Rialto Holdings, LLC and Subsidiaries

Fiscal Year 2014 Annual Report

Including Management's Discussion and Analysis of Financial Condition and Results of Operations
and
Audited Consolidated Financial Statements

CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING STATEMENTS

This Annual Report ("Annual Report") includes forward-looking statements. All statements other than statements of historical facts contained in this Annual Report including statements regarding our future results of operations and financial position, strategy and plans, and our expectations for future operations, are forward-looking statements. The words "anticipate," "estimate," "expect," "project," "plan," "intend," "believe," "may," "might," "will," "should," "can have," "likely," "continue," "design," and other words and terms of similar expressions are intended to identify forward-looking statements.

We have based these forward-looking statements largely on our current expectations and projections about future events and trends that we believe may affect our financial condition, results of operations, strategy, short-term and long-term business operations and objectives and financial needs. These forward-looking statements are subject to a number of risks, uncertainties and assumptions, including those described under the caption "*Risk Factors*" in Item 1A of our Annual Report. In light of these risks, uncertainties and assumptions, the forward-looking events and circumstances discussed in this Annual Report may not occur, and actual results could differ materially and adversely from those anticipated or implied in the forward-looking statements. Forward-looking statements include, but are not limited to, statements about:

- changes in economic conditions generally, changes in our industry and changes in the commercial finance and the real estate markets specifically;
- our business and investment strategy;
- our ability to obtain and maintain financing arrangements;
- the financing and advance rates for our assets;
- our expected leverage;
- the adequacy of collateral securing our loan portfolio and a decline in the fair value of our assets;
- interest rate mismatches between our assets and our borrowings used to fund such investments;
- changes in interest rates and the market value of our assets;
- changes in prepayment rates on our assets;
- the effects of hedging instruments and the degree to which our hedging strategies may or may not protect us from interest rate and credit risk volatility;
- the increased rate of default or decreased recovery rates on our assets;
- the adequacy of our policies, procedures and systems for managing risk effectively;
- a downgrade in the credit ratings assigned to our investments;
- the impact of and changes in governmental regulations, tax law and rates, accounting guidance and similar matters;
- our ability and the ability of our subsidiaries to maintain our and their exemptions from registration under the Investment Company Act;
- potential liability relating to environmental matters that impact the value of properties we may acquire or the properties underlying our investments;
- the inability of insurance covering real estate underlying our loans and investments to cover all losses;
- the availability of investment opportunities in mortgage-related and real estate-related instruments and other securities;
- fraud by potential borrowers;
- the availability of qualified personnel;
- the degree and nature of our competition;
- the market trends in our industry, interest rates, real estate values, the debt securities markets or the general economy; and
- the prepayment of the mortgage and other loans underlying our mortgage-backed and other asset backed securities.

You should not rely upon forward-looking statements as predictions of future events. Although we believe that the expectations reflected in the forward-looking statements are reasonable, we cannot guarantee future results, level of activity, performance or achievements. In addition, neither we nor any other person assumes responsibility for the accuracy and completeness of any of these forward-looking statements. We disclaim any duty to update any of these forward-looking statements after the date of this Annual Report to confirm these statements in relationship to actual results or revised expectations.

See "*Risk Factors*" in Item 1A of our Annual Report for a more complete discussion of the risks and uncertainties mentioned above and for discussion of other risks and uncertainties. All forward-looking statements attributable to us are expressly qualified in their entirety by these cautionary statements as well as others made in this Annual Report and public communications. You should evaluate all forward-looking statements made by us in the context of these risks and uncertainties.

REFERENCES TO RIALTO HOLDINGS, LLC AND SUBSIDIARIES

Rialto Holdings, LLC and Subsidiaries, is a holding company that owns 100% of the legal entities Rialto Investments, LLC and Rialto Capital Management, LLC, and conducts its activities through those entities and their subsidiaries. Unless the context suggests otherwise, references in this report to "Rialto," the "Company," "we," "us" and "our" refer to Rialto Holdings, LLC and Subsidiaries.

PART I

Item 1. Business.

Overview of Rialto Holdings, LLC and Subsidiaries

Rialto Holdings, LLC and Subsidiaries is a leading commercial real estate investment management, asset management, and finance company focused on raising, investing and managing third-party capital, originating and securitizing commercial mortgage loans, as well as investing our own capital in real estate related mortgage loans, properties and related securities. Our vertically-integrated investment and operating platform consists of 383 professionals operating from ten offices across the United States ("U.S."). Founded in 2007, we are a wholly owned subsidiary of Lennar Corporation ("Lennar" or "Parent"), which is one of the largest publicly traded homebuilders in the U.S., provider of financial services and national developer of high-quality multifamily rental properties. Lennar has over 6,800 employees, with homebuilding and development operations in 17 states. Although Rialto operates in substantial part independently from Lennar, Rialto believes that its affiliation with Lennar provides several key competitive advantages in the Company's investment sourcing, underwriting and management process, including access to local real estate market participants who provide "just-in-time" insight on market conditions. In addition, Lennar's nationwide footprint and public company infrastructure provide an effective base on which to manage and add value to geographically diverse assets.

We conduct our business through three major real estate related business lines: investment and asset management, loan origination and securitization, and direct investments in real estate assets. A comprehensive risk management approach is applied across our business lines, which is rooted in our management's deep understanding of fundamental real estate values and proven ability to manage these complementary business lines through multiple economic and credit cycles. Many of our investment and asset management opportunities were initially generated from dislocations in the U.S. real estate markets from 2007 to 2010 and the efforts to restructure and recapitalize those markets. Going forward, we believe that we are well-positioned to capitalize on the opportunities arising from the diminished supply of commercial real estate capital from traditional sources and the substantial demand for debt and equity capital in the commercial real estate sector as the general economy expands.

Our primary business strategy is to raise, invest and manage third-party capital, as well as to invest our own capital, in three major business lines:

- **Investment and Asset Management**: our investment and asset management business allows us to be a sponsor of and an investor in private equity vehicles that invest in and manage real estate related debt, assets and securities;

- **Loan Origination and Securitization**: the origination of first mortgage loans on stabilized income producing commercial real estate properties that are available for sale in commercial mortgage-backed securities ("CMBS") securitizations; and

- **Direct Investments**: direct investments in turnaround and value-add real estate related assets including mortgage loans, properties and new-issue CMBS.

Rialto is led by Jeff Krasnoff, Chief Executive Officer, and Jay Mantz, President, and an executive management team of 12 seasoned professionals averaging 22 years of industry experience. Members of the management team have been market leaders in originating and investing in senior and junior real estate debt, distressed real estate debt, real estate related securities, and institutional and transitional real estate properties through multiple cycles. Rialto's management has assembled a professional team that includes specialists in underwriting, loan management and workouts, loan origination, real estate management, finance, reporting, legal and special servicing. The Company's resources and expertise have allowed Rialto to take advantage of an array of real estate investment opportunities arising from the dislocation and subsequent improvement of real estate markets, including (i) senior and subordinate debt investments; (ii) structured real estate debt securities such as CMBS; and (iii) portfolios of distressed real estate loans and assets from banks, government entities and other financial institutions. Rialto's management is now focusing on taking advantage of the substantial needs of the commercial real estate sector for debt and equity financing.

We believe our comprehensive, highly experienced management team of industry veterans, supplemented by Lennar's knowledge of regional and local real estate conditions in many parts of the country, will allow us to continue to grow our business prudently as we endeavor to capitalize on the continuing opportunities in the real estate markets.

Description of Business

Investment and Asset Management

Our real estate investment and asset management business allows us to be a sponsor of, and an investor in, private equity vehicles that invest in and manage real estate related assets.

We are one of the industry leaders in raising and investing in real estate private equity. We focus on long-term relationships with a global base of institutional investors, which include pension funds, fund-of-funds, foundations and endowments, corporations, other institutional investors, and family offices. Our fund investors value our investing expertise and diverse investment strategies, combined with our strong focus on risk management and our vertically integrated operational infrastructure, which have led to a strong performance track record to date. By investing significant capital alongside the investors in each of our fund vehicles, we align our interests with those of our investors.

In 2009, we became a sub-adviser to AllianceBernstein L.P. ("AB") in its role as one of the eight firms selected by the U.S. Treasury to manage investment funds created under a Public-Private Investment Program ("PPIP"). The program was designed to invest in distressed commercial and residential mortgage securities in order to help inject liquidity into the nation's financial system. As part of this arrangement, we participated in the successful deployment of $4.3 billion of capital that generated a total net internal rate of return of 18.7% for the U.S. Treasury and participating private investors. During 2012, all of the securities in the investment portfolio underlying the AB PPIP fund were monetized in connection with the final unwinding of its operations.

Since 2011, we have raised and are managing two real estate private equity funds, one real estate related mezzanine debt fund, a CMBS B-piece fund and a separate account to invest in commercial real estate mezzanine loans for a global insurance company. Total capital commitments for these investment vehicles as of November 30, 2014, were approximately $2.5 billion.

Our two real estate funds focus on investing primarily in U.S. real estate loans, assets and securities. We focus on investing in the junior tranches of newly issued CMBS, where we have been a leading investor in this space since the new issue CMBS market restarted in 2010. We also continue to focus on acquiring portfolios of assets from regional banks through proprietary relationships that result in negotiated, off-market opportunities. In addition, our real estate funds invest in direct property acquisitions, restructurings and recapitalizations. Rialto has been successful in sourcing these opportunities on a negotiated basis through its relationships with borrowers, local operators, special servicers, banks and receivers.

Our mezzanine debt fund and the separate account that we manage purchases mezzanine loans, B-Notes, and preferred equity investments secured primarily by stabilized U.S. commercial real estate.

Our CMBS B-piece fund invests in the junior tranches of newly issued CMBS.

Our vertically integrated underwriting and loan and real estate asset management platform, along with our extensive relationships with borrowers, real estate owners, loan originators, brokers and other third parties, and our access to Lennar's regional and local real estate expertise, provide unique insight into local markets nationwide and allow us to develop customized investment management solutions that we believe should enable us to continue to generate superior results.

Our business objective is to judiciously grow our assets under management and create value from our underlying investments, and in turn increase our recurring fees, as well as our share of profits from the investments we make in our fund vehicles. As of November 30, 2014, we had approximately $6.7 billion in a variety of fee generating assets under management, based on gross unpaid principal balances, and had over $2.5 billion of equity under management, overseen by 233 professionals. We earn management fees based on the amount of capital we manage, incentive income based on the performance of our fund vehicles and investment income from our own investments. Incentive income generally does not accrue to us until investors have received their investments plus specified returns on their investments. Because of that, we frequently will not begin receiving incentive income with regard to a fund until five to seven years after the fund is created.

Over the past two years, we have become a leading special servicer, approved and rated by all the major rating agencies for commercial mortgage-backed securities and growing our platform from zero to over $50 billion of special servicing since April 2012. Our servicing platform includes the ongoing and active surveillance and special servicing activities described below:

- *Surveillance* – During the underwriting process and continuing after the acquisition, Rialto identifies certain loans that are placed on an internal watch list either due to performance or credit concerns, or due to the size of the exposure. Rialto reviews information available on borrowers, properties and if applicable, tenants every month. We also perform monthly reviews of loan level information and the most recent property financial statements available to identify any new concerns or issues.

- *Special Servicing* – The primary function of the special servicer in a securitization is to manage loans that go into default or become delinquent during their term or at maturity. Accordingly, the special servicer function is critical with respect to maximizing the return of principal and interest from the underlying loans. In addition, the special servicer is involved in approving any other changes to the underlying properties, often including reviewing new leases, assumptions, partial releases and other modifications and interpretations of loan documents.

Loan Origination and Securitization

We began commercial mortgage loan origination and securitization activities in 2013 with a group of 22 professionals and currently have 33 associates dedicated to this business as of November 30, 2014. We originate fixed rate first mortgage loans, secured by stabilized, income-producing commercial real estate properties, which are sold through securitizations. These loans generally have five, seven and ten year terms. An internal team sources lending opportunities through a network of direct borrowers and third-party intermediary relationships. We have a standardized credit and underwriting process, which begins with an initial due diligence review and continues through a legal and underwriting process. Our credit committee approves loans based on the credit quality of the loan as well as its anticipated reception in the credit markets. During the year ended November 30, 2014, we originated loans with a total principal balance of $1.6 billion and closed sales of $1.5 billion of originated loans into eight separate securitization trusts, making us, by volume, the fourth largest non-bank contributor of loans to CMBS securitizations in the United States according to Commercial Mortgage Alert.

To finance our lending activities, we had $500 million of committed warehouse repurchase facilities from two institutional counterparties and we subsequently increased the capacity under our committed warehouse repurchase facilities to $650 million during July 2014. We seek to sell loans as quickly as feasible once funded. In addition, while we hold loans on our balance sheet before securitization, we hedge underlying interest rates and credit spreads using a variety of strategies and tools available in the market.

We generate revenue and liquidity through the following methods: (i) the sale of our loans; (ii) the sale of servicing rights; (iii) net interest income and (iv) loan origination fees. Servicing rights to the loans we originate are sold to a variety of institutions that derive revenue from fees earned on the administration of these loans. Net interest income on loans is interest revenue earned from loans prior to the time that we sell the loans less any financing costs from our credit facilities used in loan origination. Lastly, we generate fees on certain loans at the time of loan origination.

Direct Investments

Through our Direct Investments business line, we have acquired portfolios of distressed real estate loans and assets from banks, government entities and other financial institutions. We partnered with the Federal Deposit Insurance Corporation ("FDIC") in February 2010 to invest in, and managed, non-performing and distressed real estate loans that the FDIC had acquired through its conservatorship of 22 banks. In addition, we acquired approximately 400 distressed residential and commercial real estate loans ("Bank Portfolios") and over 300 REO properties from three financial institutions.

Our objective is to continue to monetize and wind down these distressed commercial real estate portfolios in order to free up the underlying capital to recycle cash to achieve higher returns elsewhere in the company.

Risk Management

We have a robust infrastructure with many layers of risk management and oversight of our operations. This provides a rigorous and detailed framework within which we operate our business. We are a subsidiary of a publicly traded company which subjects us to significant oversight requirements. Additionally, we are registered as an investment adviser with the U.S. Securities and Exchange Commission ("SEC") and are an approved and rated special servicer. To complement this infrastructure, we actively manage the risk of our diverse lines of business through numerous committees, including our executive committee which meets weekly to discuss business initiatives; our investment committee that monitors and approves transactions for our investment management business; our credit committee that monitors and approves new mortgage loans originated; and our risk management committee that meets to review and discuss hedging activities, portfolio composition, credit quality and general market conditions and trends. Additionally, our high-touch servicing platform allows for utmost flexibility in monitoring, managing and working out assets. We believe this infrastructure coupled with a rigorous approach to risk management is a competitive advantage and allows us to generate superior risk adjusted returns for our investors and our own capital.

