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April 10, 2017
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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, 2017
Commission File Number: 1-11749

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

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

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

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.   YES ý   NO ¨
Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required

to submit and post such files). YES ý NO ¨

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

Large accelerated filer ý Accelerated filer ¨

Non-accelerated filer ¨ Smaller reporting company¨

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

Common stock outstanding as of March 31, 2017:

Class A 203,159,885

Class B 31,303,195

Part I. Financial Information
Item 1. Financial Statements

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

	February 28, 2017 (1)	November 30, 2016 (1)
ASSETS		
Lennar Homebuilding:		
Cash and cash equivalents	$ 640,816	1,050,138
Restricted cash	12,850	5,977
Receivables, net	81,299	106,976
Inventories:		
Finished homes and construction in progress	4,672,246	3,951,716
Land and land under development	5,640,275	5,106,191
Consolidated inventory not owned	156,155	121,019
Total inventories	10,468,676	9,178,926
Investments in unconsolidated entities	910,084	811,723
Goodwill	143,298	—
Other assets	902,347	651,028
	13,159,370	11,804,768
Rialto	1,228,874	1,276,210
Lennar Financial Services	1,231,708	1,754,672
Lennar Multifamily	610,161	526,131
Total assets	$ 16,230,113	15,361,781

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

As of February 28, 2017, total assets include $651.1 million related to consolidated VIEs of which $9.5 million is included in Lennar Homebuilding cash and cash equivalents, $0.1 million in Lennar Homebuilding receivables, net, $72.4 million in Lennar Homebuilding finished homes and construction in progress, $177.5 million in Lennar Homebuilding land and land under development, $156.2 million in Lennar Homebuilding consolidated inventory not owned, $4.6 million in Lennar Homebuilding investments in unconsolidated entities, $16.4 million in Lennar Homebuilding other assets, $173.2 million in Rialto assets and $41.2 million in Lennar Multifamily assets.

As of November 30, 2016, total assets include $536.3 million related to consolidated VIEs of which $13.3 million is included in Lennar Homebuilding cash and cash equivalents, $0.2 million in Lennar Homebuilding receivables, net, $54.2 million in Lennar Homebuilding finished homes and construction in progress, $106.3 million in Lennar Homebuilding land and land under development, $121.0 million in Lennar Homebuilding consolidated inventory not owned, $4.6 million in Lennar Homebuilding investments in unconsolidated entities, $13.9 million in Lennar Homebuilding other assets, $213.8 million in Rialto assets and $8.8 million in Lennar Multifamily assets.

See accompanying notes to condensed consolidated financial statements.

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

	February 28, 2017 (2)	November 30, 2016 (2)
LIABILITIES AND EQUITY		
Lennar Homebuilding:		
Accounts payable	$473,802	478,546
Liabilities related to consolidated inventory not owned	153,445	110,006
Senior notes and other debts payable	5,778,306	4,575,977
Other liabilities	994,766	841,449
	7,400,319	6,005,978
Rialto	680,120	707,980
Lennar Financial Services	788,339	1,318,283
Lennar Multifamily	105,560	117,973
Total liabilities	8,974,338	8,150,214
Stockholders' equity:		
Preferred stock	—	—
Class A common stock of $0.10 par value; Authorized: February 28, 2017 and November 30, 2016 - 300,000,000 shares; Issued: February 28, 2017 - 204,113,406 shares and November 30, 2016 - 204,089,447 shares	20,411	20,409
Class B common stock of $0.10 par value; Authorized: February 28, 2017 and November 30, 2016 - 90,000,000 shares; Issued: February 28, 2017 - 32,982,815 shares and November 30, 2016 - 32,982,815 shares	3,298	3,298
Additional paid-in capital	2,855,793	2,805,349
Retained earnings	4,334,936	4,306,256
Treasury stock, at cost; February 28, 2017 - 951,887 shares of Class A common stock and 1,679,620 shares of Class B common stock; November 30, 2016 - 917,447 shares of Class A common stock and 1,679,620 shares of Class B common stock	(109,048)	(108,961)
Accumulated other comprehensive income (loss)	663	(309)
Total stockholders' equity	7,106,053	7,026,042
Noncontrolling interests	149,722	185,525
Total equity	7,255,775	7,211,567
Total liabilities and equity	$16,230,113	15,361,781

(2) As of February 28, 2017, total liabilities include $170.1 million related to consolidated VIEs as to which there was no recourse against the Company, of which $4.2 million is included in Lennar Homebuilding accounts payable, $153.4 million in Lennar Homebuilding liabilities related to consolidated inventory not owned, $2.9 million in Lennar Homebuilding other liabilities and $9.6 million in Rialto liabilities.

As of November 30, 2016, total liabilities include $126.4 million related to consolidated VIEs as to which there was no recourse against the Company, of which $3.6 million is included in Lennar Homebuilding accounts payable, $110.0 million in Lennar Homebuilding liabilities related to consolidated inventory not owned, $2.5 million in Lennar Homebuilding other liabilities and $10.3 million in Rialto liabilities.

See accompanying notes to condensed consolidated financial statements.

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

	Three Months Ended	
	February 28, 2017	**February 29, 2016**
Revenues:		
Lennar Homebuilding	$2,018,694	1,786,481
Lennar Financial Services	148,043	123,956
Rialto	82,006	43,711
Lennar Multifamily	88,685	39,516
Total revenues	2,337,428	1,993,664
Costs and expenses:		
Lennar Homebuilding	1,801,561	1,568,205
Lennar Financial Services	127,379	109,025
Rialto	66,913	42,907
Lennar Multifamily	92,649	47,020
Corporate general and administrative	60,699	47,668
Total costs and expenses	2,149,201	1,814,825
Lennar Homebuilding equity in earnings (loss) from unconsolidated entities	(11,534)	3,000
Lennar Homebuilding other income (expense), net	5,739	(638)
Lennar Homebuilding loss due to litigation accrual	(140,000)	—
Rialto equity in earnings from unconsolidated entities	722	1,497
Rialto other expense, net	(16,658)	(691)
Lennar Multifamily equity in earnings from unconsolidated entities	23,147	19,686
Earnings before income taxes	49,643	201,693
Provision for income taxes	(19,969)	(56,241)
Net earnings (including net earnings (loss) attributable to noncontrolling interests)	29,674	145,452
Less: Net earnings (loss) attributable to noncontrolling interests	(8,406)	1,372
Net earnings attributable to Lennar	$38,080	144,080
Other comprehensive income, net of tax:		
Net unrealized gain (loss) on securities available-for-sale	972	(437)
Other comprehensive income attributable to Lennar	$39,052	143,643
Other comprehensive income (loss) attributable to noncontrolling interests	$(8,406)	1,372
Basic earnings per share	$0.16	0.68
Diluted earnings per share	$0.16	0.63
Cash dividends per each Class A and Class B common share	$0.04	0.04

See accompanying notes to condensed consolidated financial statements.
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Lennar Corporation and Subsidiaries
Condensed Consolidated Statements of Cash Flows
(In thousands)
(unaudited)

	Three Months Ended	
	February 28, 2017	February 29, 2016
Cash flows from operating activities:		
Net earnings (including net earnings (loss) attributable to noncontrolling interests)	$29,674	145,452
Adjustments to reconcile net earnings to net cash provided by (used in) operating activities:		
Depreciation and amortization	11,743	10,077
Amortization of discount/premium and accretion on debt, net	3,132	4,777
Equity in earnings from unconsolidated entities	(12,335)	(24,183)
Distributions of earnings from unconsolidated entities	31,949	27,207
Share-based compensation expense	12,505	11,142
Excess tax benefits from share-based awards	(1,953)	(7,029)
Deferred income tax (benefit) expense	(36,229)	43,402
Unrealized and realized gains on real estate owned	(1,698)	(7,230)
Impairments of loans receivable and real estate owned	25,484	5,976
Valuation adjustments and write-offs of option deposits and pre-acquisition costs and other assets	1,930	1,164
Changes in assets and liabilities:		
Decrease in restricted cash	10,842	19,958
Decrease in receivables	264,714	262,453
Increase in inventories, excluding valuation adjustments and write-offs of option deposits and pre-acquisition costs	(601,711)	(677,078)
Decrease (increase) in other assets	12,846	(9,825)
Decrease in loans held-for-sale	339,492	228,316
Decrease in accounts payable and other liabilities	(11,061)	(250,466)
Net cash provided by (used in) operating activities	79,324	(215,887)
Cash flows from investing activities:		
Net additions of operating properties and equipment	(25,785)	(18,453)
Investments in and contributions to unconsolidated entities	(151,706)	(103,971)
Distributions of capital from unconsolidated entities	39,961	69,356
Proceeds from sales of real estate owned	24,215	20,256
Improvements to real estate owned	157	(1,194)
Purchases of real estate owned	(100)	—
Receipts of principal payments on loans receivable and other	1,972	2,725
Originations of loans receivable	(9,330)	(10,046)
Purchases of commercial mortgage-backed securities bonds	(40,357)	(23,078)
Acquisition, net of cash acquired	(596,172)	(600)
(Increase) decrease in Lennar Financial Services loans held-for-investment, net	(2,025)	766
Purchases of Lennar Financial Services investment securities	(12,204)	(6,968)
Proceeds from maturities/sales of Lennar Financial Services investments securities	5,292	4,621
Net cash used in investing activities	$(766,082)	(66,586)

See accompanying notes to condensed consolidated financial statements.

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

	Three Months Ended	
	February 28, 2017	February 29, 2016
Cash flows from financing activities:		
Net borrowings under unsecured revolving credit facility	$250,000	500,000
Net repayments under warehouse facilities	(543,356)	(395,233)
Proceeds from senior notes	600,000	—
Debt issuance costs	(10,848)	(684)
Conversions and exchanges on convertible senior notes	—	(162,852)
Proceeds from Rialto notes payable	35,460	—
Principal payments on Rialto notes payable	(2,971)	(669)
Proceeds from other borrowings	7,395	6,763
Principal payments on other borrowings	(16,242)	(59,146)
Receipts related to noncontrolling interests	153	65
Payments related to noncontrolling interests	(25,871)	(42,015)
Excess tax benefits from share-based awards	1,953	7,029
Common stock:		
Issuances	99	—
Repurchases	(83)	(219)
Dividends	(9,400)	(8,552)
Net cash provided by (used in) financing activities	286,289	(155,513)
Net decrease in cash and cash equivalents	(400,469)	(437,986)
Cash and cash equivalents at beginning of period	1,329,529	1,158,445
Cash and cash equivalents at end of period	$929,060	720,459
Summary of cash and cash equivalents:		
Lennar Homebuilding	$640,816	510,878
Rialto	162,513	112,305
Lennar Financial Services	119,308	91,214
Lennar Multifamily	6,423	6,062
	$929,060	720,459
Supplemental disclosures of non-cash investing and financing activities:		
Lennar Homebuilding and Lennar Multifamily:		
Non-cash contributions to unconsolidated entities	$25,315	19,248
Non-cash increase in consolidated inventory not owned	$115,000	—
Purchases of inventories and other assets financed by sellers	$80,919	20,714
Rialto:		
Real estate owned acquired in satisfaction/partial satisfaction of loans receivable	$70	5,183
Consolidation/deconsolidation of unconsolidated/consolidated entities, net:		
Inventories	$—	14,923
Investments in unconsolidated entities	$—	(2,445)
Noncontrolling interests	$—	(12,478)

See accompanying notes to condensed consolidated financial statements.

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

(1) Basis of Presentation

Basis of Consolidation

The accompanying condensed consolidated financial statements include the accounts of Lennar Corporation and all subsidiaries, partnerships and other entities in which Lennar Corporation has a controlling interest and VIEs (see Note 16) in which Lennar Corporation is deemed to be the primary beneficiary (the "Company"). The Company’s investments in both unconsolidated entities in which a significant, but less than controlling, interest is held and in VIEs in which the Company is not deemed to be the primary beneficiary, are accounted for by the equity method. All intercompany transactions and balances have been eliminated in consolidation. The condensed consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America ("GAAP") for interim financial information, the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by GAAP for complete financial statements. These condensed consolidated financial statements should be read in conjunction with the consolidated financial statements in the Company’s Annual Report on Form 10-K for the year ended November 30, 2016. 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, 2017 are not necessarily indicative of the results to be expected for the full year.

Use of Estimates

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

Reclassifications/Revisions

As a result of the Company's change in reportable segments during fiscal year 2016, the Company restated certain prior year amounts in the condensed consolidated financial statements to conform with the 2017 presentation (see Note 3). In addition, certain prior year amounts in the condensed consolidated financial statements have been reclassified to conform with the 2017 presentation. These reclassifications had no impact on the Company's condensed consolidated financial statements.

