386.7 million as of February 28, 2013. Substantially all of these commitments were for periods of 60 days or less. Since a portion of these commitments is expected to expire without being exercised by the borrowers or because borrowers may not meet certain criteria at the time of closing, the total commitments do not necessarily represent future cash requirements.

Our Lennar Financial Services segment uses mandatory mortgage-backed securities (“MBS”) forward commitments, option contracts and investor commitments to hedge our 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 our counterparties to investment banks, federally regulated bank affiliates and other investors meeting our credit standards. Our 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, 2013, we had open commitments amounting to \$553.5 million to sell MBS with varying settlement dates through May 2013.

(3) New Accounting Pronouncements

See Note 16 of our condensed consolidated financial statements included under Item 1 of this Report for a discussion of new accounting pronouncements applicable to our Company.

(4) Critical Accounting Policies

We believe that there have been no significant changes to our critical accounting policies during the three months ended February 28, 2013 as compared to those we disclosed in Management's Discussion and Analysis of Financial Condition and Results of Operations included in our Annual Report on Form 10-K for the year ended November 30, 2012.

## Item 3. Quantitative and Qualitative Disclosures About Market Risk

We are exposed to market risks related to fluctuations in interest rates on our investments, debt obligations, loans held-for-sale and loans held-for-investment. We utilize forward commitments and option contracts to mitigate the risks associated with our mortgage loan portfolio.

During the three months ended February 28, 2013, our market risks with regard to debt related to our operations changed. During the three months ended February 28, 2013, we issued \$275 million aggregate principal amount of our 4.125% Senior Notes and an additional \$175 million aggregate principal amount of our 4.750% Senior Notes. During the three months ended February 28, 2013, we also retired \$304.1 million of Rialto Investments notes payable.

## Information Regarding Interest Rate Sensitivity

Principal (Notional) Amount by  
Expected Maturity and Average Interest Rate  
February 28, 2013

	Nine Months Ending November 30, 2013	Years Ending November 30,						Total	Fair Value at February 28, 2013
(Dollars in millions)	2013	2014	2015	2016	2017	2018	Thereafter	Total	2013
<b>LIABILITIES:</b>									
<b>Lennar</b>									
<b>Homebuilding:</b>									
<b>Senior Notes and other debts payable</b>									
Fixed rate	\$93.2	284.0	507.1	256.9	394.9	648.7	1,914.9	4,099.7	5,117.3
Average interest rate	2.0	% 5.4	% 5.6	% 6.4	% 12.3	% 5.6	% 3.5	% 5.2	% —
Variable rate	\$119.0	105.3	106.2	32.5	43.0	—	—	406.0	428.7
Average interest rate	3.8	% 7.1	% 5.2	% 7.6	% 3.2	% —	—	5.3	% —
<b>Lennar Financial Services:</b>									
Variable rate	\$311.9	—	—	—	—	—	—	311.9	311.9
Average interest rate	2.7	% —	—	—	—	—	—	2.7	% —
<b>Rialto Investments:</b>									
Fixed rate (1)	\$12.3	158.5	1.2	4.8	1.2	1.2	0.2	179.4	178.5
Average interest rate	0.8	% 0.1	% 6.0	% 6.2	% 5.9	% 5.9	% 6.0	% 0.4	% —
Variable rate	\$—	33.0	57.9	—	—	—	—	90.9	86.0
Average interest rate	—	4.5	% 4.5	% —	—	—	—	4.5	% —

Amount includes \$167.2 million of notes payable that was consolidated as part of the LLC consolidation related to (1) the FDIC transaction and is non-recourse to Lennar; however, \$4.7 million of cash collections on loans in excess of expenses had been deposited in a defeasance account established for the repayment of the FDIC notes payable.

## Item 4. Controls and Procedures

Our Chief Executive Officer and Chief Financial Officer participated in an evaluation by our management of the effectiveness of our disclosure controls and procedures as of the end of our fiscal quarter that ended on February 28, 2013. Based on their participation in that evaluation, our CEO and CFO concluded that our disclosure controls and procedures were effective as of February 28, 2013 to ensure that information required to be disclosed in our reports filed or submitted under the Securities Exchange Act of 1934, as amended, is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission's rules and forms, and to ensure that information required to be disclosed in our reports filed or furnished under the Securities Exchange Act of 1934, as amended, is accumulated and communicated to our management, including our CEO and CFO, as appropriate, to allow timely decisions regarding required disclosures.

Our CEO and CFO also participated in an evaluation by our management of any changes in our internal control over financial reporting that occurred during the quarter ended February 28, 2013. That evaluation did not identify any changes that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Part II. Other Information

Item 1 - 5. Not Applicable

Item 6. Exhibits

- 10.1. Indenture dated February 4, 2013, between Lennar and the Bank of New York Mellon Trust Company, N.A., as trustee (relating to Lennar's 4.125% Senior Notes due 2018).
- 31.1. Rule 13a-14(a) certification by Stuart A. Miller, Chief Executive Officer.
- 31.2. Rule 13a-14(a) certification by Bruce E. Gross, Vice President and Chief Financial Officer.
- 32. Section 1350 certifications by Stuart A. Miller, Chief Executive Officer, and Bruce E. Gross, Vice President and Chief Financial Officer.  
The following financial statements from Lennar Corporation Quarterly Report on Form 10-Q for the quarter ended February 28, 2013, filed on April 9, 2013, were formatted in XBRL (Extensible Business Reporting Language); (i) Condensed Consolidated Balance Sheets, (ii) Condensed Consolidated Statements of Operations, (iii) Condensed Consolidated Statements of Cash Flows and (iv) the Notes to Condensed Consolidated Financial Statements.\*
- 101. The following financial statements from Lennar Corporation Quarterly Report on Form 10-Q for the quarter ended February 28, 2013, filed on April 9, 2013, were formatted in XBRL (Extensible Business Reporting Language); (i) Condensed Consolidated Balance Sheets, (ii) Condensed Consolidated Statements of Operations, (iii) Condensed Consolidated Statements of Cash Flows and (iv) the Notes to Condensed Consolidated Financial Statements.\*

\* In accordance with Rule 406T of Regulation S-T, the XBRL related to information in Exhibit 101 to this Quarterly Report on Form 10-Q shall not be deemed to be "filed" for purposes of Section 18 of Exchange Act, or otherwise subject to the liability of that section, and shall not be part of any registration or other document filed under the Securities Act or the Exchange Act, except as shall be expressly set forth by specific reference in such filing.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

Lennar Corporation  
(Registrant)

Date: April 9, 2013

/s/ Bruce E. Gross  
Bruce E. Gross  
Vice President and Chief Financial Officer

Date: April 9, 2013

/s/ David M. Collins  
David M. Collins  
Controller