Our principal tool of risk management is a rigorous underwriting of each asset in which we are considering investing for our own account or for the account of investment funds we manage. This includes underwriting each loan in a loan portfolio we are looking at acquiring, including each loan in the asset pool underlying a CMBS issue for which we are considering an investment. In a large majority of instances with regard to loans in excess of $100,000, the underwriting generally includes an inspection of the property that secures the loan. A substantial portion of the underwriting is done by associates who also are involved in working out non-performing loans or managing and disposing of foreclosed real estate that we acquire, which enables them to apply the experience they obtain in working out loans or managing and disposing of properties to estimating the likelihood that particular loans will become delinquent and how much is likely to be recovered with regard to foreclosed properties when they are sold (including amounts that can be obtained from guarantors, in instances in which there are guarantors).

We have a group of approximately 153 associates who are responsible for working out non-performing loans and another group of approximately 67 associates who are responsible for overseeing the management and sale of REO we obtain either as parts of distressed real estate asset portfolios we acquire or through foreclosures of non-performing loans. As described above, these individuals also spend a large percentage of their time underwriting and evaluating new investments.

We have a credit committee, comprised of senior executives from our Loan Origination and Securitization business, Rialto and our Parent, to approve new loans. We also have a risk committee that consists of senior members of the Loan Origination and Securitization management team, as well as Rialto legal, management and finance associates and members of Lennar management. The risk committee reviews the associated risks of credit hedging, the existing hedge ratio, pricing surrounding new issues that occurred within the market, upcoming securitizations as well as new originations which are in the pipeline.

Relationship with Lennar

The Company is a wholly owned subsidiary of Lennar. Rialto Holdings, LLC, was formed in August 2013 in order to facilitate the offering of the 7.00% Senior Notes due 2018 (the “7.00% Senior Notes”). Prior to that, Rialto Capital Management, LLC and Rialto Investments, LLC were direct wholly owned subsidiaries of Lennar and were founded in 2007 and 2009, respectively. Prior to the 7.00% Senior Notes offering, Lennar had provided all the funds that had been used by the Company, other than funds generated from assets that were owned, or fees or proceeds of management fees the Company received. On November 14, 2013, the day the 7.00% Senior Notes were issued, Lennar contributed to the Company’s equity the entire outstanding balance of the amount it had invested in the Company (an amount previously classified as “Due to Parent”) in excess of $235 million. The $235 million remaining constituted indebtedness of the Company to Lennar. However, the Company applied $100 million of the gross proceeds of the sale of the 7.00% Senior Notes and $135 million of working capital to fully retire this indebtedness as of November 30, 2013.

During 2014, we used our excess cash to dividend $167 million to Lennar. The remaining capital Lennar had invested in us, which all is in the form of equity, was $413.5 million as of November 30, 2014. As we receive proceeds of the winding down of the FDIC LLCs and our Bank Portfolios, we expect to return at least a portion of Lennar’s remaining investment.

The 7.00% Senior Notes indenture limits the ability of the Company or any of the Company’s Restricted Subsidiaries (as defined) to make distributions, other than the repayment of indebtedness owed, to Lennar. However, these limits will not apply at any time when the Company and its Restricted Subsidiaries have a Consolidated Non-Funding Debt to Equity Ratio (as such term is defined in the 7.00% Senior Notes Indenture dated November 14, 2013) of 1.50 to 1.00 or less.

Pursuant to the Company’s Operating Agreement, the Company’s sole member, Lennar, has the authority, power, and discretion to manage and control the business, affairs, and properties of the Company, to make all decisions regarding those matters and to perform any and all other acts customary or incident to the management of the Company’s business. Additionally, in the Company’s Operating Agreement, the Company agrees to indemnify the Company’s members, manager, officers, and employees against losses, claims, damages and liabilities except in certain circumstances outlined in the Operating Agreement (i.e., in instances of gross negligence, willful misconduct or fraud).

Revolving Credit Agreement – Lennar will have no obligation to provide additional funds to the Company, other than pursuant to a revolving credit agreement between Lennar and the Company. Under the revolving credit agreement, Lennar will, subject to customary lending conditions, make advances to the Company on a revolving basis of up to $75 million. The maturity date under the agreement is November 22, 2015 and the Company pays interest on advances at LIBOR plus 3.5% for the applicable interest period. The Company is subject to certain customary covenants, including, but not limited to, limitations on fundamental changes, limitations on changes to line of business and transactions with affiliates. The Company may repay outstanding amounts at any time, without premium or penalty, on 10 business days' prior notice, and may re-borrow sums it repays. At November 30, 2014, no amounts were outstanding under this agreement and no amounts had ever been borrowed or repaid under this agreement.

Support Services and Expense Reimbursement Agreement – Prior to the 7.00% Senior Notes offering, Lennar had provided management, treasury, information technology, income tax, payroll and administrative services to the Company and to its subsidiaries. In the past, Lennar had not charged the Company for those services (although Lennar did require the Company to reimburse it for rent and other operating costs it advanced on the Company's behalf). However, on November 26, 2013, Lennar and the Company entered into a Support Services and Expense Reimbursement Agreement under which Lennar has agreed to provide specified accounting, information technology, tax, legal, human resources, treasury, occupancy, office and other administrative services to the Company and its subsidiaries and the Company pays a fee equal to the lower of the actual cost or fair market value of those services to Lennar.

Tax Reimbursement Agreement – The Company and most of its subsidiaries are not recognized as taxpayers for federal income tax purposes or for income tax purposes in some states. Instead, its taxable income and the taxable income of its subsidiaries that are limited liability companies and other types of non-corporate entities, is treated as taxable income of Lennar. Because Lennar, as the Company's sole member, is required to include at least most of the Company's federal taxable income in Lennar's federal taxable income, the Company entered into a Tax Reimbursement Agreement on November 26, 2013, which was effective September 1, 2013, pursuant to which the Company will pay Lennar each time the Company would be required to pay federal or state income taxes if it were a taxable corporation, the sum equal to the federal or state income tax the Company would have been required to pay if it and its subsidiaries were all taxable corporations, minus any federal or state income taxes the Company or its subsidiaries actually pay. The Company will make such payment to Lennar five days prior to the date on which Lennar files applicable tax returns. This agreement will terminate if the Company is no longer a subsidiary of Lennar.

Prior to the 7.00% Senior Notes Offering – Prior to November 2013, cash funding had been provided for operating capital on an as-needed basis. Excess operating funds generated by the Company and any cash distributions from unconsolidated entities had been swept back to Lennar. No interest had been charged for the use of funds provided by the Parent. All cash funding, net of amounts swept back to Lennar were recorded as Due to Parent in the accompanying consolidated balance sheets for periods prior to November 2013.

Seasonality

We do not feel that seasonality is an important factor in our results of operations.

Competition

Our business, and that of some of the funds we manage, of purchasing real estate assets is highly competitive and fragmented. A number of entities and funds have been formed in recent years for the purpose of acquiring real estate related assets and it is likely that additional entities and funds will be formed for this purpose during the next several years. We compete in the marketplace for assets based on many factors, including purchase price, representations, warranties and indemnities, timeliness of purchase decisions and reputation. In marketing of real estate investment funds we sponsor, we compete with a large variety of asset managers, including investment banks and other financial institutions and real estate investment firms. Our loan origination and securitization business competes with other commercial mortgage lenders in a competitive market and our profitability depends on our ability to originate and securitize commercial real estate loans at attractive prices.

Some of our competitors are substantially larger and have greater financial, technical, marketing and other resources than we do. Some competitors have a lower cost of funds than we have, and access to funding sources that are not available to us. In addition, some of our competitors may have higher risk tolerances or different risk assessments than we do, which could allow them to consider a wider variety of investments and establish more relationships than we have.

We believe that our major distinction from the competition is that our team is made up of existing managers who engage in working out and/or adding value to real estate assets and have been for several years. Our loan origination and securitization business is made up of highly seasoned managers who have been originating and securitizing loans for over 25 years with long-standing relationships. Additionally, because we are a lender or capital provider to developers, we believe having Lennar's homebuilding and development team participating in the underwriting process provides us with a distinct advantage in our evaluation of these assets. We believe that our experienced team and the infrastructure already in place gives us an advantage and positions us well when compared to a number of our competitors.

Regulation

Our operations are subject, in certain instances, to supervision and regulation by state and federal governmental authorities and may be subject to laws and judicial and administrative decisions imposing various requirements and restrictions. In addition, certain of our subsidiaries' businesses may rely on exemptions from various requirements of the Securities Act of 1933, the Securities Exchange Act of 1934 ("Securities Exchange Act"), the Investment Company Act of 1940 ("Investment Company Act"), the Investment Advisers Act of 1940 ("Investment Advisers Act") and the Employee Retirement Income Security Act ("ERISA"). These exemptions are sometimes highly complex and may in certain circumstances depend on compliance by third parties who we do not control.

We are a wholly owned subsidiary of a publicly traded company. Our Parent is subject to the reporting requirements under the Securities Exchange Act, as amended.

Regulation as an investment adviser

We conduct investment advisory activities in the U.S. as a registered investment adviser under the Investment Advisers Act which is administered by the SEC. A registered investment adviser is subject to federal and state laws and regulations primarily intended to benefit its clients. These laws and regulations include requirements relating to, among other things, fiduciary duties to clients, maintaining an effective compliance program, solicitation agreements, conflicts of interest, record keeping and reporting, advertising, political contributions and "pay-to-play" arrangements, as well as transactions between an investment adviser and its advisory clients and contain general anti-fraud prohibitions. These laws and regulations generally grant supervisory agencies broad administrative powers, including the power to limit or restrict us from conducting our advisory activities in the event we fail to comply with the laws and regulations. Sanctions that may be imposed for a failure to comply with applicable legal requirements include the suspension of individual employees, limitations on our engaging in various advisory activities for specified periods of time, the revocation of registrations, other censures and fines.

We may become subject to additional regulatory and compliance burdens as we expand our product offerings and investment platform. For example, if we were to advise a company that is registered as an investment company under the Investment Company Act, we would be subject to the Investment Company Act and the rules under it, which, regulate the relationship between a registered investment company and its investment adviser. This additional regulation could increase our compliance costs and create the potential for additional liabilities and penalties.

Investment Company Act Exemption

We presently attempt to conduct our operations so that we are not required to register as an investment company under the Investment Company Act, because of an exception for companies that are engaged primarily in acquiring mortgages and other liens on and interests in real estate. However, because many forms of indirect real estate related investments are not considered for purposes of the Investment Company Act to be mortgages or other interests in real estate, we may have difficulty qualifying for that exception. Additionally, in August of 2011, the SEC solicited public comment on a wide range of issues relating, among other things, to the nature of the assets that qualify for purposes of the exception from the definition of an investment company in the Investment Company Act for companies that are engaged primarily in acquiring mortgages and other liens on and interests in real estate. Some of the possible changes as to which the SEC sought comment could make it even more difficult for us to qualify for that exception than currently is the case. Given the uncertainty as to this real estate related exception, we may also rely on the exception provided under Section 3(c)(7) of the Investment Company Act.

Pursuant to Section 3(c)(7) of the Investment Company Act, we currently are exempted from the definition of "investment company" under the Investment Company Act because: (i) our securities are owned exclusively by persons who we reasonably believe were, at the time they acquired our securities, Qualified Purchasers (or "knowledgeable employees" within the meaning of Rule 3c-5 under the Investment Company Act); and (ii) we have not made (and currently do not propose to make) a public offering of our securities.

Licensing

We are currently licensed, or in the process of obtaining licenses, to act as a commercial mortgage lender in jurisdictions that require licensing. In the future, we may be required to obtain, maintain or renew certain licenses and authorizations (including "doing business" authorizations and licenses to act as a commercial mortgage lender) from federal or state governmental authorities, government sponsored entities or similar bodies in connection with some or all of our mortgage-related activities.

Dodd-Frank Wall Street Reform and Consumer Protection Act

The Dodd-Frank Wall Street Reform and Consumer Protection Act (the "Dodd-Frank Act"), which went into effect on July 21, 2010, is intended to make significant structural reforms to the financial services industry. For example, pursuant to the Dodd-Frank Act, various federal agencies have promulgated, or are in the process of promulgating, regulations with respect to various issues that affect securitizations, including: (1) a requirement under the Dodd-Frank Act that issuers in securitizations retain 5% of the risk associated with the securities, (2) requirements for additional disclosure, (3) requirements for additional review and reporting, and (4) certain restrictions designed to prevent conflicts of interest. The implementation of any regulations ultimately adopted will occur on a time period that could range from two months to as long as two years. Certain regulations have already been adopted and others remain under consideration by various governmental agencies, in some cases past the deadlines set in the Dodd-Frank Act for adoption. Certain proposed regulations, if adopted, could alter the structure of securitizations in the future and could pose additional risks to our participating in future securitizations or could reduce or eliminate the economic incentives of participating in future securitizations. In October, six federal agencies (Fed, OCC, FDIC, SEC, FHFA and HUD) finalized their joint asset-backed securities ("ABS") risk retention rule. As expected, the final rule requires sponsors of ABS to retain an interest equal to 5% of the credit risk in a securitization vehicle. For additional information, see "Risk Factors — We may be adversely impacted by legal and regulatory changes."

Compliance Policy

Because we are a wholly owned subsidiary of Lennar, all of our employees are subject to Lennar's Code of Business and Ethics. However, because we are registered under the Investment Advisers Act of 1940, as amended, we are required to have our own Compliance Manual and have a Supplemental Code of Ethics that applies to our employees.

Lennar's Code of Business and Ethics requires that every associate (i.e., employee) at all times deal fairly with the company's customers, subcontractors, suppliers, competitors and associates, and states that all Lennar (and therefore our) associates, officers and directors are expected to comply at all times with all applicable laws, rules and regulations. Lennar's Code of Business and Ethics also has procedures that allow whistleblowers to submit their concerns regarding its (which includes our) operations, financial reporting, business integrity or any other matter anonymously to the Audit Committee of Lennar's Board of Directors or to the non-management members of that Board of Directors, which is intended to give whistleblowers a means of making their concerns known without a possibility of retaliation.

The Rialto Capital Management Compliance Manual (i) sets forth the compliance-related policies and procedures of the Company; (ii) designates certain individuals with supervisory responsibilities for compliance processes; (iii) describes the relevant laws, rules and regulations governing Rialto's business; and (iv) sets forth certain record keeping and reporting requirements. The Compliance Manual contains policies and procedures relating to, among other things, the role of the Chief Compliance Officer, marketing, custody, principal transactions, valuation, electronic communications, and information security.

The Rialto Capital Management Supplemental Code of Ethics establishes the standards of business conduct that all associates must follow and, among other things, specifically addresses insider trading, market manipulation, front-running and rumors. The Supplemental Code of Ethics also sets forth specific policies and procedures associates must adhere to when engaging in certain activities, including but not limited to, personal trading, outside business activities, making political contributions and the giving or receiving of business-related gifts and entertainment.

Associates

At November 30, 2014, we had 383 associates in ten offices. Of these 383 associates, 233 are in our investment and asset management business line, 33 are in our loan origination and securitization business line and the remaining 117 serve in corporate or administrative roles.