(2) Business Acquisition

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

Based on an evaluation of the provisions of ASC Topic 805, *Business Combinations*, ("ASC 805"), Lennar Corporation was determined to be the acquirer for accounting purposes. The following table summarizes the provisional purchase price allocation based on the estimated fair value of net assets acquired and liabilities assumed at the date of acquisition, which are subject to change within a measurement period of up to one year from the acquisition date pursuant to ASC 805. The purchase price allocation is provisional pending completion of the fair value analysis of acquired assets and liabilities assumed:

(In thousands)	
Assets:	
Cash and cash equivalents, restricted cash and receivables, net	$ 42,079
Inventories	621,008
Intangible assets (1)	48,000
Goodwill (2)	163,298
Deferred tax assets, net	87,326
Other assets	66,173
Total assets	1,027,884
Liabilities:	
Accounts payable	26,735
Senior notes and other debts payable	282,804
Other liabilities	75,723
Total liabilities	385,262
Total purchase price	$ 642,622

(1) Intangible assets include non-compete agreements and a trade name. The amortization period for these intangible assets is up to one year for the non-compete agreements and 20 years for the trade name.

(2) Goodwill represents the excess of the purchase price over the fair value of assets acquired and liabilities assumed, and it is not deductible for income tax purposes. As of the merger date, goodwill consisted primarily of purchasing and other synergies resulting from the merger, expected production, savings in corporate and division overhead costs and expected expanded opportunities for growth through a higher-end more luxurious product, greater presence in the state of Florida and customer diversity. The provisional amount of goodwill allocated to the Company's Homebuilding East segment was $143.3 million and to the Lennar Financial Services segment was $20.0 million. These provisional amounts were based on the relative fair value of each acquired reporting unit in accordance with ASC 350, *Intangibles-Goodwill and Other*.

Lennar Homebuilding revenue and net earnings attributable to Lennar for the three months ended February 28, 2017 included $19.5 million of home sales revenue and $8.9 million of a pre-tax loss from WCI from the date of acquisition to February 28, 2017, which included transaction expenses of $11.0 million comprised mainly of severance costs. These transaction expenses were included primarily within Lennar Homebuilding selling, general and administrative expenses within the accompanying condensed consolidated statement of operations for the three months ended February 28, 2017. The pro-forma effect of the acquisition on the results of operations is not presented as this acquisition was not considered material.

(3) Operating and Reporting Segments

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

(1) Homebuilding East
(2) Homebuilding Central
(3) Homebuilding West
(4) Lennar Financial Services
(5) Rialto
(6) Lennar Multifamily

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

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

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

East: Florida[(1)], Georgia, Maryland, New Jersey, North Carolina, South Carolina and Virginia
Central: Arizona, Colorado and Texas
West: California and Nevada
Other: Illinois, Minnesota, Oregon, Tennessee and Washington

(1) Florida includes the financial information related to WCI from the date of acquisition (February 10, 2017) to February 28, 2017.

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

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

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

Each reportable segment follows the same accounting policies described in Note 1 – "Summary of Significant Accounting Policies" to the consolidated financial statements in the Company's Form 10-K for the year ended November 30, 2016. Operational results of each segment are not necessarily indicative of the results that would have occurred had the segment been an independent, stand-alone entity during the periods presented.

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

(In thousands)	**February 28, 2017**	**November 30, 2016**
Assets:		
Homebuilding East (1)	$4,791,376	3,512,990
Homebuilding Central	2,070,652	1,993,403
Homebuilding West	4,606,982	4,318,924
Homebuilding Other	900,876	907,523
Rialto	1,228,874	1,276,210
Lennar Financial Services	1,231,708	1,754,672
Lennar Multifamily	610,161	526,131
Corporate and unallocated	789,484	1,071,928
Total assets	$16,230,113	15,361,781
Lennar Homebuilding goodwill (2)	$143,298	—
Rialto goodwill	$5,396	5,396
Lennar Financial Services goodwill (2)	$59,838	39,838

(1) Homebuilding East segment includes the provisional fair values of homebuilding assets acquired as part of the WCI acquisition.

(2) In connection with the WCI acquisition, the Company allocated $143.3 million of goodwill to the Lennar Homebuilding East reportable segment and $20.0 million to the Lennar Financial Services segment. These amounts are provisional pending completion of the fair value analysis of acquired assets and liabilities.

	Three Months Ended	
	February 28,	**February 29,**
(In thousands)	**2017**	**2016**
Revenues:		
Homebuilding East	$767,726	659,054
Homebuilding Central	516,181	413,840
Homebuilding West	552,798	551,339
Homebuilding Other	181,989	162,248
Lennar Financial Services	148,043	123,956
Rialto	82,006	43,711
Lennar Multifamily	88,685	39,516
Total revenues (1)	$2,337,428	1,993,664
Operating earnings (loss):		
Homebuilding East (2)	($55,709)	84,706
Homebuilding Central	52,858	33,195
Homebuilding West	53,360	88,834
Homebuilding Other	20,829	13,903
Lennar Financial Services	20,664	14,931
Rialto	(843)	1,610
Lennar Multifamily	19,183	12,182
Total operating earnings	110,342	249,361
Corporate general and administrative expenses	60,699	47,668
Earnings before income taxes	$49,643	201,693

(1) Total revenues were net of sales incentives of $123.5 million ($22,700 per home delivered) for the three months ended February 28, 2017, compared to $103.7 million ($21,600 per home delivered) for the three months ended February 29, 2016.

(2) Homebuilding East operating loss for the three months ended February 28, 2017 included a $140 million loss on litigation accrual (see Note 17).

(4) Lennar Homebuilding Investments in Unconsolidated Entities

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

Statements of Operations

	Three Months Ended	
	February 28,	February 29,
(In thousands)	2017	2016
Revenues	$46,136	99,726
Costs and expenses	79,066	97,200
Net earnings (loss) of unconsolidated entities	$(32,930)	2,526
Lennar Homebuilding equity in earnings (loss) from unconsolidated entities	$(11,534)	3,000

For the three months ended February 28, 2017, Lennar Homebuilding equity in loss from unconsolidated entities was primarily attributable to the Company's share of net operating losses from its unconsolidated entities. The operating losses from the Company's unconsolidated entities were primarily driven by general and administrative expenses, as there were not sufficient land sale transactions to offset those expenses during the three months ended February 28, 2017.

For the three months ended February 29, 2016, Lennar Homebuilding equity in earnings included $6.0 million of equity in earnings from one of the Company's unconsolidated entities primarily due to sales of approximately 220 homesites to third parties.

Balance Sheets

(In thousands)	February 28, 2017	November 30, 2016
Assets:		
Cash and cash equivalents	$436,872	221,334
Inventories	3,977,388	3,889,795
Other assets	982,702	1,334,116
	$5,396,962	5,445,245
Liabilities and equity:		
Accounts payable and other liabilities	$711,107	791,245
Debt (1)	770,587	888,664
Equity	3,915,268	3,765,336
	$5,396,962	5,445,245

(1) Debt presented above is net of debt issuance costs of $6.1 million and $4.2 million, as of February 28, 2017 and November 30, 2016, respectively.

On May 2, 2016 (the "Closing Date"), the Company contributed, or obtained the right to contribute, its investment in three strategic joint ventures previously managed by FivePoint Communities in exchange for an investment in a FivePoint entity. The fair values of the assets contributed to this FivePoint entity, included within the unconsolidated entities summarized condensed balance sheet presented above, are preliminary and may be adjusted when additional information is obtained during the transaction's measurement period (a period of up to one year from the Closing Date) that may change the fair value allocation as of the acquisition date. A portion of the assets of one of the three strategic joint ventures transferred to a new unconsolidated entity was retained by Lennar and its venture partner. The transactions did not have a material impact to the Company's financial position or cash flows for the year ended November 30, 2016. For the year ended November 30, 2016, the Company recorded $42.6 million of its share of combination costs and operational net losses in equity in loss from unconsolidated entities on the consolidated statement of operations.

As of February 28, 2017 and November 30, 2016, the Company's recorded investments in Lennar Homebuilding unconsolidated entities were $910.1 million and $811.7 million, respectively, while the underlying equity in Lennar Homebuilding unconsolidated entities partners' net assets as of February 28, 2017 and November 30, 2016 was $1.3

billion and $1.2 billion, respectively. The basis difference is primarily as a result of the Company contributing its investment in three strategic joint ventures with a higher fair value than book value for an investment in the FivePoint entity and deferring equity in earnings on land sales to the Company.

The Lennar Homebuilding unconsolidated entities in which the Company has investments usually finance their activities with a combination of partner equity and debt financing. In some instances, the Company and its partners have guaranteed debt of certain unconsolidated entities.
The total debt of the Lennar Homebuilding unconsolidated entities in which the Company has investments, including Lennar's maximum recourse exposure, were as follows:

(Dollars in thousands)	**February 28, 2017**	**November 30, 2016**
Non-recourse bank debt and other debt (partner's share of several recourse)	$72,162	48,945
Non-recourse land seller debt and other debt (1)	3,995	323,995
Non-recourse debt with completion guarantees	298,319	147,100
Non-recourse debt without completion guarantees	325,115	320,372
Non-recourse debt to the Company	699,591	840,412
The Company's maximum recourse exposure (2)	77,119	52,438
Debt issuance costs	(6,123)	(4,186)
Total debt	$770,587	888,664
The Company's maximum recourse exposure as a % of total JV debt	10 %	6 %

(1) Non-recourse land seller debt and other debt as of November 30, 2016 included a $320 million non-recourse note related to a transaction between one of the Company's unconsolidated entities and another unconsolidated joint venture, which was settled in December 2016.

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

In most instances in which the Company has guaranteed debt of a Lennar Homebuilding unconsolidated entity, the Company's partners have also guaranteed that debt and are required to contribute their share of the guarantee payments. In a repayment guarantee, the Company and its venture partners guarantee repayment of a portion or all of the debt in the event of default before the lender would have to exercise its rights against the collateral.
In connection with many of the loans to Lennar Homebuilding unconsolidated entities, the Company and its joint venture partners (or entities related to them) have been required to give guarantees of completion to the lenders. Those completion guarantees may require that the guarantors complete the construction of the improvements for which the financing was obtained. If the construction is to be done in phases, the guarantee generally is limited to completing only the phases as to which construction has already commenced and for which loan proceeds were used.
If the Company is required to make a payment under any guarantee, the payment would constitute a capital contribution or loan to the Lennar Homebuilding unconsolidated entity and increase the Company's investment in the unconsolidated entity and its share of any funds the unconsolidated entity distributes.
As of both February 28, 2017 and November 30, 2016, the fair values of the repayment guarantees and completion guarantees were not material. The Company believes that as of February 28, 2017, in the event it becomes legally obligated to perform under a guarantee of the obligation of a Lennar Homebuilding unconsolidated entity due to a triggering event under a guarantee, the collateral would be sufficient to repay at least a significant portion of the obligation or the Company and its partners would contribute additional capital into the venture. In certain instances, the Company has placed performance letters of credit and surety bonds with municipalities with regard to obligations of its joint ventures (see Note 12).

(5) Stockholders' Equity

The following table reflects the changes in equity attributable to both Lennar Corporation and the noncontrolling interests of its consolidated subsidiaries in which it has less than a 100% ownership interest for both the three months ended February 28, 2017 and February 29, 2016:

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

		Stockholders' Equity						
(In thousands)	**Total Equity**	**Class A Common Stock**	**Class B Common Stock**	**Additional Paid - in Capital**	**Treasury Stock**	**Accumulated Other Comprehensive Income (Loss)**	**Retained Earnings**	**Noncontrolling Interests**
Balance at November 30, 2015	$5,950,072	18,066	3,298	2,305,560	(107,755)	39	3,429,736	301,128
Net earnings (including net earnings attributable to noncontrolling interests)	145,452	—	—	—	—	—	144,080	1,372
Employee stock and directors plans	(194)	—	—	29	(223)	—	—	—
Conversions and exchanges of convertible senior notes to Class A common stock	—	360	—	(360)	—	—	—	—
Tax benefit from employee stock plans, vesting of restricted stock and conversions of convertible senior notes	25,131	—	—	25,131	—	—	—	—
Amortization of restricted stock	11,142	—	—	11,142	—	—	—	—
Cash dividends	(8,552)	—	—	—	—	—	(8,552)	—
Receipts related to noncontrolling interests	65	—	—	—	—	—	—	65
Payments related to noncontrolling interests	(42,015)	—	—	—	—	—	—	(42,015)
Non-cash consolidations, net	12,478							12,478
Non-cash activity related to noncontrolling interests	307	—	—	—	—	—	—	307
Other comprehensive loss, net of tax	(437)	—	—	—	—	(437)	—	—
Balance at February 29, 2016	$6,093,449	18,426	3,298	2,341,502	(107,978)	(398)	3,565,264	273,335

(6) Income Taxes

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

	Three Months Ended	
	February 28,	**February 29,**
(Dollars in thousands)	**2017**	**2016**
Provision for income taxes	$ (19,969)	(56,241)
Effective tax rate (1)	34.40 %	28.08 %

(1) For the three months ended February 28, 2017, the effective tax rate included tax benefits for the domestic production activities deduction and energy tax credits, offset primarily by state income tax expense. For the three months ended February 29, 2016, the effective tax rate included tax benefits for (1) a settlement with the IRS, (2) the domestic production activities deduction, and (3) energy tax credits, offset primarily by state income tax expense.