Legal Proceedings

We are subject to legal proceedings in the ordinary course of our business. Our management believes that the final disposition of such matters will not have a material adverse effect on our business, financial position, results of operations, liquidity or cash flows.

Available Information

Our principal offices are at 790 Northwest 107th Avenue Suite 400, Miami, Florida 33172. Our telephone number at these offices is (305) 485-2077. Our website address is www.rialtocapital.com.

Item 1A. Risk Factors.

The Company is subject to a number of risks potentially impacting its business, financial condition, results of operations and cash flows. The following are the most significant risk factors that affect the Company. Any one or more of these risk factors could have a material adverse impact on the business, financial condition, results of operations or cash flows, in addition to presenting other possible adverse consequences, which are described below.

Risks Related to our Operations

As our business model continues to evolve, our future results of operations may not be comparable to our historical results of operations.

Our initial focus when we began operations at the end of 2009 was directly acquiring distressed loan portfolios and real estate related assets at a discount and turning them into profits. In 2010, we continued to work through these direct investments and added a second business line by investing in and managing real estate funds. During 2013, we continued our focus on raising and managing investment capital from third parties and deemphasized direct investments focusing on the orderly resolution and monetization of those assets. In addition, in July 2013, we began to originate and securitize commercial first mortgage loans, earning profits by selling the loans to securitization trusts for more than what we invest in them. The limited liability companies in which we have invested along with the Federal Deposit Insurance Corporation ("FDIC") began distributions of capital in 2013, and those distributions will continue through at least 2016. However, revenues and earnings from these limited liability companies, and the direct investments we have made will decrease as the assets underlying these investments continue to wind down. As our business model continues to evolve and our business mix changes, our future results of operations may not be comparable to our historical results of operations.

The loss of the services of our senior management or key employees could seriously affect our business.

One of what we consider to be our key assets is the long experience of our senior management and other key employees in identifying and managing real estate related investment opportunities, understanding the related capital markets and having relationships with individuals and institutions willing and able to invest in the funds we sponsor. Many of the assets in which we or funds we manage invest in are difficult to deal with, and a key part of our strategy is our belief that the extensive experience of our senior management enables us to generate returns from these assets that exceed what is expected by the market as reflected in the prices for which these assets can be acquired. However, we do not have employment contracts with the members of our senior management or other key employees, and even if we had employment contracts with them, we could not compel them to work for us if they did not want to do so. If we were to lose a significant number of our senior managers and other key employees, we could have a great deal of difficulty finding replacements with the same level of experience, and our inability to find those replacements could negatively affect our ability to generate profits from the investments we or funds we manage make. In addition, the success of our investment management business is predicated on our ability to continue raising third-party equity from our investors. If we lose key employees, it may be very difficult to continue to grow that part of our business and we may be required under certain of our governing fund documents to halt investing for some period of time.

The allocation of capital among our business lines may vary, which will affect our financial performance.

In executing our business plan, we regularly consider the allocation of capital to our various lines of business. The allocation of capital among such business lines may vary due to market conditions, the expected relative return on equity of each activity, the judgment of our management team, the demand in the marketplace for commercial real estate, loans and securities and the availability of specific investment opportunities. We also consider the availability and cost of our likely sources of capital. If we fail to appropriately allocate capital and resources across our business lines or fail to optimize our investment and capital raising opportunities, our financial performance may be adversely affected.

We may face difficulties in obtaining required authorizations or licenses to do business.

In order to implement our business strategies, we have to maintain certain licenses and authorizations from governmental entities (including licenses with respect to loan origination and servicing). While we have or expect to be able to obtain reasonably expeditiously at least most of the licenses and other authorizations we need, if we are unable to obtain or to maintain any licenses or other authorizations we need, that could delay or prevent us from engaging in activities in areas where those licenses or authorizations are needed.

The financial statements may be materially affected if our estimates, including loan loss reserves, prove to be inaccurate.

Financial statements prepared in accordance with U.S. generally accepted accounting principles ("GAAP") require the use of estimates, judgments and assumptions that affect the reported amounts. Different estimates, judgments and assumptions which could reasonably be used would result in significantly different financial statements, and changes in these estimates, judgments and assumptions are likely to occur from time to time in the future. Significant areas of accounting requiring the application of management's judgment include, but are not limited to (i) assessing the adequacy of allowances for loan losses, (ii) determining the fair value of investment securities and (iii) assessing possible impairments of the value of real estate assets. These estimates, judgments and assumptions are inherently uncertain and, if they prove to be wrong, then we face the risk that charges to income will be required in the future.

If we fail to implement and maintain an effective system of internal controls, we may not be able to determine our financial results accurately or prevent fraud.

Because we do not have publicly traded equity securities, our financial audit was performed in accordance with auditing standards generally accepted in the United States of America rather than the standards of the Public Company Accounting Oversight Board (United States) used for the audits of most publicly traded companies. Effective internal controls over financial reporting are necessary for us to provide reliable financial reports and effectively prevent fraud. Section 404 of the Sarbanes-Oxley Act requires publicly traded companies and their independent auditors to report annually on the effectiveness of internal control over financial reporting. However, as a privately owned company we are not required to comply with the auditor attestation requirements of Section 404 (although Lennar is required to comply with those requirements with regard to itself and its subsidiaries, including us). We may in the future discover areas of our internal controls that need improvement. We cannot be certain that we will be successful in implementing or maintaining adequate internal controls over our financial reporting and financial processes.

Market Risks

Our concentration on real estate related investments makes us vulnerable to changes in real estate markets and in the value of real estate related investments.

Although we, and the funds we manage, invest in a wide variety of real estate assets and real estate related securities, almost everything we do involves investments in real estate. Real estate markets are generally viewed as being cyclical, and, as occurred in 2007 and 2008, there can be abrupt changes in the value and the liquidity of real estate related investments. These can be caused by a variety of factors, many of which are related to the general economy and to financial markets at least as much as they are to real estate markets. If there is an abrupt decline in values with regard to a significant segment of the real estate market, and we are unable to respond rapidly and effectively, the value of our direct investments and of the funds we manage, and of our investments in those funds, could decline sharply. That would affect both the proceeds we could obtain with regard to assets we own and our ability to create new funds as a source of future fee income.

The supply of real estate related assets available at attractive prices may decrease if the real estate markets continue to improve and capital flows back into real estate markets, which could require us to alter the mix of investments that our fund vehicles can acquire.

A significant part of our initial strategy was to seek attractive risk adjusted returns for us and for the investment funds we manage by focusing on investments in real estate related assets that were available at depressed or attractive prices because of the effects of the dislocations in the United States real estate markets beginning in 2008. A continued recovery of the real estate markets would probably benefit the investments we, and the funds we manage, have made, but it could substantially alter the types of assets available for our investment vehicles. We have already begun to shift our focus to potential investments that are more suitable for periods of recovery and eventually more robust real estate markets. But investing in those types of assets may not offer the same risk adjusted return profile as investing in distressed real estate assets.

We may overvalue real estate related assets when we invest in them.

We carefully underwrite each potential real estate investment before we make, or cause a fund we manage to make, the investment. We believe our ability to underwrite, value and acquire investments is one of our great strengths. However, because underwriting investments involves predicting future cash flows, no matter how diligent we are, there will be instances in which investments do not live up to our expectations. When it turns out that the value of the assets in which we or a fund we manage has invested is less than the amount we paid for them, we or the fund may have to write down the carrying value of the investment and we or it may suffer a loss when the investment is liquidated or sold. This is particularly a risk with regard to distressed investments, as the amount that will be received often depends on a number of factors such as the ability and willingness of a borrower to work with our asset management personnel, timing and the value and our ability to foreclose, add value to and liquidate underlying properties, and if applicable, recover deficiencies from borrowers. To the extent we must write down the carrying value of, or suffer losses with regard to, investments we make, it will adversely affect our earnings.

If real estate acquired through foreclosure is not properly valued, we could be required to take valuation charge-offs, which would reduce our earnings.

When we take title to a property by foreclosing a loan that we acquired through our direct investment line of business, we obtain a valuation of the property and base its book value on that valuation. That valuation is generally based on market values of similar properties sold in the same geographical area possessing similar characteristics. The book value of the foreclosed property is periodically compared to the current estimated market value of the foreclosed property if it is classified as held-and-used, net, or the fair value (estimated market value of the foreclosed property less estimated selling costs) if it is classified as held-for-sale, and a charge-off is recorded for any excess of the property’s book value over its fair value. If the revised valuation we establish for a property proves to be too high, we may have to record additional charge-offs in subsequent periods. Material charge-offs could have an adverse effect on our results of operations, and possibly even on our financial condition. However we are no longer buying loans, therefore, the possibility of charge-offs of this type is limited.

The market value of our investments in commercial mortgage-backed securities ("CMBS") could fluctuate materially as a result of various risks that are out of our control and may result in significant losses.

We, and the funds we manage, have invested, and will likely continue to invest, in CMBS, which are securities backed by commercial mortgage loans (i.e., securities secured by commercial or multi-family residential real estate). Accordingly, investments in CMBS are subject to the various risks to which the pool of assets underlying the CMBS are subject.

We may attempt to underwrite our investments on a "loss-adjusted" basis, which projects a certain level of payment performance of the underlying pool of loans. However, there can be no assurance that this underwriting will accurately predict the timing or magnitude of the losses. To the extent that this underwriting has incorrectly anticipated the timing or magnitude of losses, the CMBS may be adversely affected. Some mortgage loans underlying CMBS may default. Because we and the funds we manage invest in junior securities issued by the CMBS, we and our funds are particularly vulnerable to failures of CMBS pools to generate anticipated cash flows.

The market value of our CMBS investments also could fluctuate materially over time as the result of changes in mortgage spreads, treasury bond yields, capital market supply and demand factors, the performance of the underlying properties and loans in the CMBS trust and many other factors that affect high-yield fixed income products. These factors are out of our control, but could affect our ability to sell CMBS classes which we own or cause values to fluctuate, which may have an impact on our unrealized gains or losses on those securities held by our funds and the value of our investments in those funds.

In addition, we may invest in CMBS investments that are not rated by any credit rating agency, and those investments may be less liquid than CMBS that are rated. The financial markets in the past have experienced, and could in the future experience, periods of volatility and reduced liquidity which may reoccur or continue and reduce the market value of CMBS. The CMBS we or our funds hold may be subject to restrictions on transfer which make them particularly illiquid.

Because many of the assets held by us, or by funds we manage, are or will be contractually or structurally subordinated to other indebtedness, we and those funds could be particularly severely impacted if those assets perform badly.

We, and the funds we manage, have substantial investments in subordinated tranches of CMBS issuances. Under the subordination provisions, all principal received with regard to the assets underlying the CMBS must be paid to holders of more senior tranches until the senior tranches are fully paid. Only after the more senior tranches are fully paid will we receive distributions with regard to the principal of the tranches we hold. Furthermore, we sponsor and invest in a fund that invests in mezzanine loans. Those are loans secured by equity of the entities that own particular real estate assets, but not by the assets themselves. Therefore, the security for the mezzanine loans is structurally subordinated to any liens on the assets themselves. Debt that is subordinated to other debt, whether by contract or structurally, bears a risk of loss if the assets on which the lenders are relying do not perform well. Because of that, the yields on subordinated debt are substantially higher than the yields on senior debt or debt that is secured by first liens on assets. We believe that our experience in underwriting loans and in working out non-performing loans enable us to reduce the losses on the assets underlying debt that we hold below what is anticipated when that debt is priced. However, if we are not able to minimize the losses on those assets, we or our fund could suffer serious losses due to the subordination of the positions we and the funds hold.

Risks Related to our Business Lines

Investment and Asset Management

The results of our investment and asset management operations are dependent on the performance of our funds. Poor fund performance will result in reduced revenues, reduced returns on our investments in the funds and reduced earnings and liquidity. Poor performance of our funds will also make it difficult for us to attract investors to new funds and to grow our business. The performance of each fund we manage is subject to some or all of the following risks.

Because our Investor Companies invest in funds and entities we manage, if those funds and entities perform poorly, the Investor Companies could be hurt.

We have subsidiaries (Investor Companies), that invest exclusively in funds or entities we manage. At November 30, 2014, the Investor Companies had $72 million of cash invested (net of returned capital), and commitments to invest an additional $48.6 million, in funds and entities we manage. If those funds and entities perform poorly, the value of the Investor Companies' investments would probably decline third-party.

Poor performance of our funds would cause a decline in our revenue and results of operations.

Poor performance of our funds could have a material adverse impact on our primary sources of revenue, which are: (i) management fees, which are based on the size of our funds; (ii) incentive income, which is based on the performance of our funds; and (iii) investment income (loss) from our investments in the funds. Losses in our funds result in a decrease in the size of our funds, which results in lower management fee revenues. In addition, we may not receive incentive fees, and our funds may be unable to pay all or part of our management fees, and they could require advances to cover expenses.

In situations where we defer the receipt of management or other fees in order to provide liquidity to one or more of our managed funds, amounts that we have receivable from those funds may be difficult to collect in the future (or may take longer than anticipated to collect) if such funds have continued liquidity problems or if fund investors raise objections to such collections.

Our ability to profit from the investments we or our funds make may depend to a significant extent on our ability to buy the underlying assets at attractive levels and then manage, resolve or add value those assets to create a profit for ourselves or the funds we manage.

A principal factor in a prospective purchaser's decision regarding the price it will pay for real estate loans, properties and securities is the cash flow the prospective purchaser expects the underlying assets to generate. The cash flow the underlying assets will generate can be affected by the way the assets are managed. We believe the backgrounds and experience of our personnel frequently enable us to generate better cash flows from the distressed assets we manage than what is generally expected with regard to similar assets. When we, or a fund we manage, decide whether to purchase particular assets and what we are willing to pay for them, one consideration is whether, and to what extent, we think we will be able to increase returns in resolving and selling the assets. If we are not able to achieve increased returns, we probably will not generate the level of profits we or our fund investors seek.

The illiquidity of some of our assets may make it difficult for us, or the funds we manage, to sell assets.

In times of financial stress, the real estate related assets that we own, or those in the funds we manage, may be difficult to sell. As a result, if we, or a fund we manage, has to liquidate all or a significant portion of our or its portfolio quickly, in order to do that we or it may realize significantly less than the amount we or it paid for those investments or the value at which we or it carry those investments on our or its books.

There is substantial competition for the types of investments on which we are focused, and this may limit our ability or that of the investment funds we manage to make investments on terms that are attractive to us or them.

There are many firms and investment funds that compete with us and the funds we manage in trying to acquire debt, properties and other real estate related assets. At least some of the firms with which we compete, or will compete, for investment opportunities have, or will have, a cost of capital that is lower than our or that of the funds we manage, and therefore, those firms may be able to pay more for attractive investments than would be prudent for us or the funds we manage.

The incentive distributions we receive in the future from the investment funds we manage may not be as significant as we expect.

During 2014, we received $34.7 million that was paid to us as an advanced tax distribution in order to cover income tax obligations resulting from the allocations of taxable income from our carried interest in our first fund. These amounts are advances of future carried interest distributions and are not subject to repayment or adjustment. Incentive fees are earned, and we receive distributions with regard to carried interests, when distributions by investment vehicles exceed specified threshold returns on investors' capital. The first fund we formed is currently estimated to begin making incentive distributions to us in 2017. However, if the revenues to that fund from its assets are less than expected, the time when we begin receiving incentive distributions may be delayed, or we might not receive any incentive distributions in excess of the tax distributions we already received.

We may be required to report taxable income for certain investments in excess of the economic income we ultimately realize from them.

We, or the funds we manage, may acquire debt instruments in the secondary market for less than their face amount. The amount of such discount will generally be treated as "market discount" for U.S. federal income tax purposes. Accrued market discount is reported as income when, and to the extent that, any payment of principal of the debt instrument is made, unless we elect to include accrued market discount in income as it accrues. Principal payments on certain loans are made monthly, and consequently accrued market discount may have to be included in income each month as if the debt instrument were assured of ultimately being collected in full. If we collect less on the debt instrument than our purchase price plus the market discount we had previously reported as income, we may not be able to benefit from any offsetting loss deductions.

Similarly, some of the CMBS that we, or the funds we manage, may acquire may have been issued with original issue discount ("OID"). We are required to amortize that OID for tax purposes based on a constant yield method and are taxed based on the assumption that all future projected payments due on the CMBS will be made. If a CMBS which was issued with OID turns out not to be fully collectable, which is what in most cases we expect with regard to the subordinated CMBS securities we purchase, an offsetting loss deduction will become available only in the later year that uncollectability is provable. To the extent that the CMBS securities perform better than what was originally expected, the collection of principal in those later years will not require tax payments as they will already have been made in earlier years through the amortization of OID.

Finally, in the event that any debt instruments acquired by us are delinquent as to mandatory principal and interest payments, or in the event payments with respect to a particular debt instrument are not made when due, we may nonetheless be required to continue to recognize the unpaid interest as taxable income as it accrues, despite doubt as to its ultimate collectability. While we would in general ultimately have an offsetting loss deduction available to us when such interest was determined to be uncollectable, the utility of that deduction could depend on our having taxable income in that later year or thereafter.

Expansion of our services and investments into new international markets subjects us to risks inherent in international operations.

In December 2014, the Rialto Real Estate Fund II, LP ("Fund II"), with regard to which we own an interest and perform asset management services, acquired an interest in a joint venture which holds real estate assets in Spain. Expansion of our services and investments into international markets in the future could result in operational issues not typically experienced in the United States. Our activities outside the United States will be subject to risks associated with doing business internationally, including fluctuations in currency exchange rates, changes in a specific country's or region's political or economic conditions, and competitive disadvantages due to our need to comply with U.S. anti-bribery laws. There also are tax consequences of doing business outside the U.S., both under U.S. tax laws and under the tax laws of the countries in which we make investments.

Loan Origination and Securitization

Our diligence with regard to loans we originate may not reveal all of the problems with regard to the loans, which could lead to losses.

Before originating a loan we assess the strengths and weaknesses of the borrowers, guarantors and the underlying property values, as well as other factors and characteristics that are material to the performance of the investment. In making the assessment and otherwise conducting due diligence, we rely on resources available to us and, in some cases, an investigation by third parties. However, there can be no assurance that our due diligence process will uncover all facts that are relevant to whether our investment will be successful.

Our investment and underwriting guidelines may restrict our ability to compete with others for desirable commercial loan origination opportunities.

We have investment guidelines and underwriting guidelines with respect to commercial loan origination opportunities. Additionally, under our credit facilities, the lenders have the right to review the assets which we are seeking to finance and approve or disapprove the purchase and financing of such assets in their sole discretion. These investment and underwriting guidelines and lender approvals may restrict us from being able to compete with others for commercial mortgage loan origination opportunities if our guidelines are stricter than the guidelines employed by our competitors. As a result, we may not be able to compete with others for desirable commercial loan origination opportunities.

Most of our activities are sensitive to changes in interest rates.

Almost all of our activities are sensitive to changes in interest rates. The value of mortgage loans and mortgage-backed securities are affected by the level of market interest rates. Similarly, when we originate loans, either for ourselves, or for the funds we manage, the yields on those loans will depend to a significant extent on market interest rates. Also, when our loan origination and securitization business commits to make a mortgage loan with regard to a particular property, it usually specifies a formula for determining the interest rate, and fixes the interest rate when it makes the loan. However, the price for which the loan can be sold to a securitization trust will depend on market interest rates at the time the loan is sold, which may be several months after the loan is made. We try to close loans as close as possible to when we will sell them and we try to hedge exposures to interest rate changes with regard to at least some of our assets and with regard to the loans we originate, but those hedges are not perfect, and we could be adversely affected by unexpected changes in interest rates.

The timing of our securitization activities will greatly affect our quarterly financial results.

We generate profits from our loan origination activities primarily by selling loans to securitization trusts for more than we pay for them. Our quarterly revenue, operating results and profitability could vary substantially from quarter to quarter based on the timing of our securitizations. The timing of our securitization activities will be affected by a number of factors, including our loan origination volumes, changes in loan values, quality and performance during the period loans are on our books and conditions in the securitization and credit markets at the time sponsors seek to launch our securitizations.

We are dependent on debt financing and securitizations to operate our mortgage origination and securitization business, and our inability to access this funding or to securitize the loans we originate could force us to curtail, or even to discontinue, that business.

We have built a business of originating loans secured by income producing properties and selling those loans to CMBS trusts and other securitization vehicles. Normally, we will sell loans within two or three months after we originate them. We utilize warehouse repurchase facilities to finance the mortgage origination activities of our loan origination and securitization business until we are able to securitize the loans we originate, and then use the proceeds of the securitizations to repay the borrowings, which make the warehouse lines available to enable us to originate additional loans. We have warehouse financing arrangements that would enable us to make up to $1.2 billion of loans before we securitize them. However, these warehouse repurchase facilities are subject to annual renewal. If we were unable to renew or replace our warehouse financing arrangements, or were unable to securitize mortgage loans we originate and use the proceeds to repay the borrowings, we would have to curtail significantly our mortgage originations.

A widespread decline in the value of commercial real estate could require us to provide cash to avoid defaults under our loan origination and securitization business' warehouse lending facilities.

Our loan origination and securitization business' current warehouse lending agreements provide, and any future warehouse lending agreements are likely to provide, that if the lenders determine that the value of the real estate that secures loans that are collateral for borrowings under the warehouse lending agreement is less than specified percentages of the sums borrowed, our loan origination and securitization business must either provide additional collateral (probably in the form of cash) or reduce the amount of the borrowings. Because our loan origination and securitization business' borrowings with regard to mortgages secured by particular properties are expected to be outstanding for a maximum of only two or three months, the risk of a significant decline in the value of a property while the mortgage loan secured by that property is collateral for borrowings under a warehouse lending agreement is relatively minor. However, if there were a sharp and widespread decline in the value of commercial properties, that might both reduce the value of properties while the mortgage loans they secure are collateral under the warehouse financing lines and delay the securitizations of those mortgage loans that are expected to provide the funds with which to repay the borrowings under the warehouse lending lines. If that occurred, our loan origination and securitization business might not have the cash it needs to increase the collateral, or reduce the borrowings, under the warehouse financing lines in order to prevent defaults under them.

We have warehouse repurchase facilities that mature in 2015, and if we cannot renew or replace these facilities, we may have to reduce our mortgage lending activities.

We have an aggregate committed amount under two warehouse repurchase facilities that totaled $650 million as of November 30, 2014, both of which will mature during 2015. We use these warehouse repurchase facilities to finance our mortgage origination activities. We expect these facilities to be renewed or replaced with other facilities when they mature. If we are unable to renew or replace these facilities on favorable terms or at all when they mature, that could seriously impede the activities of our loan origination and securitization business, which would have a material adverse impact on our consolidated financial results.

We may be required to repurchase loans or indemnify securitization trusts or other purchasers if representations and warranties we give in connection with sales of loans are not correct.

When we sell loans to securitization trusts or other purchasers, we give limited industry standard representations and warranties about the loans. If those representations and warranties prove to be incorrect as to particular loans, we may be required to repurchase the loans or replace them with substitute loans. Additionally, in the case of loans and real estate that we have sold, we may be required to indemnify persons for losses or expenses incurred as a result of breaches of representations and warranties we give. Any significant repurchases or indemnification payments could adversely affect our business or financial condition.

Direct Investments

We may fail to improve or integrate the operations of the hospital we acquired, which could harm our results of operations.

In 2013, we acquired through foreclosure, a hospital which was experiencing operating losses. Being that we are not in the business of handling hospital operations, we have contracted with a well-known hospital operator to assist us in its management. Through 2014, the hospital has experienced periods of profitability; however, for the year ended November 30, 2014, the hospital was unprofitable, experiencing consolidated operating losses of $0.4 million. If we are unable to improve the operating margins of the hospital, our consolidated results of operations could be further harmed.

<u>Risks Related to our Indebtedness</u>

Failure to comply with the covenants and conditions relating to the 7.00% Senior Notes, warehouse repurchase facilities and securitized structured notes could restrict future borrowing or cause our debt to become immediately due and payable.

Our 7.00% Senior Notes due 2018 contain restrictive covenants imposing operational and financial restrictions on us, including restrictions that may limit our ability to sell assets, pay dividends or make other distributions, enter into transactions with affiliates or incur additional indebtedness. Further, our mortgage origination subsidiary has warehouse repurchase facilities to finance its activities. If we default on our warehouse repurchase facilities, the lenders will have the right to terminate their commitments to lend and to require immediate repayment of all outstanding borrowings. This could reduce our available funds at a time when we are having difficulty generating all the funds we need from our operations, in capital markets or otherwise, and restrict our ability to obtain financing in the future. In addition, if we default on our warehouse repurchase facilities, it could result in the amounts outstanding under our Senior Notes becoming immediately due and payable, which would have a material adverse impact on our consolidated financial condition. We also have issued securitized structured notes that are collateralized by the assets in our Bank Portfolios, if the income generated from these assets is insufficient to fund the required debt service payments, repay the notes at maturity, or otherwise trigger an event of default, the balance due on the notes may become accelerated. An event such as this could have an adverse effect on our liquidity or force us to sell the remaining securitized assets at unfavorable prices which could result in realized losses, thus impacting our consolidated results of operations.

Risks Related to Affiliates

Lennar is able to control what we do.

We are 100% owned by Lennar. That means that Lennar can replace our management and cause us to act in accordance with Lennar's interests. Lennar's interests as our equity owner may not be the same as the interests of the holders of our 7.00% Senior Notes or other securities we issue. Among other things, Lennar, with certain limitations, may purchase real property from us, and if it does so, it might cause us to agree to prices that do not reflect what our management believes to be the full potential of sales for the property. The indenture relating to our 7.00% Senior Notes prohibits us or any of our subsidiaries that are guaranteeing the 7.00% Senior Notes from entering into any transaction with an affiliate (which would include Lennar) involving aggregate value in excess of $5 million, unless the terms of the transaction are not materially less favorable to us or our subsidiary than a comparable transaction with an arm's length transaction with an unaffiliated person and if it involves an aggregate value of more than $25 million, the terms of the transaction must be approved by one of our officers. However, the indenture provisions will only be in effect while the 7.00% Senior Notes are outstanding, and they mature in 2018.

Lennar is not committed to provide funds to us.

Until we sold $250 million principal amount of 7.00% Senior Notes in November 2013, we received all of our general funding from Lennar, including both funding for the operations of the Rialto Companies (including funds used to originate mortgage loans) and funding for the investments made by the Investor Companies. However, aside from a credit agreement under which Lennar has agreed to advance up to $75 million on an unsecured revolving basis, Lennar has no commitment to continue providing funding to us. Since November 2013, Lennar has not advanced funds to us, and we have repaid some of the funds it had previously advanced to us.

We hope to be able to fund our activities with proceeds of distributions and sales proceeds we receive with regard to the investments we have made and with fees and distributions to us of carried interests. However, if we do not realize these revenues and Lennar does not provide us additional funding, we may not be able to make the types of investment commitments we are expecting to make or to fund the expense of conducting all the activities in which we currently are planning to engage.

Risks Related to Regulatory and Compliance Matters

We may be adversely impacted by laws and regulations directed at the financial industry.

New or modified regulations and related regulatory guidance focused on the regulation of the financial industry, including those under the Dodd-Frank Wall Street Reform and Consumer Protection Act (the "Dodd-Frank Act"), may have adverse effects on our industry. For example, in October 2014, final rules were promulgated under the Dodd-Frank Act that requires mortgage lenders or third-party B-piece buyers to retain a portion of the risk related to securitized loans. While we are still assessing the impact of the new rules, we believe that the rules may reduce the price of CMBS and limit the overall volumes of CMBS related loan purchases, which could impact the financial results of our Loan Origination and Securitization business. Laws, regulations or policies, including accounting standards and interpretations, currently affecting us may change at any time. Regulatory authorities may also change their interpretations of these statutes and regulations. Our business could be adversely affected by changes in laws, regulations, policies or interpretations or by our inability to comply with them without making significant changes in our business.

We could be adversely affected by court and governmental responses to improper mortgage foreclosure procedures.

During recent years, it appears that mortgage lenders and mortgage loan servicers have in a number of instances failed to comply with the requirements for obtaining and foreclosing mortgage loans. Although we own or manage entities that own large numbers of mortgage loans, those loans all were acquired by us, and the funds we manage, within the past four years, and we have training programs designed to ensure that all mortgage foreclosures which we undertake will comply with all applicable requirements. In addition, almost all of our loans are commercial or business related and do not involve consumer lending. However, even if neither we, nor any servicing organization we use, does anything improper in foreclosing mortgages held by us or by the funds we manage, reaction by courts and regulatory agencies against apparently widespread instances of improper mortgage foreclosure procedures could make it more difficult and more expensive for us to foreclose mortgages that secure loans that we, or the funds we manage, own.

Our ability to collect upon mortgage loans may be limited by the application of state laws.

Our mortgage loans typically permit us to accelerate the debt upon default by the borrower. The courts of all states will enforce acceleration clauses in the event of a material payment default, subject in some cases to a right of the court to revoke the acceleration and reinstate the mortgage loan if a payment default is cured. The equity courts of a state, however, may refuse to allow the foreclosure of a mortgage or to permit the acceleration of the indebtedness in instances in which they decide that the exercise of those remedies would be inequitable or unjust or the circumstances would render an acceleration unconscionable.

We may be subject to potential liabilities under environmental laws.

Under various U.S. federal, state and local environmental laws, ordinances and regulations, a current or previous owner of real estate (including, in certain circumstances, a secured lender that succeeds to ownership or control of a property) may become liable for the costs of removal or remediation of hazardous or toxic substances at, on, under or in the property. Those laws typically impose cleanup responsibility and liability without regard to whether the owner or control party knew of or was responsible for the release or presence of the hazardous or toxic substances. The costs of investigation, remediation or removal of those substances may be substantial. The owner or party controlling a site also may be subject to common law claims by third parties based on damages and costs resulting from environmental contamination emanating from the site that affects other properties. Certain environmental laws also impose liability in connection with the handling of or exposure to asbestos-containing materials, and enable persons to seek recovery from owners of real properties for personal illnesses associated with asbestos-containing materials. While a secured lender is not likely to be subject to these forms of environmental liability, when we foreclose on and take title to a property, we become an owner and are subject to the risks of environmental liability.