As of February 28, 2017 and November 30, 2016, the Company's deferred tax assets, net included in the condensed consolidated balance sheets were $424.2 million and $277.4 million, respectively. As of February 28, 2017, the Company's deferred tax assets, net included the provisional amount of $87.3 million related to the WCI acquisition.

At both February 28, 2017 and November 30, 2016, the Company had $12.3 million of gross unrecognized tax benefits.

At February 28, 2017, the Company had $46.8 million accrued for interest and penalties, of which $0.8 million was accrued during the three months ended February 28, 2017. At November 30, 2016, the Company had $46.0 million accrued for interest and penalties.

(7) Earnings Per Share

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

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

Basic and diluted earnings per share were calculated as follows:

	Three Months Ended	
	February 28,	**February 29,**
(In thousands, except per share amounts)	**2017**	**2016**
Numerator:		
Net earnings attributable to Lennar	$38,080	144,080
Less: distributed earnings allocated to nonvested shares	112	89
Less: undistributed earnings allocated to nonvested shares	278	1,420
Numerator for basic earnings per share	37,690	142,571
Less: net amount attributable to noncontrolling interests in Rialto's Carried Interest Incentive Plan (1)	339	202
Plus: interest on 3.25% convertible senior notes due 2021	—	1,982
Plus: undistributed earnings allocated to convertible shares	—	1,420
Less: undistributed earnings reallocated to convertible shares	—	1,325
Numerator for diluted earnings per share	$37,351	144,446
Denominator:		
Denominator for basic earnings per share - weighted average common shares outstanding	232,194	210,292
Effect of dilutive securities:		
Share-based payments	2	4
Convertible senior notes	—	18,620
Denominator for diluted earnings per share - weighted average common shares outstanding	232,196	228,916
Basic earnings per share	$0.16	0.68
Diluted earnings per share	$0.16	0.63

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

For both the three months ended February 28, 2017 and February 29, 2016, there were no options to purchase shares of common stock that were outstanding and anti-dilutive.

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(8) Lennar Financial Services Segment

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

(In thousands)	February 28, 2017	November 30, 2016
Assets:		
Cash and cash equivalents	$ 119,308	123,964
Restricted cash	10,380	17,053
Receivables, net (1)	141,941	409,528
Loans held-for-sale (2)	682,029	939,405
Loans held-for-investment, net	32,180	30,004
Investments held-to-maturity	48,104	41,991
Investments available-for-sale (3)	55,841	53,570
Goodwill (4)	59,838	39,838
Other (5)	82,087	99,319
	$ 1,231,708	1,754,672
Liabilities:		
Notes and other debts payable	$ 560,275	1,077,228
Other (6)	228,064	241,055
	$ 788,339	1,318,283

(1) Receivables, net primarily related to loans sold to investors for which the Company had not yet been paid as of February 28, 2017 and November 30, 2016, respectively.

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

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

(4) As of February 28, 2017, goodwill included $20.0 million of goodwill related to the WCI acquisition. The amount provided herein is provisional, pending completion of the fair value analysis of WCI's acquired assets and liabilities assumed. See Note 2.

(5) As of February 28, 2017 and November 30, 2016, other assets included mortgage loan commitments carried at fair value of $13.7 million and $7.4 million, respectively, and mortgage servicing rights carried at fair value of $26.5 million and $23.9 million, respectively. In addition, other assets also included forward contracts carried at fair value of $26.5 million as of November 30, 2016.

(6) As of February 28, 2017 and November 30, 2016, other liabilities included $57.5 million and $57.4 million, respectively, of certain of the Company’s self-insurance reserves related to construction defects, general liability and workers’ compensation. Other liabilities also included forward contracts carried at fair value of $1.7 million as of February 28, 2017.

At February 28, 2017, the Lennar Financial Services segment warehouse facilities were as follows:

(In thousands)	Maximum Aggregate Commitment
364-day warehouse repurchase facility that matures June 2017	$ 400,000
364-day warehouse repurchase facility that matures September 2017	300,000
364-day warehouse repurchase facility that matures December 2017 (1)	400,000
Total	$ 1,100,000

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

The Lennar Financial Services segment uses these facilities to finance its lending activities until the mortgage loans are sold to investors and the proceeds are collected. The facilities are non-recourse to the Company and are expected to be renewed or replaced with other facilities when they mature. Borrowings under the facilities and their prior year predecessors were $560.0 million and $1.1 billion at February 28, 2017 and November 30, 2016, respectively, and were collateralized by mortgage loans and receivables on loans sold to investors but not yet paid for with outstanding principal balances of $582.0 million and $1.1 billion at February 28, 2017 and November 30, 2016, respectively. If the facilities are not renewed or replaced, the borrowings under the lines of credit will be paid off by selling the mortgage loans held-for-sale to investors and by collecting on receivables on loans sold but not yet paid for. Without the facilities, the Lennar Financial Services segment would have to use cash from operations and other funding sources to finance its lending activities.

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

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

	Three Months Ended	
	February 28,	**February 29,**
(In thousands)	**2017**	**2016**
Loan origination liabilities, beginning of period	$24,905	19,492
Provision for losses	878	788
Payments/settlements	(780)	(172)
Loan origination liabilities, end of period	$25,003	20,108

(9) Rialto Segment

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

(In thousands)	**February 28, 2017**	**November 30, 2016**
Assets:		
Cash and cash equivalents	$162,513	148,827
Restricted cash (1)	5,630	9,935
Receivables, net (2)	209,025	204,518
Loans held-for-sale (3)	44,939	126,947
Loans receivable, net	106,476	111,608
Real estate owned, net	208,793	243,703
Investments in unconsolidated entities	235,066	245,741
Investments held-to-maturity	112,216	71,260
Other	144,216	113,671
	$1,228,874	1,276,210
Liabilities:		
Notes and other debts payable (4)	$626,042	622,335
Other	54,078	85,645
	$680,120	707,980

(1) Restricted cash primarily consists of upfront deposits and application fees RMF receives before originating loans and is recognized as income once the loan has been originated, as well as cash held in escrow by the Company's loan servicer provider on behalf of customers and lenders and is disbursed in accordance with agreements between the transacting parties.

(2) Receivables, net primarily related to loans sold but not settled as of February 28, 2017 and November 30, 2016.

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

(4) As of February 28, 2017 and November 30, 2016, notes and other debts payable primarily included $348.9 million and $348.7 million, respectively, related to Rialto's 7.00% senior notes due 2018, and $197.1 million and 223.5 million, respectively, related to Rialto's warehouse repurchase facilities.

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Rialto Mortgage Finance - loans held-for-sale

During the three months ended February 28, 2017, RMF originated loans with a total principal balance of $403.7 million of which $394.3 million were recorded as loans held-for-sale and $9.3 million were recorded as accrual loans within loans receivable, net, and sold $477.7 million of loans into three separate securitizations. During the three months ended February 29, 2016, RMF originated loans with a total principal balance of $315.3 million of which $305.8 million were recorded as loans held-for-sale and $9.5 million as accrual loans within loans receivables, net, and sold $380.2 million of loans into two separate securitizations. As of February 28, 2017 and November 30, 2016, originated loans with an unpaid principal balance of $195.8 million and $199.8 million, respectively, were sold into a securitization trust but not settled and thus were included as receivables, net.

FDIC Portfolios

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

In February 2017, the FDIC exercised its “clean-up call rights” under the Amended and Restated Limited Liability Company Agreement (“Operating Agreement”). As a result, Rialto has 150 days to liquidate and sell the assets in the FDIC Portfolios in accordance with the Operating Agreement. After July 10, 2017, the FDIC can, at its discretion, sell any remaining assets. At February 28, 2017, the consolidated LLCs had total combined assets of $173.2 million, which primarily included $116.7 million of real estate owned, net and $32.0 million of loans receivable, net.

Warehouse Facilities

At February 28, 2017, Rialto warehouse facilities were as follows:

(In thousands)	**Maximum Aggregate Commitment**
364-day warehouse repurchase facility that matures April 2017 (1)	$ 500,000
Warehouse repurchase facility that matures December 2017	200,000
364-day warehouse repurchase facility that matures January 2018	250,000
Total - Loan origination and securitization business (RMF)	$ 950,000
Warehouse repurchase facility that matures August 2018 (two - one year extensions) (2)	100,000
Total	$ 1,050,000

(1) Rialto has the option of a six month extension of the warehouse repurchase facility.

(2) Rialto uses this warehouse repurchase facility to finance the origination of floating rate accrual loans, which are reported as accrual loans within loans receivable, net. Borrowings under this facility were $43.3 million as of both February 28, 2017 and November 30, 2016.

Borrowings under the facilities that finance RMF's loan originations and securitization activities were $153.8 million and $180.2 million as of February 28, 2017 and November 30, 2016, respectively, and were secured by a 75% interest in the originated commercial loans financed. The facilities require immediate repayment of the 75% interest in the secured commercial loans when the loans are sold in a securitization and the proceeds are collected. These warehouse repurchase facilities are non-recourse to the Company and are expected to be renewed or replaced with other facilities when they mature.

Investments

Generally, all of Rialto's investments in funds have the attributes of an investment company in accordance with ASC 946, *Financial Services – Investment Companies*, as amended by ASU 2013-08, *Financial Services - Investment Companies (Topic 946): Amendments to the Scope, Measurement, and Disclosure Requirements,* the attributes of which are different from the attributes that would cause a company to be an investment company for purposes of the Investment Company Act of 1940. As a result, the assets and liabilities of the funds in which Rialto has investments in are recorded at fair value with increases/decreases in fair value recorded in their respective statements of operations and the Company’s share is recorded in Rialto equity in earnings from unconsolidated entities in the Company's statement of operations.

The following table reflects Rialto's investments in funds that invest in and manage real estate related assets and other investments:

(Dollars in thousands)	Inception Year	Equity Commitments	Equity Commitments Called	Commitment to Fund by the Company	February 28, 2017 Funds Contributed by the Company	February 28, 2017 Investment	November 30, 2016
Rialto Real Estate Fund, LP	2010	$ 700,006	$ 700,006	$ 75,000	$ 75,000	$49,445	58,116
Rialto Real Estate Fund II, LP	2012	1,305,000	1,305,000	100,000	100,000	90,837	96,192
Rialto Mezzanine Partners Fund, LP	2013	300,000	300,000	33,799	33,799	22,655	23,643
Rialto Capital CMBS Funds	2014	119,174	119,174	52,474	52,474	50,222	50,519
Rialto Real Estate Fund III	2015	1,625,605	182,909	100,000	9,805	11,559	9,093
Rialto Credit Partnership, LP	2016	220,000	88,730	19,999	8,066	8,243	5,794
Other investments						2,105	2,384
						$235,066	245,741

During the three months ended February 28, 2017 and February 29, 2016, Rialto received $0.9 million and $4.9 million, respectively, of advance distributions with regard to Rialto's carried interests in its real estate funds in order to cover income tax obligations resulting from allocations of taxable income to Rialto's carried interests in these funds. In addition, Rialto received $10.0 million of distributions with regard to its carried interest in Rialto Real Estate Fund, LP. These distributions are not subject to clawbacks and therefore are included in Rialto's revenues.

During 2015, Rialto adopted a Carried Interest Incentive Plan (the "Plan"), under which participating employees in the aggregate may receive up to 40% of the equity units of a limited liability company (a "Carried Interest Entity") that is entitled to carried interest distributions made by a fund or other investment vehicle (a "Fund") managed by a subsidiary of Rialto. As such, those employees receiving equity units in a Carried Interest Entity may benefit from distributions made by a Fund to the extent the Carried Interest Entity makes distributions to its equity holders. The units issued to employees are equity awards and are subject to vesting schedules and forfeiture or repurchase provisions in the case of a termination of employment.

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

Balance Sheets

(In thousands)	February 28, 2017	November 30, 2016
Assets:		
Cash and cash equivalents	$150,154	230,229
Loans receivable	418,802	406,812
Real estate owned	393,601	439,191
Investment securities	1,405,256	1,379,155
Investments in partnerships	430,844	398,535
Other assets	47,090	29,036
	$2,845,747	2,882,958
Liabilities and equity:		
Accounts payable and other liabilities	$51,959	36,131
Notes payable (1)	557,712	532,264
Equity	2,236,076	2,314,563
	$2,845,747	2,882,958

(1) Notes payable presented above are net of debt issuance costs of $2.9 million, as of both February 28, 2017 and November 30, 2016.