We might become required to register under the Investment Company Act of 1940.

We try to conduct our operations so that we will not be required to register as an investment company under the Investment Company Act, because of an exception for companies that are engaged primarily in acquiring mortgages and other liens on and interests in real estate. See "Item 1. Business – Investment Company Act Exemption." However, because many forms of indirect real estate related investments are not considered for purposes of the Investment Company Act to be mortgages or other interests in real estate, we may have difficulty qualifying for that exception. Additionally, in August of 2011, the SEC solicited public comment on a wide range of issues relating, among other things, to the nature of the assets that are qualifying assets for purposes of the exception for companies that are engaged primarily in acquiring mortgages and other liens or interests in real estate. Some of the possible changes as to which the SEC sought comment could make it even more difficult for us to qualify for that exception than currently is the case.

Given the uncertainty as to this exception, we have imposed restrictions on transfers of our 7.00% Senior Notes so that we will qualify for an exception to the definition of an investment company for issuers whose outstanding securities, at the time of the acquisition of such securities, were held exclusively by “qualified purchasers” (as defined in the Investment Company Act). However, in order to obtain financing or for other reasons, we may in the future have to engage in transactions that could make us no longer eligible for this exception. If we became required to register under the Investment Company Act, we could no longer engage in many of the activities described herein.

Item 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion and analysis should be read in conjunction with the consolidated financial statements of Rialto Holdings, LLC and Subsidiaries included in this Annual Report. In addition to historical information, the following discussion contains forward-looking statements that reflect our plans, estimates and beliefs. Our actual results could differ materially from those discussed in the forward-looking statements. Factors that could cause or contribute to these differences include, but are not limited to, those discussed in our "*Risk Factors*."

Overview

We are a leading commercial real estate investment management, asset management, and finance company focused on raising, investing and managing third-party capital, originating and securitizing commercial mortgage loans, as well as investing our own capital in real estate related mortgage loans, properties and related securities. Our vertically-integrated investment and operating platform consists of 383 professionals operating from ten offices across the United States. Founded in 2007, we are a wholly owned subsidiary of Lennar, which is one of the largest publicly traded homebuilders in the U.S., provider of financial services and national developer of high-quality multifamily rental properties. Lennar has over 6,800 employees, with homebuilding and development operations in 17 states. Although Rialto operates independently from Lennar, Rialto believes that its affiliation with Lennar provides several key competitive advantages in the Company's underwriting and management process, including access to local market networks that provide "just-in-time" insight on market conditions. In addition, Lennar's nationwide footprint and public company infrastructure provide an effective base on which to manage and add value to geographically diverse assets.

We conduct our business through three major business lines: investment and asset management, loan origination and securitization, and direct investments in real estate assets. A comprehensive risk management approach is applied across our business lines, which is rooted in our management's deep understanding of fundamental real estate values and proven ability to manage these complementary business lines through multiple economic and credit cycles. Many of our investment and asset management opportunities were initially generated from dislocations in the U.S. real estate markets from 2007 to 2010 and the efforts to restructure and recapitalize those markets. Going forward, we believe that we will continue to be well-positioned to capitalize on the opportunities arising from the diminished supply of commercial real estate capital from traditional sources and the substantial demand for debt and equity capital in the commercial real estate sector.

Business Outlook

2014 was a record year for us. We generated $66.6 million of pre-tax earnings, adhering to our stated goals to focus on high return-on-capital businesses and the wind down and monetization of our direct investments business, resulting in the most profitable year in our history. We were also able to return capital to our Parent as well as recycle capital to fund the growth of our newer businesses without support from our Parent. Our investment and asset management business has generated significant returns for us and our investors, generating increased fees as the funds we sponsor and manage have grown to over $6.7 billion in assets under management. As we are now focusing on managing real estate related investments for others as well as ourselves, this not only increases our return on capital but also shifts the principal sources of our earnings from loan interest and net gains on sales of foreclosed real estate ("REO") resulting from direct investments, to a business model oriented towards producing investment management, asset management, and other servicing fees. Our Loan Origination and Securitization business is now one of the largest non-bank commercial loan originators, and is generating margins among the best in the industry. In our Direct Investment business line, the limited liability companies in which we have invested along with the Federal

Deposit Insurance Corporation ("FDIC") have continued to distribute cash in 2014. And while we expect to liquidate a majority of these assets by the end of 2016, we do not expect significant revenues and earnings from our direct investment in the FDIC LLCs, and the portfolios of loans we acquired from banks in 2010 (the "Bank Portfolios"). While we experienced operating losses in this business, resulting from loan loss reserves, we generally are resolving assets at amounts above book value. In addition, we also expect our hospital operation, which was acquired through one of the Bank Portfolios, to see increased revenues and expenses as we work towards making it profitable.

Looking beyond 2014, we expect to grow our management fees and receive performance based incentive fees ("carried interest") as the investments in our real estate funds are monetized in the future. In addition, we expect to participate as an investor in the funds we sponsor, earning our share of earnings from the underlying investments as compared to making direct investments.

We typically earn carried interest in the investment vehicles we sponsor when distributions in those vehicles exceed the amount the investors contributed plus specified threshold returns on the investors' capital. For the funds we have in place today, we estimate that carried interest would be distributed starting approximately six years after those vehicles began investing. As we increase the number of our investment funds and our investment funds age, if we continue to be successful, we anticipate an increasing portion of our revenues to be generated by carried interest.

While we have generated significantly increased earnings in our investment and asset management business, our earnings exclude $110.0 million of hypothetical carried interest we have earned to date in the Rialto Real Estate Fund, LP ("Fund I") alone. For example, had Fund I ceased operations and liquidated all its investments for their estimated fair values on November 30, 2014, we would have received $144.7 million with regard to our carried interest for that fund. No amount has been recognized in our consolidated statements of operations with regard to our carried interest in Fund I, except for a payment we received from Fund I in the amount of $34.7 million as an advanced tax distribution in order to cover income tax obligations, resulting from the allocations of taxable income from our carried interest in Fund I. This amount of advanced carried interest is not subject to repayment or adjustment but would serve to reduce future carried interest payments earned from Fund I. Therefore, were Fund I to hypothetically liquidate at November 30, 2014, as described above, we would have received net payments of $110.0 million, which represents the $144.7 million earned less the advanced tax distribution of $34.7 million already received. However, Fund I did not cease operations and liquidate its investments on November 30, 2014, and the actual sum we receive with regard to our carried interest in Fund I may be substantially higher or lower than $144.7 million.

Looking towards our Loan Origination and Securitization business, with a number of institutions no longer in the real estate lending business and those remaining facing stricter underwriting standards and new government-imposed regulations, we anticipate a large scale opportunity to continue to originate commercial first mortgage loans. This opportunity is magnified by the fact that a significant component of the existing commercial real estate loan universe matures and must be refinanced. In addition, many financial institutions remain burdened by exposure to overleveraged real estate assets and must further deleverage their balance sheets before they can significantly increase new originations. Lenders have utilized asset sales to rid themselves of these non- and sub-performing assets and have employed more conservative underwriting standards for new loans as they attempt to transition away from riskier assets. In addition, these lenders have been limited by regulators as to how much they can lend at a time when borrowers are searching for additional proceeds to refinance their upcoming maturities. As a result, we believe there is a growing opportunity for us to grow our senior lending business as well as our mezzanine lending and equity investing businesses.

Results of Operations

Financial information relating to our operations for the years ended November 30, 2014, 2013 and 2012, was as follows:

	2014	2013	2012
REVENUES:			
Interest income	$ 70,438	$ 78,907	$ 103,913
REO revenue:			
Hospital revenues, net	26,367	4,737	-
Rental income	17,153	20,269	16,476
Gains from securitizations and other loan origination revenues	75,255	27,761	-
Management fees	84,828	31,392	34,943
Total revenues	274,041	163,066	155,332
EXPENSES:			
General and administrative expense	117,674	79,761	53,730
REO expense, net:			
Hospital expense, net	26,762	4,665	-
Other REO expense, net	13,741	3,554	46,256
Provision for loan losses	57,113	16,139	27,966
Interest expense	33,490	7,484	5,943
Servicing expense	19,438	32,565	46,598
Securitization and loan origination expenses	16,196	8,181	-
Amortization of debt issuance costs	3,041	5,680	4,565
Depreciation expense	2,162	1,262	188
Total expenses	289,617	159,291	185,246
EQUITY IN EARNINGS FROM UNCONSOLIDATED ENTITIES	59,277	22,353	41,483
GAIN ON SALE OF INVESTMENT SECURITIES	378	-	-
NET EARNINGS (INCLUDING NET (LOSS) EARNINGS ATTRIBUTABLE TO NONCONTROLLING INTERESTS)	44,079	26,128	11,569
LESS: NET (LOSS) EARNINGS ATTRIBUTABLE TO NONCONTROLLING INTERESTS	(22,493)	6,238	(14,383)
NET EARNINGS ATTRIBUTABLE TO RIALTO BEFORE PROVISION FOR INCOME TAXES	66,572	19,890	25,952
PROVISION FOR INCOME TAXES	25,539	8,028	10,484
NET EARNINGS ATTRIBUTABLE TO RIALTO	$ 41,033	$ 11,862	$ 15,468

2014 versus 2013

In the year ended November 30, 2014, net earnings before provision for income taxes was $66.6 million (which included of $44.1 million of operating earnings and an add back of $22.5 million of net loss attributable to noncontrolling interests), compared to net earnings before provision for income taxes of $19.9 million (which included of $26.1 million of operating earnings offset by $6.2 million of net earnings attributable to noncontrolling interests) in the same period last year.

In the year ended November 30, 2014, revenues were $274.0 million compared to $163.1 million in the same period last year. Revenues increased due to an increase of $53.4 million in fees for managing our fund vehicles as well as overseeing and servicing assets. This increase is primarily due to $34.7 million that was paid to us by Fund I as an advanced tax distribution in order to cover income tax obligations, resulting from the allocations of taxable income from our carried interest in Fund I. This amount of advanced carried interest is not subject to repayment or adjustment. Additionally, we had increases in special servicing fees, primary servicer fees and asset management fees related to our other funds. Revenues also increased due to an increase in gains from securitizations and other loan origination revenues of $47.5 million from the prior year. During the current year, the Company originated loans with a total principal balance of $1.6 billion and sold and closed $1.5 billion of originated loans into eight separate securitization trusts, compared to the prior year where the Company originated loans with a total principal balance of $690.3 million and sold $646.3 million of originated loans into four separate securitization trusts. Lastly, revenues for the hospital that was acquired as a result of a defaulted loan within the Bank Portfolios increased $21.6 million as the hospital was operational for the entire current year unlike the prior year when it was only operational for one month.

In the year ended November 30, 2014, expenses were $289.6 million compared to $159.3 million in the same period last year. Expenses increased $41.0 million from the prior year due to provision for loan losses due to an increase in loan impairments due to changes in the estimated cash flows expected to be collected from the FDIC Portfolios and the change from the accretable yield income method of interest income recognition to a cost recovery basis method during the fourth quarter of 2014. Interest expense increased $26.0 million due to the issuance of the 7.00% Senior Notes in November 2013, the securitized structured notes issued in May and November 2014, and the warehouse repurchase facilities. For the hospital that was acquired as a result of a defaulted loan within the Bank Portfolios, expenses increased $22.1 million as the hospital was operational for the entire current year unlike the prior year when it was only operational for one month. Other REO expenses increased $10.2 million due to increases in REO impairments as well as unrealized net losses upon loan foreclosure. Securitization and loan origination expenses increased $8.0 million from the prior year due to expenses associated with the increase in loan originations during the current year. These increases were offset by a decrease in loan servicing expenses of $12.0 million due to a reduction in the number of loans outstanding in the FDIC and Bank Portfolios resulting from resolutions and real estate foreclosures.

In the year ended November 30, 2014, we had equity in earnings from unconsolidated entities of $59.3 million, which primarily included $30.6 million of our share of earnings from Fund I, $15.9 million of our share of earnings from Fund II, $1.9 million of our share of earnings from the Rialto Mezzanine Partners Fund, LP (the “Mezzanine Fund”) and $10.8 million of our share of earnings from the CMBS Fund. Equity in earnings from unconsolidated entities was $22.3 million in the same period last year, which included $19.4 million of our share of earnings from Fund I, $2.5 million of our share of earnings from Fund II and $0.4 million of our share of earnings from the Mezzanine Fund.

In 2013, we formed our Loan Origination and Securitization business line, which originates and securitizes five, seven and ten year commercial fixed rate first mortgage loans on stabilized cash flowing properties. Generally those loans are between $2 and $75 million in size. During the year ended November 30, 2014, we originated loans with a total principal balance of $1.6 billion and sold $1.5 billion of these loans into eight separate securitization trusts, which included $147.2 million of originated loans that were sold into a securitization trust but had not yet settled as of year end. As of November 30, 2013, the Loan Origination and Securitization business originated loans with a principal balance of $690.3 million and sold $646.3 million of loans into four separate securitizations, which includes $109.3 million of originated loans that were sold into a securitization trust but had not yet settled as of year end. As of November 30, 2014 and 2013, we had two warehouse repurchase facilities that mature in fiscal year 2015 with commitments totaling $650 million and $500 million, respectively, to use in our Loan Origination and Securitization business, of which, $141.3 million and $76.0 million, respectively, was outstanding.

During 2013, the LLCs we own in partnership with the FDIC finished repaying the $626.9 million of loans from the FDIC ahead of schedule and thus, were able to start distributing capital back to investors. During the years ended November 30, 2014 and 2013, $184.9 million and $46.7 million, respectively, had been distributed by the LLCs, of which $110.9 million and $28.4 million, respectively, was paid to the FDIC and $74.0 million and $18.3 million, respectively, was paid to us.

In 2014, the Company launched the Rialto Capital CMBS Fund (the "CMBS Fund"). The general purpose of the CMBS Fund is to acquire, own and/or monetize commercial mortgage-backed securities B-pieces with at least some portion of the collateral being originated by our Loan Origination and Securitization business.

In January 2014, the Company acquired a loan servicer which provides loan servicing support for the Company's owned and managed portfolios and asset management services for the Company's small balance loan portfolio.

In March 2014, the Company issued an additional $100 million aggregate principal amount, as an add-on to the 7.00% Senior Notes, at a price of 102.25%, in a private placement. The terms from the add-on offering have identical terms as the 7.00% Senior Notes. Proceeds from the offering, after payment of expenses, were $101.7 million. The Company used most of the funds as additional working capital for its Loan Origination and Securitization business, in addition to funding contributions to its investment funds or for other general corporate purposes.

In May 2014, the Company issued $73.8 million principal amount of notes through a securitized structured note offering (the "Structured Notes") collaterized by certain assets originally acquired in the Bank Portfolios transaction at a price of 100%, with an annual coupon rate of 2.85%. Proceeds from the offering, after payment of expenses and hold backs for cash reserves were $69.1 million. In November 2014, the Company sold the second tranche of the Structured Notes at a price of 99.5%. The initial principal amount of this second tranche was $20.8 million and has an annual coupon rate of 5.00%. Proceeds from the sale were $20.7 million, including accrued interest. The estimated final payment date of the Structured Notes is December 15, 2015. As of November 30, 2014, there was $58.0 million outstanding related to the Structured Notes.

2013 versus 2012

In the year ended November 30, 2013, net earnings before provision for income taxes was $19.9 million (which is comprised of $26.1 million of operating earnings offset by $6.2 million of net earnings attributable to non-controlling interests), compared to net earnings before provision for income taxes of $26.0 million (which is comprised of $11.6 million of operating earnings and an add back of $14.4 million of net loss attributable to non-controlling interests) in 2012.

In the year ended November 30, 2013, revenues were $163.1 million compared to $155.3 million in 2012. Gains from securitizations and other loan origination revenues increased $27.8 million from 2012 as the Loan Origination and Securitization business was not in existence during 2012. During the 2013, the

Company originated loans with a total principal balance of $690.3 million and sold $646.3 million of originated loans into four separate securitization trusts. Additionally, revenues for the hospital that was acquired as a result of a defaulted loan within the Bank Portfolios increased $4.7 million from the prior year as the hospital had just been acquired in November 2013. Lastly, rental income increased $3.8 million. Revenues were offset by decreases in interest income of $25.0 million from 2012 as a result of a decrease in the portfolio of loans the Company owns due to loan collections. Additionally, there was a decrease in management fees of $3.6 million stemming from the monetization in connection with the unwinding of the investment portfolio underlying the AB PPIP fund in 2012.

In the year ended November 30, 2013, expenses were $159.3 million compared to $185.2 million in 2012. Of this total, expenses mainly improved in the following areas. Other REO expense decreased $42.7 million from 2012 mainly due to the realized gains on the sale of REO. Secondly, servicing expenses decreased $14.0 million from 2012 due to a decrease in the portfolio of loans. Lastly, the provision for loan losses decreased $11.8 million from the 2012 due to lesser loan impairments and REO loan impairments being necessitated in the loan portfolios. This improvement in expenses was slightly offset with increases in expenses in both hospital expenses and securitization and loan origination expenses. Expenses for the hospital that was acquired as a result of a defaulted loan within the Bank Portfolios increased $4.7 million as the hospital had just been acquired in November 2013. Securitization and loan origination expenses increased $8.2 million from 2012 as the Loan Origination and Securitization business was not in existence and these expenses were associated with the loan origination activity during 2013.

In the year ended November 30, 2013, we had equity in earnings from unconsolidated entities of $22.3 million, which included $19.4 million of our share of earnings from Fund I, $2.5 million of our share of earnings from Fund II and $0.4 million from our share of earnings from the Mezzanine Fund. Equity in earnings from unconsolidated entities was $41.5 million in 2012, which included $17.0 million of net gains primarily related to our investment in the portfolio underlying the AB PPIP fund, $6.1 million of interest income earned by the AB PPIP fund and $21.0 million of equity in earnings related to our share of earnings from Fund I. During 2012, all of the securities in the investment portfolio underlying the AB PPIP fund were monetized in connection with the final unwinding of its operations, resulting in liquidating distributions of $83.5 million to us. As our role as sub-adviser to the AB PPIP fund has been completed, no further management fees were received for these services.

During 2013, the LLCs we own in partnership with the FDIC finished repaying the $626.9 million of loans ahead of schedule and thus, were able to start distributing capital back to investors. During the year ended November 30, 2013, $46.7 million had been distributed by the LLCs, of which, $28.4 million was paid to the FDIC and $18.3 million was paid to us.

In 2013, we formed our Loan Origination and Securitization business line, which originates and securitizes five, seven and ten year commercial first mortgage loans on stabilized cash flowing properties. Generally those loans are between $2 and $75 million in size. As of November 30, 2013, we had originated loans with a total principal balance of $690.3 million and sold $646.3 million of these loans into four separate securitization trusts, which included $109.3 million of originated loans that were sold into a securitization trust but had not yet settled as of year end. Additionally, as of November 30, 2013, we had two warehouse repurchase facilities that mature in 2015 with commitments totaling $500 million to use in our Loan Origination and Securitization business, of which, $76.0 million was outstanding.

In November 2013, we successfully sold $250 million of 7.00% Senior Notes. On November 14, 2013, the day the 7.00% Senior Notes were issued, Lennar contributed to our equity the entire outstanding balance of the amount it had invested in the Company (an amount previously classified as "Due to Parent") in excess of $235 million. The remaining $235 million constituted indebtedness of the Company to Lennar. However, we applied $100 million of the net proceeds of the sale of our 7.00% Senior Notes and $135 million of working capital to fully retire this indebtedness as of November 30, 2013.

After repaying $235 million to our Parent, the remaining capital Lennar had invested in our business was $539.4 million as of November 30, 2013.

During the year, Lennar committed to us a $75 million unsecured interest bearing revolving credit facility to be used for general operating and investing activity. As of November 30, 2013, we had not borrowed on this facility.

During the year, we also began managing a $200 million separate account for an insurance company that is investing in mezzanine loans that typically have lower loan to underlying collateral values.

Business Lines

The Company operates in three business lines: Investment and Asset Management, Loan Origination and Securitization and Direct Investments. Our business lines are identified based upon how management operates and manages our activities as well as the types of assets sold and services performed.

Investment and Asset Management

We are the sponsor of and an investor in private funds and other investment vehicles that invest in and manage real estate related assets. In addition to receiving earnings on our investments, we also earn fees for our role as an investment manager and general partner of these vehicles and for providing investment management and other services to those vehicles and other third parties. As discussed in the Overview Section, these types of revenues are becoming increasingly important to us as we move away from using a greater portion of our own capital to invest in real estate and real estate related assets as we have done in our Direct Investments business line. We are instead focusing more on raising capital for investments and then earning revenue through management and servicing fees, as well as by participating in the ownership as a co-investor and earning carried interest after distributions to investors that have met specified investment return thresholds. Carried interest on the funds in place today generally will not be received (with the exception of advances for related tax liabilities) until those funds mature and a significant portion of the assets are monetized (this can range from a few years for some of our smaller funds and co-invest vehicles to 5 to 7 years for our larger opportunistic funds).

The following table reflects information regarding the private equity funds sponsored by the Company that invest in real estate related assets and other investments as of November 30, 2014 (in thousands):

	Inception Year	Equity Commitments	Equity Commitments Called	Commitment to fund by the Company	Funds contributed by the Company	Net funds invested by the Company
Rialto Real Estate Fund I, LP	2010	$ 700,006	$ 700,006	$ 75,000	$ 75,000	$ -
Rialto Real Estate Fund II, LP	2012	1,305,000	760,058	100,000	58,242	49,199
Rialto Mezzanine Partners Fund	2013	251,100	188,600	27,299	20,504	17,960
Rialto Capital CMBS Fund, LP	2014	46,442	46,442	15,774	15,774	4,845
						$ 72,004

The following table reflects the carrying value of the Company's investments in private equity funds that invest in real estate related assets and other investments, as of November 30, 2014 and 2013 (in thousands):

	2014	2013
Rialto Real Estate Fund I, LP	$ 71,831	$ 75,729
Rialto Real Estate Fund II, LP	67,652	53,103
Rialto Mezzanine Partners Fund	20,226	16,724
Rialto Capital CMBS Fund, LP	15,265	-
Other Investments	726	9,017
	$ 175,700	$ 154,573

The Company's share of earnings from unconsolidated entities was as follows for each of the years ended November 30, 2014, 2013 and 2012 (in thousands):

	2014	2013	2012
Rialto Real Estate Fund I, LP	$ 30,612	$ 19,391	$ 21,026
Rialto Real Estate Fund II, LP	15,929	2,523	-
Rialto Mezzanine Partners Fund	1,913	354	-
Rialto Capital CMBS Fund, LP	10,823	-	-
Other Investments	-	85	20,457
	$ 59,277	$ 22,353	$ 41,483

If Fund I had ceased operations and liquidated all its investments for their estimated fair values on November 30, 2014, we would have received $144.7 million with regard to our carried interest for that fund. However, Fund I did not cease operations and liquidate its investments on November 30, 2014, and the actual sum we receive with regard to our carried interest in Fund I may be substantially higher or lower than $144.7 million. No amount has been recognized in our consolidated statements of operations with regard to our carried interest in Fund I, except for a payment we received from Fund I in the amount of $34.7 million as an advanced tax distribution in order to cover income tax obligations, resulting from the allocations of taxable income from our carried interest in Fund I. This amount of advanced carried interest is not subject to repayment or adjustment but would serve to reduce future carried interest payments earned from Fund I. Therefore, were Fund I to hypothetically liquidate at November 30, 2014, as described above, we would have received net payments of $110.0 million, which represents the $144.7 million earned less the advanced tax distribution of $34.7 million already received. However, Fund I did not cease operations and liquidate its investments on November 30, 2014, and the actual sum we receive with regard to our carried interest in Fund I may be substantially higher or lower than $144.7 million. In 2012, we did collect carried interest with respect to our AB PPIP Fund which was substantially realized. See Note 2, Summary of Significant Accounting Policies in the notes to the audited consolidated financial statements for more information on how we record revenues attributable to carried interest.

In 2014, we launched the CMBS Fund. The general purpose of the CMBS Fund is to acquire, own and/or monetize commercial mortgage-backed securities B-pieces with at least some portion of the collateral being originated by our Loan Origination and Securitization business.

Loan Origination and Securitization

During 2013, we hired a group of industry veterans and began originating and securitizing five, seven and ten year fixed rate, first mortgage loans, generally with principal amounts between $2 million and $75 million, which are secured by stabilized, income-producing commercial real estate properties. Our goal has been to securitize loans through third-party issuers at least quarterly, thus keeping them on our balance sheet for a relatively short period of time. During the year ended November 30, 2014, we originated loans with a total principal balance of $1.6 billion and sold and closed $1.5 billion of originated loans into eight separate securitization trusts, which includes $147.2 million of originated loans that were sold into a securitization trust but had not yet settled as of year end. This makes us, by volume, the fourth largest non-bank contributor of loans to CMBS securitizations in the United States according to Commercial Mortgage Alert.

To finance our lending activities, we had $500 million of committed warehouse repurchase facilities from two institutional counterparties and we subsequently increased the capacity under our committed warehouse repurchase facilities to $650 million during July, 2014, of which, $141.3 million was outstanding, and we are continuing to work to increase our warehouse line capacity with a number of other sources as of November 30, 2014. We seek to sell loans as quickly as feasible once funded. In addition, while we hold loans on our balance sheet before securitization, we hedge underlying interest rates and credit spreads using a variety of strategies and tools available in the market.

Net profit from loans sold into securitizations

Income from loans sold into securitizations totaled $77.0 million for the year ended November 30, 2014, compared to $28.8 million for the year ended November 30, 2013, an increase of $48.2 million. For the year ended November 30, 2014, we sold loans into eight separate securitization transactions, selling 146 loans with an aggregate outstanding principal balance of $1.5 billion. For the year ended November 30, 2013, we sold loans into four separate securitization transactions, selling 47 loans with an aggregate outstanding principal balance of $646.3 million.

Income from loans sold into securitizations, a non-GAAP measure, represents gross proceeds from the sale of loans into securitization trusts, less the book value of those loans at the time they were sold, plus the sale of service rights.

We present net profit from loans sold into securitizations, a non-GAAP measure, as a supplemental measure of the performance of our Loan Origination and Securitization business. Net profit from loans sold into securitizations are a key component of our results.

Below are the results from sales of loans held-for-sale into securitizations for the years ended November 30, 2014 and 2013 (dollars in thousands):

	2014	2013
Number of loans	146	47
Originated loans sold, including those not settled	$ 1,494,075	$ 646,266
Number of securitizations	8	4
Net margin	4.3%	3.2%
Income from sale of securitized loans [1]	$ 77,191	$ 28,778
Expenses from sale of securitized loans	$ (16,196)	$ (8,181)
Net securitization profit	$ 60,995	$ 20,597

[1] The following is a reconciliation of the non-GAAP measure of income from the sale of securitized loans to Gains from securitizations and other loan origination revenues, which is the closest GAAP measure, as reported in our consolidated statements of operations included herein.

		2014		2013
Total securitization revenues	$	77,191	$	28,778
Loan origination and processing fees		1,100		251
Net realized and unrealized losses on loans and hedging instruments		(3,036)		(1,268)
Gain from securitizations and other loan origination revenues	$	75,255	$	27,761

Direct Investments

Through our Direct Investments business line, we have been among the most active acquirers of portfolios of distressed real estate loans and assets from banks, government entities and other financial institutions. We began making Direct Investments in real estate related assets in 2010, when the economy and housing sector were still performing poorly and had not yet started to recover. Because of this, we were able to purchase loan portfolios and real estate related assets at significant discounts. In 2011, we began to have success in raising third-party capital to invest with us side-by-side and where we could utilize our expertise to increase our return on capital through the collection of fees and carried interest in addition to making investments side by side with third-party investors. Our objective is to continue to monetize and wind down these distressed commercial real estate portfolios in order to free up the underlying capital to recycle cash to achieve higher returns elsewhere in the Company.

FDIC Portfolios — In February 2010, we acquired 40% managing member equity interests in two limited liability companies ("LLCs") that had been formed by the LLC to hold performing and non-performing loans formerly owned by 22 failed financial institutions. The FDIC retained 60% equity interests in the LLCs and provided $626.9 million of financing with 0% interest, which was non-recourse to us and to the LLCs. When we acquired our interests in the two LLCs, their portfolios consisted of approximately 5,500 distressed residential and commercial real estate loans. The financing from the FDIC has been repaid and the two LLCs are now making distributions to members, of which we receive 40%.

Bank Portfolios — In September 2010, we acquired from three financial institutions portfolios consisting of a total of approximately 400 distressed commercial and residential mortgage loans and over 300 properties that had been obtained through foreclosures of loans. We paid $310 million for the distressed real estate and real estate related assets of which $124 million was financed through a five year senior unsecured loan provided by one of the selling institutions. Our hospital investment, discussed below, was acquired in a workout on a loan from one of these portfolios.

In November 2013, in settlement of a loan acquired as part of the Bank Portfolios, we acquired the real estate and operating entity of a hospital (the "Hospital"). This transaction was the result of a Chapter 11 reorganization plan approved on November 7, 2013. The reorganization plan required us to make a $10 million cash investment that was used to complete improvements in the hospital and emergency room facilities, provide for working capital requirements and begin to repay secured and unsecured court approved claims per the reorganization plan. The Hospital guaranteed the payment of bankruptcy administrative claims of approximately $17.5 million owed to three groups of secured and unsecured creditors. In return, we acquired 100% of the Hospital operating entity effective November 8, 2013. The Hospital is included in our consolidated financial statements as of November 30, 2014, and its operating results are included in our consolidated statements of operations for the year ended November 30, 2014.