Statements of Operations

	Three Months Ended	
	February 28,	February 29,
(In thousands)	2017	2016
Revenues	$57,156	44,296
Costs and expenses	28,001	20,899
Other income (expense), net (1)	327	(15,162)
Net earnings of unconsolidated entities	$29,482	8,235
Rialto equity in earnings from unconsolidated entities	$722	1,497

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

At February 28, 2017 and November 30, 2016, the carrying value of Rialto's commercial mortgage-backed securities ("CMBS") was $112.2 million and $71.3 million, respectively. These securities were purchased at discounts ranging from 9% to 78% with coupon rates ranging from 1.3% to 4.4%, stated and assumed final distribution dates between November 2020 and February 2027, and stated maturity dates between November 2043 and March 2059. The Rialto segment reviews changes in estimated cash flows periodically to determine if an other-than-temporary impairment has occurred on its CMBS. Based on the Rialto segment’s assessment, no impairment charges were recorded during either the three months ended February 28, 2017 or February 29, 2016. The Rialto segment classified these securities as held-to-maturity based on its intent and ability to hold the securities until maturity.

(10) Lennar Multifamily Segment

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

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

(In thousands)	**February 28, 2017**	**November 30, 2016**
Assets:		
Cash and cash equivalents	$ 6,423	6,600
Receivables (1)	64,388	58,929
Land under development	161,317	139,713
Investments in unconsolidated entities	346,767	318,559
Other assets	31,266	2,330
	$ 610,161	526,131
Liabilities:		
Accounts payable and other liabilities	$ 105,560	117,973

(1) Receivables primarily related to general contractor services and management fee income receivables due from unconsolidated entities as of February 28, 2017 and November 30, 2016, respectively.

The unconsolidated entities in which the Lennar Multifamily segment has investments usually finance their activities with a combination of partner equity and debt financing. In connection with many of the loans to Lennar Multifamily unconsolidated entities, the Company (or entities related to them) has been required to give guarantees of completion and cost over-runs to the lenders and partners. Those completion guarantees may require that the guarantors complete the construction of the improvements for which the financing was obtained. If the construction is to be done in phases, the guarantee generally is limited to completing only the phases as to which construction has already commenced and for which loan proceeds were used. Additionally, the Company guarantees the construction costs of the project as construction cost over-runs would be paid by the Company. Generally, these payments would be increases to the Company's investment in the entities and would increase its share of funds the entities distribute after the achievement of certain thresholds. As of both February 28, 2017 and November 30, 2016, the fair value of the completion guarantees was immaterial. Additionally, as of February 28, 2017 and November 30, 2016, the Lennar Multifamily segment had $18.3 million and $32.0 million, respectively, of letters of credit outstanding primarily for credit enhancements for the bank debt of certain of its unconsolidated entities and deposits on land purchase contracts. These letters of credit outstanding are included in the disclosure in Note 12 related to the Company's performance and financial letters of credit. As of February 28, 2017 and November 30, 2016, Lennar Multifamily segment's unconsolidated entities had non-recourse debt with completion guarantees of $665.5 million and $589.4 million, respectively.

In many instances, the Lennar Multifamily segment is appointed as the construction, development and property manager for certain of its Lennar Multifamily unconsolidated entities and receives fees for performing this function. During the three months ended February 28, 2017 and February 29, 2016, the Lennar Multifamily segment recorded fee income, net of deferrals, from its unconsolidated entities of $13.0 million and $8.1 million, respectively.

The Lennar Multifamily segment also provides general contractor services for construction of some of the rental properties owned by unconsolidated entities in which the Company has an investment. During the three months ended February 28, 2017 and February 29, 2016, the Lennar Multifamily segment provided general contractor services totaling $75.7 million and $31.4 million, respectively, which were partially offset by costs related to those services of $73.7 million and $30.6 million, resp .

The Lennar Multifamily Venture (the "Venture") is a long-term multifamily development investment vehicle involved in the development, construction and property management of class-A multifamily assets with $2.2 billion in equity commitments, including a $504 million co-investment commitment by Lennar comprised of cash, undeveloped land and preacquisition costs. During the three months ended February 28, 2017, $150.7 million in equity commitments were called, of which the Company contributed $33.9 million representing the Company's pro-rata portion of the called equity. During the three months ended February 28, 2017, the Company received no distributions as a return of capital from the Venture. As of February 28, 2017, $1.1 billion of the $2.2 billion in equity commitments had been called, of which the Company had contributed $249.7 million representing its pro-rata portion of the called equity, resulting in a remaining equity commitment for the Company of $254.3 million. As of February 28, 2017 and November 30, 2016, the carrying value of the Company's investment in the Venture was $230.0 million and $198.2 million, respectively.

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

Balance Sheets

(In thousands)	February 28, 2017	November 30, 2016
Assets:		
Cash and cash equivalents	$ 57,975	43,658
Operating properties and equipment	2,415,610	2,210,627
Other assets	30,808	33,703
	$ 2,504,393	2,287,988
Liabilities and equity:		
Accounts payable and other liabilities	$ 206,376	196,617
Notes payable (1)	649,034	577,085
Equity	1,648,983	1,514,286
	$ 2,504,393	2,287,988

(1) Notes payable presented above are net of debt issuance costs of $16.5 million and $12.3 million, as of February 28, 2017 and November 30, 2016, respectively.

Statements of Operations

	Three Months Ended	
	February 28,	February 29,
(In thousands)	2017	2016
Revenues	$ 11,617	8,314
Costs and expenses	22,346	11,672
Other income, net	50,539	40,122
Net earnings of unconsolidated entities	$ 39,810	36,764
Lennar Multifamily equity in earnings from unconsolidated entities (1)	$ 23,147	19,686

(1) For the three months ended February 28, 2017, Lennar Multifamily equity in earnings from unconsolidated entities included the segment's $26.0 million share of gains as a result of the sale of two operating properties by its unconsolidated entities. For the three months ended February 29, 2016, Lennar Multifamily equity in earnings from unconsolidated entities included the segment's $20.4 million share of gain as a result of a sale of an operating property by one of its unconsolidated entities.

(11) Lennar Homebuilding Cash and Cash Equivalents

Cash and cash equivalents as of February 28, 2017 and November 30, 2016 included $320.7 million and $460.5 million, respectively, of cash held in escrow for approximately 3 days.

(12) Lennar Homebuilding Senior Notes and Other Debts Payable

(Dollars in thousands)	February 28, 2017	November 30, 2016
Unsecured revolving credit facility	$ 250,000	—
12.25% senior notes due 2017	399,095	398,232
4.75% senior notes due December 2017	398,665	398,479
6.95% senior notes due 2018	248,786	248,474
4.125% senior notes due December 2018	274,031	273,889
4.500% senior notes due 2019	498,176	498,002
4.50% senior notes due 2019	597,719	597,474
4.750% senior notes due 2021	496,743	496,547
6.875% senior notes due 2021 (1)	262,422	—
4.125% senior notes due 2022	595,272	—
4.750% senior notes due 2022	568,565	568,404
4.875% senior notes due December 2023	394,470	394,170
4.750% senior notes due 2025	496,338	496,226
Mortgage notes on land and other debt	298,024	206,080
	$ 5,778,306	4,575,977

(1) The Company assumed the 6.875% senior notes due 2021 (the" 6.875% Senior Notes") as a result of the WCI acquisition. The 6.875% Senior Notes were recorded at fair value with a principal outstanding amount of $249.8 million and are callable beginning August 2017 at declining premiums until maturity.

The carrying amounts of the senior notes listed above are net of debt issuance costs of $25.1 million and $22.1 million, as of February 28, 2017 and November 30, 2016, respectively.

At February 28, 2017, the Company had an unsecured revolving credit facility (the "Credit Facility") with maximum borrowings of $1.8 billion. The maturity for $1.3 billion of the Credit Facility is in June 2020, with the remaining $160 million maturing in June 2018. As of February 28, 2017, the Credit Facility included a $298 million accordion feature, subject to additional commitments, with certain financial institutions. The proceeds available under the Credit Facility, which are subject to specified conditions for borrowing, may be used for working capital and general corporate purposes. The credit agreement also provides that up to $500 million in commitments may be used for letters of credit. Under the Credit Facility agreement, the Company is required to maintain a minimum consolidated tangible net worth, a maximum leverage ratio and either a liquidity or an interest coverage ratio. These ratios are calculated per the Credit Facility agreement, which involves adjustments to GAAP financial measures. The Company believes it was in compliance with its debt covenants at February 28, 2017. In addition, the Company had $320 million letter of credit facilities with different financial institutions.

The Company’s performance letters of credit outstanding were $290.6 million and $270.8 million, respectively, at February 28, 2017 and November 30, 2016. The Company’s financial letters of credit outstanding were $141.1 million and $210.3 million, at February 28, 2017 and November 30, 2016, respectively. Performance letters of credit are generally posted with regulatory bodies to guarantee the Company’s performance of certain development and construction activities. Financial letters of credit are generally posted in lieu of cash deposits on option contracts, for insurance risks, credit enhancements and as other collateral. Additionally, at February 28, 2017, the Company had outstanding surety bonds of $1.4 billion including performance surety bonds related to site improvements at various projects (including certain projects in the Company’s joint ventures) and financial surety bonds including $223.4 million related to pending litigation. 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, 2017, there were approximately $530.3 million, or 45%, of anticipated future costs to complete related to these site improvements. The Company does not presently anticipate any draws upon these bonds or letters of credit, but if any such draws occur, the Company does not believe they would have a material effect on its financial position, results of operations or cash flows.

In January 2017, the Company issued $600 million aggregate principal amount of 4.125% senior notes due 2022 (the "4.125% Senior Notes") at a price of 100%. Proceeds from the offering, after payment of expenses, were $595.2 million. The Company used the net proceeds from the sales of the 4.125% Senior Notes to fund a portion of the cash consideration for the Company's acquisition of WCI and to pay for costs and expenses related to this acquisition as well as for general corporate purposes. Interest on the 4.125% Senior Notes is due semi-annually beginning July 15, 2017. The 4.125% Senior Notes are unsecured and unsubordinated, but are guaranteed by substantially all of the Company's 100% owned homebuilding subsidiaries.

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

(13) Product Warranty

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

	Three Months Ended	
	February 28,	February 29,
(In thousands)	2017	2016
Warranty reserve, beginning of period	$135,403	130,853
Warranties issued	20,720	17,573
Adjustments to pre-existing warranties from changes in estimates (1)	2,346	(620)
Warranties assumed related to the WCI acquisition	6,345	—
Payments	(25,827)	(23,073)
Warranty reserve, end of period	$138,987	124,733

(1) The adjustments to pre-existing warranties from changes in estimates during both the three months ended February 28, 2017 and February 29, 2016 primarily related to specific claims related to certain of our homebuilding communities and other adjustments.

(14) Share-Based Payments

During both the three months ended February 28, 2017 and February 29, 2016, the Company granted an immaterial number of nonvested shares. Compensation expense related to the Company’s nonvested shares for the three months ended February 28, 2017 and February 29, 2016 was $12.5 million and $11.1 million, respectively.

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(15) Financial Instruments and Fair Value Disclosures

The following table presents the carrying amounts and estimated fair values of financial instruments held by the Company at February 28, 2017 and November 30, 2016, using available market information and what the Company believes to be appropriate valuation methodologies. Considerable judgment is required in interpreting market data to develop the estimates of fair value. The use of different market assumptions and/or estimation methodologies might have a material effect on the estimated fair value amounts. The table excludes cash and cash equivalents, restricted cash, receivables, net and accounts payable, all of which had fair values approximating their carrying amounts due to the short maturities and liquidity of these instruments.

		February 28, 2017		November 30, 2016	
	Fair Value	Carrying	Fair	Carrying	Fair
(In thousands)	Hierarchy	Amount	Value	Amount	Value
ASSETS					
Rialto:					
Loans receivable, net	Level 3	$106,476	107,801	111,608	113,747
Investments held-to-maturity	Level 3	$112,216	111,808	71,260	69,992
Lennar Financial Services:					
Loans held-for-investment, net	Level 3	$32,180	30,921	30,004	31,233
Investments held-to-maturity	Level 2	$48,104	48,188	41,991	42,058
LIABILITIES					
Lennar Homebuilding senior notes and other debts payable	Level 2	$5,778,306	5,950,831	4,575,977	4,669,643
Rialto notes and other debts payable	Level 2	$626,042	623,835	622,335	646,366
Lennar Financial Services notes and other debts payable	Level 2	$560,275	560,275	1,077,228	1,077,228

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

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

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

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

Fair Value Measurements:

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

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

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

Level 3: Fair value determined using significant unobservable inputs.