The Company has contracted a third-party hospital operating company (the "Third-party Operator") to operate and manage the hospital. Additionally, a 20% equity interest in the real estate entity that owns the Hospital's land and building was exchanged for the administrative bankruptcy claims of several doctors who were original shareholders of the hospital. As of November 30, 2014, the exact amount of the claims that will be allowed has not yet been determined, therefore, the noncontrolling interest has not been distributed. Rialto has the right to withhold the distribution of this noncontrolling interest until all such requirements are satisfied.

Neither we nor the hospital management company will receive any distribution from operations other than the reduced management fee until all creditors have been paid in full, which management of the hospital believes will occur within two years.

CMBS Investment — In 2010, we purchased approximately $43 million face amount of non-investment grade CMBS for $19.4 million, representing a 55% discount from par value.

Other — In January 2014, we acquired 100% of the loan servicing business segment of a real estate services company (the “Service Provider”) in exchange for the approximately 5% investment we owned in that company as of November 30, 2013. This acquired operation had previously provided loan servicing support for our owned and managed portfolios, as well as asset management services for our small balance loan workout program. As of November 30, 2013, the carrying value of our investment in the Service Provider was $8.3 million.

Selected Business Line Financial and Operational Data

Business line financial and operational data does not include an allocated portion of the Company's general and administrative expenses at the corporate level as well as interest and other expenses for the years ended November 30, 2014, 2013 and 2012 as follows (in thousands):

	2014	2013	2012
General and administrative expenses	$ 110,887	$ 74,735	$ 49,866
Interest and other expenses	30,353	2,070	188

With a full year of operations of our Loan Origination and Securitization business and the January 2014 acquisition of the Service Provider, general and administrative costs increased to $110.9 million in 2014, from $74.7 million in 2013. Interest and other expenses increased in 2014 due to the addition of interest expense and related amortization of debt issuance costs related to the 7.00% Senior Notes as well as interest associated with the Bank Portfolio debt which is unsecured and has been classified as Corporate debt in 2014, rather than attributed to Direct Investments as it was in 2013.

Investment and Asset Management

Overview

(in thousands)

	2014	2013
Total Assets	$ 175,726	$ 145,701

	2014	2013	2012
Revenues	$ 93,404	$ 33,137	$ 34,943
Equity in earnings from unconsolidated entities	59,278	22,204	41,877
Gain on sale of investment securities	378	-	-
Net earnings before income taxes and overhead	153,060	55,341	76,820

2014 versus 2013

Revenue increased 182% year over year in our Investment and Asset Management business line mainly due to the $34.7 million that was paid to us by Fund I as an advanced tax distribution in order to cover tax obligations, resulting from allocations of taxable income from our carried interest in Fund I. This amount of advanced carried interest is not subject to repayment or adjustment. Additionally, special servicing fees and primary servicing fees increased from the prior year, partly due to the acquisition of the Service Provider. Equity in earnings increased $37.1 million from the prior year due to increases in the Company's share of earnings from the private equity funds. The Company's share of earnings from Fund I were $30.6 million compared to $19.4 million in the prior year. The Company's share of earnings in Fund II was $15.9 million compared to $2.5 million in the prior year. The increase in earnings in Fund I was due to greater unrealized gains from fair value mark-ups on CMBS investments. The increase in earnings in Fund II was due to increases in interest income on loans and on investment securities, increases in rental income and greater unrealized gains from fair value mark-ups on CMBS investments, all due to the fund ramping up during the current year. The Company's share of earnings in the CMBS Fund was $10.8 million compared to zero in the prior year due to the creation of this fund in 2014. Earnings in this fund were driven by realized gains on sales of CMBS and unrealized gains on fair value mark-ups. The Company’s share of earnings for the Mezzanine Fund was $1.9 million compared to $0.4 million in the prior year due to interest income on loans.

2013 versus 2012

Revenue decreased 10% in our Investment and Asset Management business line due mainly to the AB PPIP fund unwinding its operations in 2012 and as a result, we earned $9.1 million in fees from our role as a sub-adviser for the year ended November 30, 2012, that we did not receive in 2013. This was slightly offset by earning additional investment management fees as Fund II and the Mezzanine Fund began operations in 2013. Net earnings before income taxes decreased mainly because 2012 net earnings had benefitted from $17.0 million of net gains consisting primarily of gains realized by the AB PPIP fund from the sale of investments in its portfolio and $6.1 million of interest income earned by the AB PPIP fund which we did not receive in 2013. Included in net earnings before income taxes for 2013 was the Company’s share of earnings from Fund I of $19.4 million, Fund II of $2.5 million and the Mezzanine Fund of $0.4 million, respectively, compared to $21.0 million for Fund I in 2012.

Loan Origination and Securitization

Overview

(in thousands)

	2014	2013
Total Assets	$ 322,361	$ 269,577

	2014	2013	2012
Revenues	$ 86,166	$ 33,772	$ -
Net earnings before income taxes and overhead	60,392	21,977	-

2014 versus 2013

Revenues increased 155% year over year in our Loan Origination and Securitization business line due mostly to increased gains from securitizations as well as interest income on the originated loans. During 2014, the Company originated loans with a total principal balance of $1.6 billion and sold $1.5 billion of originated loans into eight separate securitizations at an average net margin of 4.0% whereas in 2013 the Company originated loans with a total principal balance of $690.3 million and sold $646.3 million of loans into four separate securitizations at an average net margin of 3.2%. Additionally, as the number of loan originations increased year-over-year, interest income increased from $6.0 million in 2013 to $10.9 million in 2014. Revenue was partially offset by the increased costs incurred from the larger number of securitizations as well as increases in interest expense associated with the two warehouse repurchase facilities used to fund the increased loan originations. General and administrative expenses also increased during 2014 which reflects a full year of operating expenses, as the business operations started in July 2013.

2013 versus 2012

Our Loan Origination and Securitization business began operations during 2013 and had revenues of $33.8 million comprised mostly of gains from four securitizations as well as interest income on the originated loans. During 2013, the Company originated loans with a total principal balance of $690.3 million and sold $646.3 million of loans into four separate securitizations at an average net margin of 3.2%. Revenue was partially offset by costs incurred from the four securitizations as well as interest expense and debt issuance costs associated with the two warehouse repurchase facilities to arrive at net earnings before income taxes of $22.0 million.

Direct Investments

Overview

(in thousands)

	2014	2013
Total Assets	$ 730,646	$ 1,010,385

	2014	2013	2012
Revenues	$ 102,594	$ 96,157	$ 120,389
Equity in (loss) earnings from unconsolidated entities	(1)	151	(394)
Net (loss) earnings before income taxes and overhead	(6,044)	19,386	(814)

2014 versus 2013

Revenues increased 7% year over year in our Direct Investments business line due mostly to an increase in revenue from the hospital we acquired in November 2013 as a result of a defaulted loan within the Bank Portfolios. The increase is mainly attributed to a full year of operations in 2014, compared to less than a month's worth of operations since being acquired at the end of 2013. However, this increase was slightly offset by decreases in interest income and rental income as a result of a decrease in the portfolio of loans and REO the Company owns due to resolutions. Expenses in this business line mainly increased due to loan impairments as a result of changes in the estimated cash flows expected to be collected on the FDIC Portfolios and an increase in hospital and REO expenses. Hospital expenses increased due to the hospital operating for an entire year in 2014 compared to a less than a month's worth of operations in 2013. REO expenses increased approximately $10.1 million from 2013 to 2014 mainly due to higher unrealized losses on loan foreclosure and higher impairment charges on REO in 2014. Additionally, 2013 the gain on the hospital acquisition of $8.5 million was a one-time occurrence in 2013.

2013 versus 2012

Revenue decreased 20% in our Direct Investments in real estate related assets business line due entirely to a reduction in interest income from our loan portfolio assets decreasing due to loan collections, payoffs and REO conversions, slightly offset by revenue from the hospital we acquired in November 2013. Net (loss) earnings before income taxes increased significantly due to a decrease in REO expenses, a decrease in loan servicing expenses as the portfolio of loans has decreased and a decrease in our provision for loan losses. REO expenses decreased mostly due to higher realized gains on the sale of REO in 2013 than 2012, as well as lower operating expenses in 2013 when compared to 2012. Additionally, we recorded a gain of $8.5 million on the bargain purchase acquisition of the hospital in 2013.

Below is a summary of the business lines' financial results to arrive at the Company's consolidated financial results (in thousands):

	As of and for the Year Ended November 30, 2014					
	Investment and Asset Management	Loan Origination & Securitization	Direct Investments	Corporate	Eliminations	Total Consolidated
Total Assets	$ 175,726	$ 322,361	$ 730,646	$ 918,149	$ (688,730)	$ 1,458,152
Revenues	93,404	86,166	102,594	404	(8,527)	274,041
Gain on sale of investment securities	378	-	-	-	-	378
Net earnings (loss) before income taxes and overhead	153,060	60,392	(6,044)	(140,836)	-	66,572

	As of and for the Year Ended November 30, 2013					
	Investment and Asset Management	Loan Origination & Securitization	Direct Investments	Corporate	Eliminations	Total Consolidated
Total Assets	$ 145,701	$ 269,577	$ 1,010,385	$ 53,650	$ -	$ 1,479,313
Revenues	33,137	33,772	96,157	-	-	163,066
Net earnings (loss) before income taxes and overhead	55,341	21,977	19,386	(76,814)	-	19,890

	As of and for the Year Ended November 30, 2012					
	Investment and Asset Management	Loan Origination & Securitization	Direct Investments	Corporate	Eliminations	Total Consolidated
Total Assets	$ 112,988	$ -	$ 1,534,372	$ 13,924	$ -	$ 1,661,284
Revenues	34,943	-	120,389	-	-	155,332
Net earnings (loss) before income taxes and overhead	76,820	-	(814)	(50,054)	-	25,952

For the year ended November 30, 2014, the Total Asset elimination amount in the table above represents corporate's investment in the other business lines; the Revenue elimination largely represents the elimination of primary loan servicing fee revenues charged by our Service Provider to our Direct Investments business line.

Liquidity and Capital Resources

Our financing strategies are critical to the success and growth of our business. We manage our financing to complement our asset composition and to diversify our exposure across multiple capital sources and counterparties.

We require substantial amounts of capital to support our business. The management team establishes our overall liquidity and capital allocation strategies. A key objective of those strategies is to support the execution of our business strategy while maintaining sufficient ongoing liquidity throughout the business cycle to service our financial obligations as they become due. When making funding and capital allocation decisions, members of our senior management consider business performance; the availability of, and costs and benefits associated with, different funding sources, current and expected capital markets and general economic conditions; our balance sheet and capital structure, and our targeted liquidity profile and risks relating to our funding needs.

Our primary uses of liquidity are for (1) the funding of loan and real estate-related investments, (2) the repayment of short-term and long-term borrowings and related interest, (3) the funding of our operating expenses and (4) distributions to Lennar.

Our primary sources of liquidity have been (1) cash and cash equivalents, (2) cash generated from our business activities, including proceeds from the sale of commercial loans into securitization vehicles, management fees and distributions from the funds we manage and invest in, and proceeds from the sale of real estate related assets we own, (3) proceeds from the issuance of the 7.00% Notes, (4) borrowings under the warehouse repurchase facilities and (5) proceeds from the Structured Notes.

At November 30, 2014, we had approximately $303.9 million in cash.

Our notes payable and other debts payable consisted of the following at November 30, 2014 and 2013 (in thousands):

		2014		2013
Senior Notes, net	$	351,939	$	250,000
Bank Portfolios		60,622		90,933
Warehouse Repurchase Facilities		141,272		76,017
Structured Notes, net		57,950		-
Notes payable - other		11,463		24,933
Total Notes payable and other debts payable	$	623,246	$	441,883

Senior Notes
In November 2013, the Company issued $250 million aggregate principal amount of 7.00% senior notes due 2018 (the “7.00% Senior Notes”), at a price of 100% in a private placement. Proceeds from the offering, after payment of expenses, were approximately $245 million. The Company used $100 million of the net proceeds from the sale of the 7.00% Senior Notes, and subsequently an additional $135 million of working capital, to repay sums that were previously advanced to the Company by Lennar. Interest on the 7.00% Senior Notes is due on June 1 and December 1 of each year, and the 7.00% Senior Notes will mature on December 1, 2018. In March 2014, the Company issued an additional $100 million aggregate principal amount, as an add-on to the 7.00% Senior Notes, at a price of 102.25%, in a private placement. The terms from the add-on offering have identical terms as the 7.00% Senior Notes. Proceeds from the offering, after payment of expenses, were approximately $101.7 million. The Company is using most of the funds to provide additional working capital to its Loan Origination and Securitization business, in addition to funding contributions to its investment funds or for other general corporate purposes. At November 30, 2014, the carrying amount of the 7.00% Senior Notes were $351.9 million.

The Company may redeem all or a portion of the 7.00% Senior Notes at the following redemption prices (expressed as a percentage of principal) beginning December 1 of each of the years indicated below:

Year	Percentage
2015	103.50%
2016	101.75%
2017	100.00%

The Company must also pay any accrued and unpaid interest through, but not including, the date of redemption. Interest on the 7.00% Senior Notes is due semi-annually, with the first payment made on June 1, 2014. The Company may redeem all or a portion of the 7.00% Senior Notes at any time, before December 1, 2015, at a redemption price equal to 100% of the principal amount, plus a make-whole premium and accrued and unpaid interest. Before December 1, 2015, the Company may redeem up to 35% of the aggregate principal amount of the 7.00% Senior Notes with the proceeds of public offerings of equity at a redemption price equal to 107% of the principal amount of the 7.00% Senior Notes, plus accrued and unpaid interest.

Under the indenture governing the 7.00% Senior Notes, the Company is subject to certain covenants limiting, among other things, the Company’s ability to incur indebtedness, to make investments, to make distributions to, or enter into transactions with, Lennar or to create liens subject to certain exceptions and qualifications. The Company is in compliance with all debt covenants as of November 30, 2014.

The 7.00% Senior Notes are Rialto's senior unsecured and unsubordinated obligations, rank equally with all of Rialto's other unsecured and unsubordinated indebtedness, and are senior to any of Rialto's future indebtedness that is expressly subordinated in right of payment to the 7.00% Senior Notes and junior to any of Rialto's secured indebtedness to the extent of the value of the assets securing that indebtedness. The 7.00% Senior Notes are guaranteed by existing and future directly or indirectly 100% owned subsidiaries other than subsidiaries which Rialto designates as unrestricted subsidiaries (which subject those subsidiaries to limits on investments by the Company and other restrictions). A 100% owned subsidiary can only become an unrestricted subsidiary if it is a borrower under a warehouse repurchase facility or is prevented from guaranteeing the 7.00% Senior Notes by any applicable law, regulation or contractual restriction which cannot be removed through commercially reasonable efforts.