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

(In thousands)	Fair Value Hierarchy	Fair Value at February 28, 2017	Fair Value at November 30, 2016
Rialto Financial Assets:			
Loans held-for-sale (1)	Level 3	$ 44,939	126,947
Credit default swaps (2)	Level 2	$ 2,432	2,863
Rialto Financial Liabilities:			
Interest rate swaps and swap futures (3)	Level 2	$ 119	6
Lennar Financial Services Assets (Liabilities):			
Loans held-for-sale (4)	Level 2	$ 682,029	939,405
Investments available-for-sale	Level 1	$ 55,841	53,570
Mortgage loan commitments	Level 2	$ 13,657	7,437
Forward contracts	Level 2	$ (1,747)	26,467
Mortgage servicing rights	Level 3	$ 26,497	23,930

(1) The aggregate fair value of Rialto loans held-for-sale of $44.9 million at February 28, 2017 exceeds their aggregate principal balance of $44.2 million by $0.7 million. The aggregate fair value of loans held-for-sale of $126.9 million at November 30, 2016 was below their aggregate principal balance of $127.8 million by $0.9 million.
(2) Rialto's credit default swaps are included within Rialto's other assets.
(3) Rialto's interest rate swaps and swap futures are included within Rialto's other liabilities.
(4) The aggregate fair value of Lennar Financial Services loans held-for-sale of $682.0 million at February 28, 2017 exceeds their aggregate principal balance of $660.3 million by $21.7 million. The aggregate fair value of Lennar Financial Services loans held-for-sale of $939.4 million at November 30, 2016 exceeded their aggregate principal balance of $931.0 million by $8.4 million.

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

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

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

Rialto interest rate swaps and swap futures- The fair value of interest rate swaps (derivatives) is based on observable values for underlying interest rates and market determined risk premiums. The fair value of interest rate swap futures (derivatives) is based on quoted market prices for similar investments traded in active markets.

Lennar Financial Services loans held-for-sale- Fair value is based on independent quoted market prices, where available, or the prices for other mortgage whole loans with similar characteristics. Management believes carrying loans held-for-sale at fair value improves financial reporting by mitigating volatility in reported earnings caused by measuring the fair value of the loans and the derivative instruments used to economically hedge them without having to apply complex hedge accounting provisions. In addition, the Company recognizes the fair value of its rights to service a mortgage loan as revenue upon entering into an interest rate lock loan commitment with a borrower. The fair value of these servicing rights is included in Lennar Financial Services’ loans held-for-sale as of February 28, 2017 and November 30, 2016. Fair value of servicing rights is determined based on actual sales of servicing rights on loans with similar characteristics.

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

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

Lennar Financial Services forward contracts- Fair value is based on quoted market prices for similar financial instruments. The fair value of forward contracts is included in the Lennar Financial Services segment's other liabilities as of February 28, 2017. The fair value of forward contracts is included in the Lennar Financial Services segment's other assets as of November 30, 2016.

The Lennar Financial Services segment uses mandatory mortgage-backed securities ("MBS") forward commitments, option contracts and investor commitments to hedge its mortgage-related interest rate exposure. These instruments involve, to varying degrees, elements of credit and interest rate risk. Credit risk associated with MBS forward commitments, option contracts and loan sales transactions is managed by limiting the Company's counterparties to investment banks, federally regulated bank affiliates and other investors meeting the Company's credit standards. The segment's risk, in the event of default by the purchaser, is the difference between the contract price and fair value of the MBS forward commitments and option contracts. At February 28, 2017, the segment had open commitments amounting to $1.1 billion to sell MBS with varying settlement dates through May 2017.

Lennar Financial Services mortgage servicing rights- Lennar Financial Services records mortgage servicing rights when it sells loans on a servicing-retained basis or through the acquisition or assumption of the right to service a financial asset. The fair value of the mortgage servicing rights is calculated using third-party valuations. The key assumptions, which are generally unobservable inputs, used in the valuation of the mortgage servicing rights include mortgage prepayment rates, discount rates and delinquency rates. As of February 28, 2017, the key assumptions used in determining the fair value include a 12.7% mortgage prepayment rate, a 12.4% discount rate and a 7.0% delinquency rate. The fair value of mortgage servicing rights is included in the Lennar Financial Services segment's other assets.

The changes in fair values for Level 1 and Level 2 financial instruments measured on a recurring basis are shown below by financial instrument and financial statement line item:

	Three Months Ended	
	February 28,	February 29,
(In thousands)	2017	2016
Changes in fair value included in Lennar Financial Services revenues:		
Loans held-for-sale	$13,300	513
Mortgage loan commitments	$6,220	6,053
Forward contracts	$(28,214)	(10,168)
Changes in fair value included in Rialto revenues:		
Financial Assets:		
Credit default swaps	$(431)	3,431
Financial Liabilities:		
Interest rate swaps and swap futures	$(113)	(5,006)
Changes in fair value included in other comprehensive income (loss), net of tax:		
Lennar Financial Services investments available-for-sale	$972	(437)

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

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

	Three Months Ended			
	February 28, 2017		February 29, 2016	
(In thousands)	Lennar Financial Services Mortgage servicing rights	Rialto Loans held-for-sale	Lennar Financial Services Mortgage servicing rights	Rialto Loans held-for-sale
Beginning balance	$23,930	126,947	16,770	316,275
Purchases/loan originations	2,846	394,340	1,619	305,785
Sales/loan originations sold, including those not settled	—	(477,716)	—	(381,666)
Disposals/settlements	(891)	—	(627)	—
Changes in fair value (1)	612	1,420	(1,952)	4,084
Interest and principal paydowns	—	(52)	—	(1,248)
Ending balance	$26,497	44,939	15,810	243,230

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

The Company's assets measured at fair value on a nonrecurring basis are those assets for which the Company has recorded valuation adjustments and write-offs. The fair values included in the table below represents 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:

		Three Months Ended					
		February 28, 2017			February 29, 2016		
(In thousands)	Fair Value Hierarchy	Carrying Value	Fair Value	Total Losses, Net (1)	Carrying Value	Fair Value	Total Gains (Losses), Net (1)
<u>**Financial assets**</u>							
Rialto:							
Impaired loans receivable	Level 3	$31,550	18,885	(12,665)	60,666	58,327	(2,339)
<u>**Non-financial assets**</u>							
Lennar Homebuilding:							
Land and land under development (2)	Level 3	$—	—	—	3,827	3,425	(402)
Rialto:							
REO, net (3):							
Upon acquisition/transfer	Level 3	$8,850	8,394	(456)	17,966	20,683	2,717
Upon management periodic valuations	Level 3	$52,425	40,096	(12,329)	19,519	16,649	(2,870)

(1) Represents losses due to valuation adjustments, write-offs, gains (losses) from transfers or acquisitions of real estate through foreclosure and REO impairments recorded during the three months ended February 28, 2017 and February 29, 2016.

(2) Valuation adjustments were included in Lennar Homebuilding costs and expenses in the Company's condensed consolidated statement of operations for the three months ended February 29, 2016.

(3) The fair value of REO, net is based upon appraised value at the time of foreclosure or management's best estimate. In addition, management periodically performs valuations of its REO. The gains (losses), net upon the transfer or acquisition of REO and impairments were included in Rialto other expense, net, in the Company's condensed consolidated statement of operations for thethree months ended February 28, 2017 and February 29, 2016.

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. The Company disclosed its accounting policy related to inventories and its review for indicators of impairments in the Summary of Significant Accounting Policies in its Form 10-K for the year ended November 30, 2016.

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, changes in market conditions and other specific developments or changes in assumptions may cause the Company to re-evaluate its strategy regarding previously impaired inventory, as well as inventory not currently impaired but for which indicators of impairment may arise if market deterioration occurs, and certain other 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.

On a quarterly basis, the Company reviews its active communities for indicators of potential impairments. As of February 28, 2017 and February 29, 2016, there were 750 and 681 active communities, excluding unconsolidated entities, respectively. As of February 28, 2017, the Company identified 16 communities with 589 homesites and a corresponding carrying value of $102.9 million as having potential indicators of impairment. As of February 29, 2016, the Company identified 28 communities with 1,178 homesites and a corresponding carrying value of $169.8 million as having potential indicators of impairment. For the three months ended February 28, 2017 and February 29, 2016, the Company recorded no impairments.

(16) Variable Interest Entities

The Company evaluated the agreements of its joint ventures that were formed or that had reconsideration events during the three months ended February 28, 2017. Based on the Company's evaluation, during the three months ended February 28, 2017, there were no VIEs that were consolidated or deconsolidated.

The Company's recorded investments in unconsolidated entities were as follows:

(In thousands)	**February 28, 2017**	**November 30, 2016**
Lennar Homebuilding	$ 910,084	811,723
Rialto	$ 235,066	245,741
Lennar Multifamily	$ 346,767	318,559

Consolidated VIEs

As of February 28, 2017, the carrying amounts of the VIEs' assets and non-recourse liabilities that consolidated were $651.1 million and $170.1 million, respectively. As of November 30, 2016, the carrying amounts of the VIEs' assets and non-recourse liabilities that consolidated were $536.3 million and $126.4 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 and other debts payable. 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 debt guarantee agreements with a VIE's banks, 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 investments in VIEs that are unconsolidated and its estimated maximum exposure to loss were as follows:

As of February 28, 2017

(In thousands)	**Investments in Unconsolidated VIEs**	**Lennar's Maximum Exposure to Loss**
Lennar Homebuilding (1)	$ 209,343	280,602
Rialto (2)	112,216	112,216
Lennar Multifamily (3)	272,399	542,719
	$ 593,958	935,537

As of November 30, 2016

(In thousands)	**Investments in Unconsolidated VIEs**	**Lennar's Maximum Exposure to Loss**
Lennar Homebuilding (1)	$ 120,940	164,804
Rialto (2)	71,260	71,260

Lennar Multifamily (3)	240,928	549,093
	$ 433,128	785,157

(1) At both February 28, 2017 and November 30, 2016, the maximum exposure to loss of Lennar Homebuilding’s investments in unconsolidated VIEs was limited to its investments in the unconsolidated VIEs, except with regard to repayment guarantees of two unconsolidated entities' debt of $69.5 million and $43.4 million, respectively.

(2) At both February 28, 2017 and November 30, 2016, the maximum recourse exposure to loss of Rialto's investments in unconsolidated VIEs was limited to its investments in the unconsolidated VIEs. At February 28, 2017 and November 30, 2016, investments in unconsolidated VIEs and Lennar's maximum exposure to loss included$112.2 million and $71.3 million, respectively, related to Rialto's investments held-to-maturity.

(3) As of February 28, 2017 and November 30, 2016, the remaining equity commitment of $254.3 million and $288.2 million, respectively, to fund the Venture for future expenditures related to the construction and development of its projects is included in Lennar's maximum exposure to loss. In addition, at February 28, 2017 and November 30, 2016, the maximum exposure to loss of Lennar Multifamily's investments in unconsolidated VIEs was limited to its investments in the unconsolidated VIEs, except with regard to $15.1 million and $19.7 million, respectively, of letters of credit outstanding for certain of the unconsolidated VIEs that could be drawn upon in the event of default under their debt agreements.

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.

As of February 28, 2017, the Company and other partners did not have an obligation to make capital contributions to the VIEs, except for $254.3 million remaining equity commitment to fund the Venture for future expenditures related to the construction and development of the projects and $15.1 million of letters of credit outstanding for certain Lennar Multifamily unconsolidated VIEs that could be drawn upon in the event of default under their debt agreements. In addition, 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, except with regard to $69.5 million repayment guarantees of two unconsolidated entities' debt. Except for the unconsolidated VIEs discussed above, the Company and the other partners did not guarantee any debt of the other unconsolidated 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.

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 or makes a significant deposit for optioned land, it may need to consolidate the land under option at the purchase price of the optioned land.

During the three months ended February 28, 2017, consolidated inventory not owned increased by $35.1 million with a corresponding increase to liabilities related to consolidated inventory not owned in the accompanying condensed consolidated balance sheet as of February 28, 2017. The increase was as a result of litigation where the Company may be required to purchase a property in Maryland (see Note 17), partially offset by homesite takedowns. To reflect the purchase price of the inventory consolidated, the Company had a net reclass related to option deposits from consolidated inventory not owned to land under development in the accompanying condensed consolidated balance sheet as of February 28, 2017. 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 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 $73.6 million and $85.0 million at February 28, 2017 and November 30, 2016, respectively. Additionally, the Company had posted $40.6 million and $45.1 million of letters of credit in lieu of cash deposits under certain land and option contracts as of February 28, 2017 and November 30, 2016, respectively.

(17) Commitments and Contingent Liabilities

The Company is party to various claims, legal actions and complaints arising in the ordinary course of business. In the opinion of management, the disposition of these matters will not have a material adverse effect on the Company's condensed consolidated financial statements. The Company is also a party to various lawsuits involving purchases and sales of real property. These lawsuits include claims regarding representations and warranties made in connection with the transfer of properties and disputes regarding the obligation to purchase or sell properties.

The Company has been engaged in litigation since 2008 in the United States District Court for the District of Maryland regarding whether the Company is required by a contract it entered into in 2005 to purchase a property in Maryland. After entering into the contract, the Company later renegotiated the purchase price during the downturn, reducing it from $200 million to $134 million, $20 million of which has been paid and subsequently written off, leaving a balance of $114 million. In January 2015, the District Court rendered a decision ordering the Company to purchase the property for the $114 million balance of the contract price, to pay interest at the rate of 12% per annum from May 27, 2008, and to reimburse the seller for real estate taxes and attorneys' fees. The Company believed the decision was contrary to applicable law and appealed the decision.

On March 23, 2017, the United States Court of Appeals for the Fourth Circuit held oral argument in the appeal. The timing of a final decision is uncertain. While the Company continues to believe the trial court decision is contrary to applicable law, after assessment of the oral argument, the Company has concluded that it is appropriate to establish an accrual of $140 million for the litigation. The accrual represents the high end of the range of expected liability associated with the litigation. This accrual will be charged against first quarter earnings. In addition to the accrual, the Company would be required to purchase the property, which is the subject of the litigation, for $114 million, which approximates the Company's estimate of the fair value of the property. If the District Court decision is reversed on appeal, the Company will not have to purchase the property or pay interest, real estate taxes or attorneys' fees, and the accrual will be reversed. If the appellate court directs further proceedings at the trial court level, the accrual may be reduced depending on the basis for the decision and the direction given to the trial court.

(18) New Accounting Pronouncements

In May 2014, the Financial Accounting Standards Board ("FASB") issued ASU 2014-09, *Revenue from Contracts with Customers,* ("ASU 2014-09"). ASU 2014-09 provides a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers and supersedes most current revenue recognition guidance, including industry-specific guidance. ASU 2014-09 will require an entity to recognize revenue when it transfers promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. This update creates a five-step model that requires entities to exercise judgment when considering the terms of the contract(s) which include (i) identifying the contract(s) with the customer, (ii) identifying the separate performance obligations in the contract, (iii) determining the transaction price, (iv) allocating the transaction price to the separate performance obligations, and (v) recognizing revenue when each performance obligation is satisfied. In July 2015, the FASB deferred the effective date by one year and permitted early adoption of the standard, but not before the original effective date; therefore, ASU 2014-09 will be effective for the Company's fiscal year beginning December 1, 2018 and subsequent interim periods. The Company has the option to apply the provisions of ASU 2014-09 either retrospectively to each prior reporting period presented or retrospectively with the cumulative effect of applying this ASU recognized at the date of initial application. The Company is continuing to evaluate the method and impact the adoption of ASU 2014-09 will have on its condensed consolidated financial statements.

Subsequent to the issuance of ASU 2014-09, the FASB has issued several ASUs such as ASU 2016-08, *Revenue from Contracts with Customers (Topic 606): Principal versus Agent Considerations (Reporting Revenue Gross versus Net)*, ASU 2016-09, *Compensation - Stock Compensation (Topic 718): Improvements to Employee Share-Based Payment Accounting*, and ASU 2016-12, *Revenue from Contracts with Customers (Topic 606): Narrow-Scope Improvements and Practical Expedients* among others. These ASUs do not change the core principle of the guidance stated in ASU 2014-09, instead these amendments are intended to clarify and improve operability of certain topics included within the revenue standard. These ASUs will have the same effective date and transition requirements as ASU 2014-09. The Company is continuing to evaluate the method and impact the adoption of these ASUs and ASU 2014-09 will have on its condensed consolidated financial statements.

In February 2015, the FASB issued ASU 2015-02, *Consolidation (Topic 810): Amendments to the Consolidation Analysis* ("ASU 2015-02"). ASU 2015-02 amends the consolidation requirements and significantly changes the consolidation analysis required. ASU 2015-02 requires management to reevaluate all legal entities under a revised consolidation model specifically (i) modify the evaluation of whether limited partnership and similar legal entities are VIEs, (ii) eliminate the presumption that a general partner should consolidate a limited partnership, (iii) affect the consolidation analysis of reporting entities that are involved with VIEs particularly those that have fee arrangements and related party relationships, and (iv) provide a scope exception from consolidation guidance for reporting entities with interests in legal entities that are required to comply with or operate in accordance with requirements that are similar to those in Rule 2a-7 of the Investment Act of 1940 for registered money market funds. ASU 2015-02 was effective for the Company's fiscal year beginning December 1, 2016 and subsequent interim periods. The adoption of ASU 2015-02 did not have a material effect on the Company's condensed consolidated financial statements.

In September 2015, the FASB issued ASU 2015-16, *Simplifying the Accounting for Measurement-Period Adjustments* ("ASU 2015-16"). ASU 2015-16 requires an acquirer to recognize adjustments to provisional amounts that are identified during the measurement period in the reporting period in which the adjustment amounts are determined. ASU 2015-16 will be effective for the Company's fiscal year beginning December 1, 2017 and subsequent interim periods. The adoption of ASU 2015-16 is not expected to have a material effect on the Company's condensed consolidated financial statements.

In January 2016, the FASB issued ASU 2016-01, *Financial Instruments - Overall: Recognition and Measurement of Financial Assets and Financial Liabilities* ("ASU 2016-01"). ASU 2016-01 modifies how entities measure equity investments and present changes in the fair value of financial liabilities. Under the new guidance, entities will have to measure equity investments that do not result in consolidation and are not accounted for under the equity method at fair value and recognize any changes in fair value in net income unless the investments qualify for the new practicality exception. A practicality exception will apply to those equity investments that do not have a readily determinable fair value and do not qualify for the practical expedient to estimate fair value under ASC 820, *Fair Value Measurements*, and as such these investments may be measured at cost. ASU 2016-01 will be effective for the Company's fiscal year beginning December 1, 2018 and subsequent interim periods. The adoption of ASU 2016-01 is not expected to have a material effect on the Company's condensed consolidated financial statements.

In March 2016, the FASB issued ASU 2016-02, *Leases* ("ASU 2016-02"), which provides guidance for accounting for leases. ASU 2016-02 requires lessees to classify leases as either finance or operating leases and to record a right-of-use asset and a lease liability for all leases with a term greater than 12 months regardless of the lease classification. The lease classification will determine whether the lease expense is recognized based on an effective interest rate method or on a straight line basis over the term of the lease. Accounting for lessors remains largely unchanged from current GAAP. ASU 2016-02 will be effective for the Company’s fiscal year beginning December 1, 2019 and subsequent interim periods. The Company is currently evaluating the impact the adoption of ASU 2016-02 will have on its condensed consolidated financial statements.

In March 2016, the FASB issued ASU 2016-07, *Investments- Equity Method and Joint Ventures: Simplifying the Transition to the Equity Method of Accounting* ("ASU 2016-07"). ASU 2016-07 eliminates the requirement to apply the equity method of accounting retrospectively when a reporting entity obtains significant influence over a previously held investment. ASU 2016-07 will be effective for the Company’s fiscal year beginning December 1, 2017 and subsequent interim periods. The adoption of ASU 2016-07 is not expected to have a material effect on the Company’s condensed consolidated financial statements.

In March 2016, the FASB issued ASU 2016-09, *Compensation - Stock Compensation (Topic 718): Improvements to Employee Share-Based Payment Accounting* ("ASU 2016-09"). ASU 2016-09 simplifies several aspects related to the accounting for share-based payment transactions, including the accounting for income taxes, statutory tax withholding requirements and classification on the statement of cash flows. ASU 2016-09 will be effective for the Company’s fiscal year beginning December 1, 2017 and subsequent interim periods. The Company is currently evaluating the potential impact of ASU 2016-09 but the Company does not expect it to have a material impact on its condensed consolidated financial statements.

In June 2016, the FASB issued ASU 2016-13, *Financial Instruments - Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments* ("ASU 2016-13"). ASU 2016-13 significantly changes the impairment model for most financial assets and certain other instruments. ASU 2016-13 will require immediate recognition of estimated credit losses expected to occur over the remaining life of many financial assets, which will generally result in earlier recognition of allowances for credit losses on loans and other financial instruments. ASU 2016-13 is effective for the Company's fiscal year beginning December 1, 2020 and subsequent interim periods. The Company is currently evaluating the impact the adoption of ASU 2016-13 will have on its condensed consolidated financial statements.

In August 2016, the FASB issued ASU 2016-15, *Statement of Cash Flows (Topic 230), Classification of Certain Cash Receipts and Cash Payments* ("ASU 2016-15"). ASU 2016-15 reduces the existing diversity in practice in financial reporting across all industries by clarifying certain existing principles in ASC 230, *Statement of Cash Flows*, including providing additional guidance on how and what an entity should consider in determining the classification of certain cash flows. ASU 2016-15 will be effective for the Company’s fiscal year beginning December 1, 2018 and subsequent interim periods. Early adoption is permitted, including adoption in an interim period. The adoption of ASU 2016-15 will modify the Company's current disclosures and reclassifications within the condensed consolidated statement of cash flows but is not expected to have a material effect on the Company’s condensed consolidated financial statements.

In November 2016, the FASB issued ASU 2016-18, *Statement of Cash Flows (Topic 230), Restricted Cash* ("ASU 2016-18"). ASU 2016-18 clarifies certain existing principles in ASC 230, *Statement of Cash Flows*, including providing additional guidance related to transfers between cash and restricted cash and how entities present, in their statement of cash flows, the cash receipts and cash payments that directly affect the restricted cash accounts. ASU 2016-18 will be effective for the Company’s fiscal year beginning December 1, 2018 and subsequent interim periods. Early adoption is permitted, including adoption in an interim period. The adoption of ASU 2016-18 will modify the Company's current disclosures and reclassifications within the condensed consolidated statement of cash flows but is not expected to have a material effect on the Company’s condensed consolidated financial statements.

In January 2017, the FASB issued ASU 2017-01, *Business Combinations (Topic 805), Clarifying the Definition of a Business* ("ASU 2017-01"). ASU 2017-01 clarifies the definition of a business with the objective of addressing whether transactions involving in-substance nonfinancial assets, held directly or in a subsidiary, should be accounted for as acquisitions or disposals of nonfinancial assets or of businesses. ASU 2017-01 will be effective for the Company’s fiscal year beginning December 1, 2018 and subsequent interim periods. Early adoption is permitted for transactions, including acquisitions or dispositions, which occurred before the issuance date or effective date of the standard if the transactions were not reported in financial statements that have been issued or made available for issuance. The adoption of ASU 2017-01 is not expected to have a material effect on the Company’s condensed consolidated financial statements.

In January 2017, the FASB issued ASU 2017-04, *Intangibles - Goodwill and Other (Topic 350), Simplifying the Accounting for Goodwill Impairment* ("ASU 2017-04"). ASU 2017-04 removes the requirement to perform a hypothetical purchase price allocation to measure goodwill impairment. A goodwill impairment will now be the amount by which a reporting unit's carrying value exceeds its fair value, not to exceed the carrying amount of goodwill. ASU 2017-04 will be effective for the Company’s fiscal year beginning December 1, 2020. Early adoption is permitted for interim or annual goodwill impairment tests performed on testing dates after January 1, 2017. The Company is currently evaluating the impact the adoption of ASU 2017-04 will have on its condensed consolidated financial statements.

(19) Supplemental Financial Information

The indentures governing the Company’s 12.25% senior notes due 2017, 4.75% senior notes due 2017, 6.95% senior notes due 2018, 4.125% senior notes due 2018, 4.500% senior notes due 2019, 4.50% senior notes due 2019, 4.750% senior notes due 2021, 6.875% senior notes due 2021, 4.125% senior notes due 2022, 4.750% senior notes due 2022, 4.875% senior notes due 2023 and 4.750% senior notes due 2025 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 are not finance company subsidiaries or foreign subsidiaries and were guaranteeing the senior notes because at February 28, 2017 they were guaranteeing Lennar Corporation's letter of credit facilities and its Credit Facility, disclosed in Note 12. In addition, effective February 10, 2017, in connection with the acquisition of WCI, the Company agreed to become a co-issuer of the 6.875% senior notes due 2021 that were issued by WCI and guaranteed by several of its wholly-owned subsidiaries. Because WCI and those subsidiaries are in effect guarantors of the Company’s obligations as a co-issuer of the 6.875% senior notes due 2021, most of those subsidiaries must also guarantee the Company’s obligations with regard to its senior notes. As such, WCI and its subsidiaries are included in the subsidiaries that are referred to as “Guarantor Subsidiaries” in the following tables. The separate assets and liabilities of WCI and its subsidiaries are set forth in Note 2. The guarantees are full, unconditional and joint and several and the guarantor subsidiaries are 100% directly or indirectly owned by Lennar Corporation. A subsidiary's guarantee will be suspended at any time when it is not directly or indirectly guaranteeing at least $75 million principal amount 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 by Lennar Corporation ("the Parent") 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. Distributions of capital received by the Parent from its subsidiaries are reflected as cash flows from investing activities. The cash outflows associated with the return on investment dividends and distributions of capital received by the Parent are reflected by the Guarantor and Non-Guarantor subsidiaries in the Dividends line item within cash flows from financing activities. All other cash flows between the Parent and its subsidiaries represent the settlement of receivables and payables between such entities in conjunction with the Parent's centralized cash management arrangement with its subsidiaries, which operates with the characteristics of a revolving credit facility, and are accordingly reflected net in the Intercompany line item within cash flows from investing activities for the Parent and net in the Intercompany line item within cash flows from financing activities for the Guarantor and Non-Guarantor subsidiaries.

(19) Supplemental Financial Information - (Continued)

Supplemental information for the subsidiaries that were guarantor subsidiaries at February 28, 2017 was as follows:

Condensed Consolidating Balance Sheet
February 28, 2017

(In thousands)	Lennar Corporation	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Consolidating Adjustments	Total
ASSETS					
Lennar Homebuilding:					
Cash and cash equivalents, restricted cash and receivables, net	$406,180	311,979	16,806	—	734,965
Inventories	—	10,193,840	274,836	—	10,468,676
Investments in unconsolidated entities	—	893,275	16,809	—	910,084
Goodwill	—	143,298	—	—	143,298
Other assets	202,591	616,075	94,391	(10,710)	902,347
Investments in subsidiaries	4,531,309	101,867	—	(4,633,176)	—
Intercompany	7,648,203	—	—	(7,648,203)	—
	12,788,283	12,260,334	402,842	(12,292,089)	13,159,370
Rialto	—	—	1,228,874	—	1,228,874
Lennar Financial Services	—	128,022	1,106,866	(3,180)	1,231,708
Lennar Multifamily	—	—	610,161	—	610,161
Total assets	$12,788,283	12,388,356	3,348,743	(12,295,269)	16,230,113
LIABILITIES AND EQUITY					
Lennar Homebuilding:					
Accounts payable and other liabilities	$464,370	935,311	82,777	(13,890)	1,468,568
Liabilities related to consolidated inventory not owned	—	139,945	13,500	—	153,445
Senior notes and other debts payable	5,217,860	551,918	8,528	—	5,778,306
Intercompany	—	6,515,937	1,132,266	(7,648,203)	—
	5,682,230	8,143,111	1,237,071	(7,662,093)	7,400,319
Rialto	—	—	680,120	—	680,120
Lennar Financial Services	—	36,707	751,632	—	788,339
Lennar Multifamily	—	—	105,560	—	105,560
Total liabilities	5,682,230	8,179,818	2,774,383	(7,662,093)	8,974,338
Stockholders' equity	7,106,053	4,208,538	424,638	(4,633,176)	7,106,053
Noncontrolling interests	—	—	149,722	—	149,722
Total equity	7,106,053	4,208,538	574,360	(4,633,176)	7,255,775
Total liabilities and equity	$12,788,283	12,388,356	3,348,743	(12,295,269)	16,230,113

(19) Supplemental Financial Information - (Continued)

Condensed Consolidating Balance Sheet
November 30, 2016

(In thousands)	Lennar Corporation	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Consolidating Adjustments	Total
ASSETS					
Lennar Homebuilding:					
Cash and cash equivalents, restricted cash and receivables, net	$705,126	436,090	21,875	—	1,163,091
Inventories	—	8,901,874	277,052	—	9,178,926
Investments in unconsolidated entities	—	793,840	17,883	—	811,723
Other assets	227,267	346,865	84,224	(7,328)	651,028
Investments in subsidiaries	3,918,687	130,878	—	(4,049,565)	—
Intercompany	7,017,962	—	—	(7,017,962)	—
	11,869,042	10,609,547	401,034	(11,074,855)	11,804,768
Rialto	—	—	1,276,210	—	1,276,210
Lennar Financial Services loans held-for-sale	—	—	939,405	—	939,405
Lennar Financial Services all other assets	—	103,000	715,758	(3,491)	815,267
Lennar Multifamily	—	—	526,131	—	526,131
Total assets	$11,869,042	10,712,547	3,858,538	(11,078,346)	15,361,781
LIABILITIES AND EQUITY					
Lennar Homebuilding:					
Accounts payable and other liabilities	$473,103	778,249	79,462	(10,819)	1,319,995
Liabilities related to consolidated inventory not owned	—	13,582	96,424	—	110,006
Senior notes and other debts payable	4,369,897	203,572	2,508	—	4,575,977
Intercompany	—	6,071,778	946,184	(7,017,962)	—
	4,843,000	7,067,181	1,124,578	(7,028,781)	6,005,978
Rialto	—	—	707,980	—	707,980
Lennar Financial Services	—	38,530	1,279,753	—	1,318,283
Lennar Multifamily	—	—	117,973	—	117,973
Total liabilities	4,843,000	7,105,711	3,230,284	(7,028,781)	8,150,214
Stockholders' equity	7,026,042	3,606,836	442,729	(4,049,565)	7,026,042
Noncontrolling interests	—	—	185,525	—	185,525
Total equity	7,026,042	3,606,836	628,254	(4,049,565)	7,211,567
Total liabilities and equity	$11,869,042	10,712,547	3,858,538	(11,078,346)	15,361,781

(19) Supplemental Financial Information - (Continued)

Condensed Consolidating Statement of Operations and Comprehensive Income
Three Months Ended February 28, 2017

(In thousands)	Lennar Corporation	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Consolidating Adjustments	Total
Revenues:					
Lennar Homebuilding	$ —	2,012,882	5,812	—	2,018,694
Lennar Financial Services	—	50,509	102,532	(4,998)	148,043
Rialto	—	—	82,006	—	82,006
Lennar Multifamily	—	—	88,717	(32)	88,685
Total revenues	—	2,063,391	279,067	(5,030)	2,337,428
Cost and expenses:					
Lennar Homebuilding	—	1,794,010	7,868	(317)	1,801,561
Lennar Financial Services	—	49,056	83,988	(5,665)	127,379
Rialto	—	—	66,965	(52)	66,913
Lennar Multifamily	—	—	92,649	—	92,649
Corporate general and administrative	59,179	255	—	1,265	60,699
Total costs and expenses	59,179	1,843,321	251,470	(4,769)	2,149,201
Lennar Homebuilding equity in earnings (loss) from unconsolidated entities	—	(11,560)	26	—	(11,534)
Lennar Homebuilding other income (expense), net	(251)	4,773	956	261	5,739
Lennar Homebuilding loss due to litigation accrual	—	(140,000)	—	—	(140,000)
Rialto equity in earnings from unconsolidated entities	—	—	722	—	722
Rialto other expense, net	—	—	(16,658)	—	(16,658)
Lennar Multifamily equity in earnings from unconsolidated entities	—	—	23,147	—	23,147
Earnings (loss) before income taxes	(59,430)	73,283	35,790	—	49,643
Benefit (provision) for income taxes	20,444	(23,344)	(17,069)	—	(19,969)
Equity in earnings from subsidiaries	77,066	6,893	—	(83,959)	—
Net earnings (including net loss attributable to noncontrolling interests)	38,080	56,832	18,721	(83,959)	29,674
Less: Net loss attributable to noncontrolling interests	—	—	(8,406)	—	(8,406)
Net earnings attributable to Lennar	$ 38,080	56,832	27,127	(83,959)	38,080
Other comprehensive income, net of tax:					
Net unrealized gain on securities available-for-sale	$ —	—	972	—	972
Other comprehensive income attributable to Lennar	$ 38,080	56,832	28,099	(83,959)	39,052
Other comprehensive loss attributable to noncontrolling interests	$ —	—	(8,406)	—	(8,406)

(19) Supplemental Financial Information - (Continued)

Condensed Consolidating Statement of Operations and Comprehensive Income
Three Months Ended February 29, 2016

(In thousands)	Lennar Corporation	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Consolidating Adjustments	Total
Revenues:					
Lennar Homebuilding	$ —	1,786,481	—	—	1,786,481
Lennar Financial Services	—	40,610	88,342	(4,996)	123,956
Rialto	—	—	43,711	—	43,711
Lennar Multifamily	—	—	39,529	(13)	39,516
Total revenues	—	1,827,091	171,582	(5,009)	1,993,664
Cost and expenses:					
Lennar Homebuilding	—	1,556,166	14,863	(2,824)	1,568,205
Lennar Financial Services	—	41,812	70,069	(2,856)	109,025
Rialto	—	—	43,217	(310)	42,907
Lennar Multifamily	—	—	47,020	—	47,020
Corporate general and administrative	46,148	255	—	1,265	47,668
Total costs and expenses	46,148	1,598,233	175,169	(4,725)	1,814,825
Lennar Homebuilding equity in earnings (loss) from unconsolidated entities	—	3,849	(849)	—	3,000
Lennar Homebuilding other income (expense), net	(274)	(9,673)	9,025	284	(638)
Rialto equity in earnings from unconsolidated entities	—	—	1,497	—	1,497
Rialto other expense, net	—	—	(691)	—	(691)
Lennar Multifamily equity in earnings from unconsolidated entities	—	—	19,686	—	19,686
Earnings (loss) before income taxes	(46,422)	223,034	25,081	—	201,693
Benefit (provision) for income taxes	13,035	(61,710)	(7,566)	—	(56,241)
Equity in earnings from subsidiaries	177,467	4,538	—	(182,005)	—
Net earnings (including net earnings attributable to noncontrolling interests)	144,080	165,862	17,515	(182,005)	145,452
Less: Net earnings attributable to noncontrolling interests	—	—	1,372	—	1,372
Net earnings attributable to Lennar	$ 144,080	165,862	16,143	(182,005)	144,080
Other comprehensive income, net of tax:					
Net unrealized loss on securities available-for-sale	$ —	—	(437)	—	(437)
Other comprehensive income attributable to Lennar	$ 144,080	165,862	15,706	(182,005)	143,643
Other comprehensive income attributable to noncontrolling interests	$ —	—	1,372	—	1,372

(19) Supplemental Financial Information - (Continued)

Condensed Consolidating Statement of Cash Flows
Three Months Ended February 28, 2017

(In thousands)	Lennar Corporation	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Consolidating Adjustments	Total
Cash flows from operating activities:					
Net earnings (including net loss attributable to noncontrolling interests)	$ 38,080	56,832	18,721	(83,959)	29,674
Distributions of earnings from guarantor and non-guarantor subsidiaries	77,066	6,893	—	(83,959)	—
Other adjustments to reconcile net earnings (including net loss attributable to noncontrolling interests) to net cash provided by (used in) operating activities	(41,356)	(421,010)	428,057	83,959	49,650
Net cash provided by (used in) operating activities	73,790	(357,285)	446,778	(83,959)	79,324
Cash flows from investing activities:					
Investments in and contributions to unconsolidated entities, net of distributions of capital	—	(111,072)	(673)	—	(111,745)
Proceeds from sales of real estate owned	—	—	24,215	—	24,215
Originations of loans receivable	—	—	(9,330)	—	(9,330)
Purchases of commercial mortgage-backed securities bonds	—	—	(40,357)	—	(40,357)
Acquisition, net of cash acquired	(596,172)	—	—	—	(596,172)
Other	(2,824)	(9,303)	(20,566)	—	(32,693)
Distributions of capital from guarantor and non-guarantor subsidiaries	30,000	30,000	—	(60,000)	—
Intercompany	(634,418)	—	—	634,418	—
Net cash used in investing activities	(1,203,414)	(90,375)	(46,711)	574,418	(766,082)
Cash flows from financing activities:					
Net borrowings under unsecured revolving credit facility	250,000	—	—	—	250,000
Net repayments under warehouse facilities	—	(25)	(543,331)	—	(543,356)
Proceeds from senior notes and debt issuance costs	595,160	—	(6,008)	—	589,152
Net proceeds on Rialto notes payable	—	—	32,489	—	32,489
Net proceeds (payments) on other borrowings	—	(15,217)	6,370	—	(8,847)
Net payments related to noncontrolling interests	—		(25,718)	—	(25,718)
Excess tax benefits from share-based awards	1,953	—	—	—	1,953
Common stock:					
Issuances	99	—	—	—	99
Repurchases	(83)	—	—	—	(83)
Dividends	(9,400)	(86,832)	(57,127)	143,959	(9,400)
Intercompany	—	440,388	194,030	(634,418)	—
Net cash provided by (used in) financing activities	837,729	338,314	(399,295)	(490,459)	286,289
Net increase (decrease) in cash and cash equivalents	(291,895)	(109,346)	772	—	(400,469)
Cash and cash equivalents at beginning of period	697,112	377,070	255,347	—	1,329,529
Cash and cash equivalents at end of period	$ 405,217	267,724	256,119	—	929,060

(19) Supplemental Financial Information - (Continued)

Condensed Consolidating Statement of Cash Flows
Three Months Ended February 29, 2016

(In thousands)	Lennar Corporation	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Consolidating Adjustments	Total
Cash flows from operating activities:					
Net earnings (including net earnings attributable to noncontrolling interests)	$ 144,080	165,862	17,515	(182,005)	145,452
Distributions of earnings from guarantor and non-guarantor subsidiaries	177,467	4,538	—	(182,005)	—
Other adjustments to reconcile net earnings (including net earnings attributable to noncontrolling interests) to net cash provided by (used in) operating activities	(254,499)	(660,587)	371,742	182,005	(361,339)
Net cash provided by (used in) operating activities	67,048	(490,187)	389,257	(182,005)	(215,887)
Cash flows from investing activities:					
Investments in and contributions to unconsolidated entities, net of distributions of capital	—	(32,149)	(2,466)	—	(34,615)
Proceeds from sales of real estate owned	—	—	20,256	—	20,256
Originations of loans receivable	—	—	(10,046)	—	(10,046)
Purchases of commercial mortgage-backed securities bonds	—	—	(23,078)	—	(23,078)
Other	(3,400)	(14,297)	(1,406)	—	(19,103)
Distributions of capital from guarantor and non-guarantor subsidiaries	20,000	20,000	—	(40,000)	—
Intercompany	(699,551)	—	—	699,551	—
Net cash used in investing activities	(682,951)	(26,446)	(16,740)	659,551	(66,586)
Cash flows from financing activities:					
Net borrowings under unsecured revolving credit facility	500,000	—	—	—	500,000
Net repayments under warehouse facilities	—	—	(395,233)	—	(395,233)
Debt issuance costs	—	—	(684)	—	(684)
Conversions and exchanges of convertible senior notes	(162,852)	—	—	—	(162,852)
Principal payments on Rialto notes payable	—	—	(669)	—	(669)
Net payments on other borrowings		(52,383)	—	—	(52,383)
Net payments related to noncontrolling interests	—	—	(41,950)	—	(41,950)
Excess tax benefits from share-based awards	7,029	—	—	—	7,029
Common stock:					
Repurchases	(219)	—	—	—	(219)
Dividends	(8,552)	(185,862)	(36,143)	222,005	(8,552)
Intercompany	—	646,727	52,824	(699,551)	—
Net cash provided by (used in) financing activities	335,406	408,482	(421,855)	(477,546)	(155,513)
Net decrease in cash and cash equivalents	(280,497)	(108,151)	(49,338)	—	(437,986)
Cash and cash equivalents at beginning of period	575,821	336,048	246,576	—	1,158,445
Cash and cash equivalents at end of period	$ 295,324	227,897	197,238	—	720,459

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, 2016.

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," within the meaning of the Private Securities Litigation Reform Act of 1995. Forward-looking statements contained herein may include opinions formed based upon general observations, anecdotal evidence and industry experience, but that are not supported by specific investigation or analysis. These statements concern expectations, beliefs, projections, plans and strategies, anticipated events or trends and similar expressions concerning matters that are not historical facts. The forward-looking statements in this Quarterly Report include statements regarding: our belief that the housing market seems to be giving way to a more definitive reversion to normal, and the drivers behind such recovery; our expectation that we will be positioned for increased pricing power as a result of the drivers of the housing recovery; our expectation that demand will continue to build and come to the market over the next few years and that it should drive increased production; our expectation that we will continue to be focused on generating strong operating margins on the homes we sell; our expectation that we will see lower gross margins in the second quarter of 2017 compared to the second quarter of 2016; our expectation regarding our growth rate in 2017; our expectation that we plan to continue to identify and invest in land opportunities that we expect will drive our future growth and profitability; our belief that our main driver of earnings will continue to be our Homebuilding and Lennar Financial Services operations; our belief that we are currently positioned to deliver between 29,500 and 30,000 homes in fiscal 2017; our expectation regarding the Lennar Multifamily segment's development pipeline, and plans regarding the Multifamily Venture; our expectation regarding variability in our quarterly results; our expectations regarding the renewal or replacement of our warehouse facilities; our belief regarding draws upon our bonds or letters of credit, and our belief regarding the impact to the Company if there were such a draw; our belief that our operations and borrowing resources will provide for our current and long-term capital requirements at our anticipated levels of activity; our belief regarding legal proceedings in which we are involved, and, in particular, our belief that the Court's decision in the Settlers Crossing case is contrary to applicable law; and our estimates regarding certain tax and accounting matters, including our expectations regarding the result of anticipated settlements with various taxing authorities.

These forward-looking statements reflect our current views, about future events and are subject to risks, uncertainties and assumptions. We wish to caution readers that certain important factors may have affected and could in the future affect our actual results and could cause actual results to differ significantly from those expressed in any forward-looking statement. The most important factors that could prevent us from achieving our goals, and cause the assumptions underlying forward-looking statements and the actual results to differ materially from those expressed in or implied by those forward-looking statements include, but are not limited to, the following: increases in operating costs, including costs related to labor, construction materials, real estate taxes, and insurance, and our ability to manage our cost structure, both in our Homebuilding and Lennar Multifamily businesses; unfavorable outcomes in legal proceedings that substantially exceed our expectations; the possibility that we will incur nonrecurring costs that may not have a material adverse effect on our business or financial condition, but may have a material adverse effect on our condensed consolidated financial statements for a particular reporting period; our ability to acquire land and pursue real estate opportunities at anticipated prices; our inability to maximize returns on the assets that we acquired in the WCI Communities, Inc. ("WCI") acquisition; a slowdown in the recovery of real estate markets across the nation, or any downturn in such markets; changes in general economic and financial conditions, and demographic trends, in the U.S. leading to decreased demand for our services and homes, lower profit margins and reduced access to credit; decreased demand for our Lennar Multifamily rental properties, and our ability to successfully sell our rental properties; the ability of our Lennar Financial Services segment to maintain or increase its capture rate and benefit from Lennar home deliveries; our ability to successfully execute our strategies, including strategies related to our soft-pivot and reinvigorating technologies in our business; increased competition for home sales from other sellers of new and resale homes; conditions in the capital, credit and financial markets, including mortgage lending standards, the availability of mortgage financing and mortgage foreclosure rates; changes in interest and unemployment rates, and inflation; a decline in the value of the land and home inventories we maintain or possible future write-downs of the carrying value of our real estate assets; our ability to successfully develop multifamily assets in the Multifamily Venture; our inability to maintain anticipated pricing levels and our inability to predict the effect of interest rates on demand; the ability and willingness of the participants in various joint ventures to honor their commitments; our ability to successfully and timely obtain land-use entitlements and construction financing, and address issues that arise in connection with the use and development of our land; natural disasters and other unforeseen damage for which our insurance may not provide adequate coverage; our inability to successfully grow our ancillary businesses; the inability of Rialto to sell mortgages it originates into securitizations on favorable terms; potential liability under environmental or construction laws, or other laws or regulations affecting our business; regulatory changes that adversely affect the profitability of our businesses; our ability to comply with the terms of our debt instruments, our ability to refinance our debt on terms that are acceptable to us; and our ability to successfully estimate the impact of certain regulatory, accounting and tax matters, including whether we will continue to benefit from the energy efficient home and energy tax credits.

Please see our Form 10-K, for the fiscal year ended November 30, 2016 and other filings with the SEC for a further discussion of these and other risks and uncertainties which could affect our future results. We undertake no obligation, other than those imposed by securities laws, to publicly revise any forward-looking statements to reflect events or circumstances after the date of those statements or to reflect the occurrence of anticipated or unanticipated events.

This Management’s Discussion and Analysis and other portions of this Report contain statements of opinion or belief regarding market conditions and similar matters. In many instances those opinions and beliefs are based upon general observations by members of our management, anecdotal evidence and our experience in the conduct of our businesses, without specific investigation or statistical analyses. Therefore, while they reflect our view of the industries and markets in which we are involved, they should not be viewed as reflecting verifiable views that are necessarily shared by all who are involved in those industries or markets.

Outlook

We believe that the slow and steady, though sometimes erratic, positive homebuilding market seems to be giving way to a more definitive reversion to normal as we have seen a combination of renewed optimism, wage and job growth, and consumer confidence since November's election. We believe the new home market continues to have significant pent-up demand, though stronger in some markets than in others. The recovery is also sustained by stronger general economic conditions, low interest rates and low unemployment levels and combined with tight inventory levels, should position us for increased pricing power. We expect that demand will continue to build and come to the market over the next few years and that it should drive increased production as the deficit in the housing stock ultimately needs to be replenished. Nevertheless, land and labor shortages for certain trades will continue to be limiting factors and will constrain supply and restrict the ability to quickly respond to growing demand, while the mortgage market and higher rents will continue to limit that demand due to potential homebuyers having less disposable income and limited ability to finance a new home purchase.

As the recovery continues to mature, we continue to execute on our carefully crafted operating strategies of moderating our growth rate and focusing on our soft-pivot land program, which coupled with our strong profitability, will drive operating cash flows and a strong balance sheet. We continue to match production with sales pace and with our acquisition of WCI, we expect a slight increase in our 2017 growth rate compared to prior year.

Our core homebuilding business continued to produce solid operating results in the first quarter of 2017 as our operating margin was 10.8%, notwithstanding a lower gross margin in the quarter, as expected. Our first quarter new orders and home deliveries increased 12% and 13% year-over-year, to 6,483 homes and 5,453 homes, respectively. Fueled by our digital marketing efforts, and other initiatives as well, we continue to focus on operational efficiencies as our S,G&A expenses as a percentage of home sales is at a historic, first-quarter low.

Complementing our homebuilding segment, we had strong performances from most of our other business segments during the first quarter of 2017. Our Lennar Financial Services segment reported earnings of $20.7 million in the first quarter of 2017, a 38% increase from the same period last year, primarily due to increased volume and profitability in the segment's title operations. For the sixth consecutive quarter, our Multifamily segment generated positive earnings. During the first quarter of 2017, earnings were $19.2 million primarily due to the sale of two completed rental properties by its joint ventures.

Our Rialto segment continued to grow. During the first quarter, our Rialto Mortgage Finance ("RMF") business continued to be a market leader in securitization margins and has seen an increase in its origination volumes and margins.

In the second quarter of 2017, our principal focus in our homebuilding operations will continue to be on generating strong operating margins on the homes we sell by delivering homes from what we believe are favorable land positions and by benefiting from our focus on migrating from traditional to digital marketing. We expect to continue to see somewhat lower gross margins in the second quarter of 2017 compared to the second quarter of 2016 due to cost increases outpacing sales price increases and competitive pressures, as well as the impact from writing up WCI's backlog as part of purchase accounting. Consistent with our soft-pivot land strategy, we plan to continue to identify and invest in unique and enticing land opportunities that we expect will drive our future growth and profitability, including ramping up our first-time homebuyer land positions as that segment of the market continues to improve. We expect that our Company's main driver of earnings will continue to be our homebuilding and financial services operations as we believe we are currently positioned to deliver between 29,500 and 30,000 homes in fiscal 2017.

(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, 2017 are not necessarily indicative of the results to be expected for the full year. Our homebuilding business is seasonal in nature and generally reflects higher levels of new home order activity in our second fiscal quarter and increased deliveries in the second half of our fiscal year. However, periods of economic downturn in the industry, such as we experienced several years ago, can alter seasonal patterns.

Our net earnings attributable to Lennar were $38.1 million, or $0.16 per diluted share ($0.16 per basic share) in the first quarter of 2017, which included a net loss due to a litigation accrual of $0.40 per diluted share and a net loss related to WCI of $0.03 per diluted share, primarily due to transaction expenses. This compared to net earnings attributable to Lennar of $144.1 million, or $0.63 per diluted share ($0.68 per basic share) in the first quarter of 2016, which included a favorable $0.05 per diluted share impact due to a lower tax rate.

Financial information relating to our operations was as follows:

	Three Months Ended	
	February 28,	February 29,
(In thousands)	2017	2016
Lennar Homebuilding revenues:		
Sales of homes	$ 1,983,788	1,754,691
Sales of land	34,906	31,790
Total Lennar Homebuilding revenues	2,018,694	1,786,481
Lennar Homebuilding costs and expenses:		
Costs of homes sold	1,564,623	1,355,745
Costs of land sold	32,924	22,612
Selling, general and administrative	204,014	189,848
Total Lennar Homebuilding costs and expenses	1,801,561	1,568,205
Lennar Homebuilding operating margins	217,133	218,276
Lennar Homebuilding equity in earnings (loss) from unconsolidated entities	(11,534)	3,000
Lennar Homebuilding other income (expense), net		