Upon a Change of Control Triggering Event, the Company will be required to make an offer to repurchase all the outstanding 7.00% Senior Notes at a price in cash equal to 101% of the principal amount of the 7.00% Senior Notes, plus any accrued and unpaid interest to, but not including, the repurchase date.

Prior to our issuance of the 7.00% Senior Notes, our Investment and Asset Management business line and our Direct Investments business line were funded largely by Lennar. As a result of the 7.00% Senior Notes offering, we have become substantially self-sustaining, and we will request funding from Lennar only to the extent, if any, it is required to supplement our own resources (which Lennar has no obligation to provide, aside from up to $75 million we can borrow under a Revolving Credit Agreement). During 2013, Lennar entered into a Revolving Credit Agreement with us under which, subject to customary lending conditions, Lennar will at any time make advances to us on a revolving basis up to a maximum of $75 million. The revolving facility will terminate in November 2015. Borrowings bear interest at LIBOR plus 3.5%. At November 30, 2014, no amounts had been borrowed or repaid under this agreement. During 2013, we repaid $235 million that Lennar had provided to us (including the $100 million repaid with proceeds of the sale of the 7.00% Senior Notes).

During 2014, we used our excess cash to dividend $167 million to Lennar. The remaining capital Lennar had invested in us, which all is in the form of equity, was $413.5 million as of November 30, 2014. As we receive proceeds of the winding down of the FDIC LLCs and our Bank Portfolios, we expect to return at least a portion of Lennar's remaining investment.

Bank Portfolios

In September 2010, the Company acquired approximately 400 distressed residential and commercial real estate loans and over 300 REO properties from three financial institutions. The Company paid $310 million for the distressed real estate and real estate related assets of which $124 million was financed through a five year senior unsecured note provided by one of the selling institutions of which $33.0 million of principal amount was retired in 2012. The Bank Portfolios' notes payable have an interest rate of the higher of 4.5% or 1 month LIBOR plus 3.75%.

In January 2014, the Company extended the maturity date of the Bank Portfolio's note payable from September 30, 2013 to September 30, 2016. Additionally, in February 2014, the Company rescheduled the three remaining principal payments of $30.3 million to be due on December 15, 2014, 2015 and 2016. There are only two principal payments remaining as the Company made the first payment of $30.3 million in November 2014. As of November 30, 2014 and 2013, there was $60.6 million and $90.9 million, respectively, outstanding.

Warehouse Repurchase Facilities

Our Loan Origination and Securitization business is funded by our two warehouse repurchase facilities and the proceeds of the sale of the 7.00% Senior Notes in excess of the $100 million that was paid to Lennar. As of November 30, 2014, the Company had secured two warehouse repurchase financing agreements for use in the Loan Origination and Securitization business that mature in fiscal year 2015 totaling $650 million to help finance the loans the Company originates. The first $250 million warehouse loan facility originated during 2013 has a maturity date of August 9, 2015 with an option for a one time, one year extension. The second $400 million warehouse loan facility originated during 2013 has a maturity date of October 8, 2015 with an option for a one time, one year extension. These facilities are in the form of two separate repurchase agreements, and each is secured by a 75% interest in the originated commercial loans financed under the Facility. Both of these Facilities bear interest at LIBOR plus 2.25% (with one subject to a LIBOR floor of 0.25%) calculated on the then outstanding principal amount (2.5% at November 30, 2014). The Facilities require the Company to maintain a minimum liquidity, tangible net worth, interest coverage and debt to equity ratios. The Company is in compliance with all debt covenants as of November 30, 2014. The Facilities require immediate repayment of the 75% interest in the secured commercial loans when the loans are sold in a securitization. As of November 30, 2014 and 2013, the Company had $141.3 million and $76.0 million, respectively, outstanding under the Facilities.

Structured Notes

In May 2014, the Company issued $73.8 million principal amount of notes through a securitized structured note offering (the "Structured Notes") collaterized by certain assets originally acquired in the Bank Portfolios transaction at a price of 100%, with an annual coupon rate of 2.85%. Proceeds from the offering, after payment of expenses and hold backs for cash reserved were $69.1 million. In November 2014, Rialto sold the second tranche of the Structured Notes at a price of 99.5%. The initial principal amount of this second tranche was $20.8 million and has an annual coupon rate of 5.00%. Proceeds from the sale were $20.7 million, including accrued interest. The estimated final payment date from the Structured Notes is December 15, 2015. Monthly payments of principal and interest are based on the priority of available cash per the cash management agreement. The overcollateralization percentage required by the structure is defined as the ratio of the aggregated allocated basis and the balance in the interest reserve account divided by the outstanding principal balance of the notes on each payment date to be greater than 125%. At November 30, 2014, there was $58.0 million outstanding related to the Structured Notes. The Company is in compliance with all debt covenants as of November 30, 2014.

Notes payable – other

On January 31, 2011, the Company obtained a monetary judgment on an unpaid principal balance of a loan receivable. Effective May 2, 2011, the Company entered into a settlement agreement in consideration for a stay of execution on the monetary judgment and agreed to accept the conveyance of full and partial ownership interests in entities that own numerous real estate assets. The real estate assets are comprised primarily of commercial office buildings. At the time the Company acquired these ownership interests, the underlying assets had a fair value of approximately $20.5 million including the assumption of notes payable totaling approximately $15.1 million which are reflected within Notes payable – other, in the table above. As part of the settlement agreement, the Company also accepted a secured promissory note receivable in the amount of $2.5 million from the obligor which is included in the Company's consolidated balance sheet within Loans receivable, net. The note bears interest at 5% per annum and requires interest only payments of $125,000 over the next five years with the principal amount due on May 30, 2016. The $2.5 million promissory note is secured by a stock pledge and pledge of cash distributions from additional commercial office building assets, of which the obligor is an owner. These notes payable have interest rates ranging from 5.5% to 6.9%.

In November 2013, in settlement of a loan acquired as part of the Company's Bank Portfolios, the Company acquired the real estate and operating entity of a hospital. This transaction was the result of a Chapter 11 reorganization plan approved on November 7, 2013. The first part of the reorganization plan required Rialto to make a $10 million cash investment that will be used to complete improvements in the hospital and emergency room facilities, provide for working capital requirements and begin to repay secured and unsecured court approved claims per the reorganization plan. The hospital guaranteed the payment of bankruptcy administrative claims of approximately $17.5 million owed to three groups of secured and unsecured creditors. In return, the Company acquired 100% of the Hospital operating entity effective November 8, 2013 which became a fully consolidated entity of the Company.

The Company has contracted the Third-party Operator to operate and manage the hospital. Additionally, a 20% equity interest in the real estate entity that owns the Hospital's land and building was exchanged for the administrative bankruptcy claims of several doctors who were original shareholders of the hospital. As of November 30, 2014, the exact amount of the claims that will be allowed has not yet been determined, therefore, the noncontrolling interest has not been distributed. Rialto has the right to withhold the distribution of this noncontrolling interest until all such requirements are satisfied.

Neither Rialto nor the Third-party Operator shall receive any distribution from operations other than the reduced management fee and payments until all creditors have been paid in full, which management believes can occur within two years.

Cash Flows

Cash provided by (used in) our operating, investing and financing activities is summarized as follows:

(in thousands)	2014	2013
Operating activities	$ (99,341)	$ (186,462)
Investing activities	295,935	488,283
Financing activities	(94,201)	(205,635)
Increase in cash	$ 102,393	$ 96,186

Operating Cash Flow Activities

Cash used in operating activities totaled $99.3 million and $186.5 million, respectively, representing a decrease of 47% year over year. Cash used in operating activities was impacted largely by our new Loan Origination and Securitization business that used cash for loan originations of $1.6 billion partially offset by the sale of almost all of those loan originations into eight separate securitization trusts for a cash inflow of $1.5 billion. There was a decrease in due to Parent of $11.5 million, an increase in accruals and other liabilities of $54.1 million and an increase in other assets of $15.2 million. Additionally, there was $59.3 million in equity in earnings from unconsolidated entities and $1.9 million in deferred income taxes. These cash uses were offset by net earnings attributable to Rialto of $41.0 million. Included in net earnings attributable to Rialto were non-cash items such as realized gains on the sale of REO of $43.7 million.

Investing Cash Flow Activities

Cash provided by investing activities was $295.9 million and $488.3 million, respectively, representing a 39% decrease year over year. Cash provided by investing consisted of receipts of principal payments on our loans receivable, net of $24.0 million, proceeds from the sale of REO of $269.7 million and return of capital from unconsolidated entities of $68.9 million. This was slightly offset by a $41.5 million contribution to our investments in unconsolidated entities, a $7.0 million origination of a short-term floating rate commercial loan, $14.3 million in improvements to REO and other net uses of cash of $3.9 million.

Financing Cash Flow Activities

During 2014 and 2013, cash used in financing activities was $94.2 million and $205.6 million, respectively, representing a 54% improvement year over year. Cash used in financing consisted of the paydown of the Notes payable of $75.9 million, distributions to the FDIC and minority investors of $112.5 million, distribution of $167 million to Lennar and net borrowings under the warehouse repurchase facilities of $65.3 million. This was slightly offset by proceeds $104.5 million from the 7.00% Senior Notes and proceeds from the Structured Notes of $94.4 million. Other cash used in financing amounted to $3.1 million.

Off-Balance Sheet Arrangements

Investments in Unconsolidated Entities

Financial information on a consolidated 100% basis regarding unconsolidated entities in which we have investments that are accounted for by the equity method was as follows as of November 30, 2014 and 2013, and for each of the years ended November 30, 2014, 2013 and 2012 (in thousands):

Balance Sheets

	2014	2013
Assets:		
Cash and cash equivalents	$ 141,609	$ 332,968
Loans receivable	512,034	523,249
Real estate owned	378,702	285,565
Investment securities	795,306	381,555
Investments in partnerships	311,037	149,350
Other assets	45,451	191,624
	$ 2,184,139	$ 1,864,311
Liabilities and equity:		
Accounts payable and other liabilities	$ 20,573	$ 108,514
Notes payable	395,654	398,445
Partner loans	-	163,940
Equity	1,767,912	1,193,412
	$ 2,184,139	$ 1,864,311

Statements of Operations

	2014	2013	2012
Revenues	$ 150,452	$ 251,533	$ 414,027
Costs and expenses	95,629	252,563	243,483
Other income, net (1)	479,929	187,446	713,710
Net earnings of unconsolidated entities	$ 534,752	$ 186,416	$ 884,254
Equity in earnings from unconsolidated entities	$ 59,277	$ 22,353	$ 41,483

(1) Other income, net for the year ended November 30, 2014, includes Fund I, Fund II and CMBS Fund's realized and unrealized gains on investments as well as other income from REO. Other income, net for the year ended November 30, 2013, includes Fund I and Fund II's realized and unrealized gains on investments as well as other income from REO. Other income, net for the year ended November 30, 2012, includes Fund I's realized and unrealized gains on investments as well as the Public-Private Investment Program Fund's ("PPIP Fund") mark-to-market unrealized gains and losses, of which the Company's portion was a small percentage. In addition, for the year ended November 30, 2012, other income, net also

includes realized gains from the sale of investments in the portfolio underlying the PPIP Fund, of which the Company's portion was a small percentage.

Contractual Obligations and Commercial Commitments

The following table summarizes certain of our contractual obligations at November 30, 2014 (in thousands):

		Payments Due by Period			
	Total	Less than 1 year	1 to 3 years	3 to 5 years	More than 5 years
Notes payable and other debts payable [1]	$ 481,974	$ 3,393	$ 125,467	$ 353,114	$ -
Warehouse repurchase facilities [2]	141,272	141,272	-	-	-
Interest commitments under interest bearing debt [3]	107,206	30,873	51,806	24,527	-
Investment commitments [4]	48,553	48,553	-	-	-
RMF rate lock commitment [5]	44,000	44,000	-	-	-
Operating leases	7,800	2,027	3,241	2,532	-
Total contractual obligations	$ 830,805	$ 270,118	$ 180,514	$ 380,173	$ -

(1) Amount includes $58.0 million related to the Structured Notes with an assumed final payment date of December 15, 2015.
(2) Warehouse facilities are assumed to be paid off in the short-term as soon as loans held-for-sale are securitized, which is normally within 2 to 3 months.
(3) Interest commitments on variable interest bearing debt are determined based on the interest rate as of November 30, 2014.
(4) Amount includes the Company's capital commitments to Fund II and the Mezzanine Fund.
(5) Relates to one loan the Company is contractually obligated to fund but has yet to release the funds to the borrower.

Market and Financing Risk

We finance our contributions to investing activities, general operating needs and REO improvements primarily with cash generated from operations and borrowings including a debt issuance. Up until our debt issuance in early November 2013, we received a large portion of the funding for our operations and investments from our Parent. However, our Parent has no commitment to continue providing funding to us, aside from up to $75 million in interest bearing loans under a Revolving Credit Agreement.

We engage in the business of originating commercial mortgage loans that by their nature are vulnerable to interest rate risk, credit risk and market risk. Variability in asset values and cash flows might significantly impact our results of operations and financial.

Our hedging strategy is intended to reduce, to the extent possible, the risk of unpredictable financial changes within applicable markets and to sustain the values of financial instruments that may be sold prior to maturity. Areas that we believe are exposed to market risk include the following:

- The portfolio of loans held-for-sale
- The underlying collateral of mortgage loans and mortgage-backed securities
- The purchase of hedges to mitigate both interest and credit risk

- The access to revolving credit facilities (repurchase agreements)

Our loan origination and securitization business uses various hedging instruments and techniques in an attempt to mitigate interest rate risk from the time a borrower rate locks a loan until the time the loan is securitized. While a perfect hedge (assuring zero loss) is rarely attainable, the goal is to minimize any potential losses. We also manage a portion of our credit exposure by buying protection within the CMBX and CDX markets. All hedging is performed on a portfolio basis as opposed to a loan by loan basis. Hedging instruments are executed only with dealers approved by our risk committee. Only individuals authorized by the credit committee can execute trades. The credit committee resolution listing all authorized traders is provided to all dealers. Trades are executed based on a daily position using sequentially numbered trade tickets. Trades are executed using a competitive bidding process generally involving at least three dealers unless not permitted by market conditions. A separate Rialto associate will independently verify all trades. All hedging activities are documented to provide independent parties the ability to verify the process. Hedge positions are monitored daily. On a monthly basis, we assess the effectiveness of existing hedges and ensure the appropriate accounting treatment is reflected in the financial statements.

Interest Rates and Changing Prices

Until 2011, our principal activity involved acquisitions of portfolios of, or interests in portfolios of, distressed debt and foreclosed properties, using primarily funds provided by Lennar through the Investor Companies. Since 2011, investments have been made primarily through investment funds we manage, but the Investor Companies have been investors in these funds. This can cause management fees and earnings from unconsolidated entities to be affected by changing conditions.

Generally, the purchase of non-performing loans ("NPL") is not highly sensitive to market conditions and interest rate movements, as the underlying loans and assets are purchased at a significant discount (generally 30% - 50% of unpaid principal balance) and are typically acquired at a discount to the underlying real estate value. Recently, we have seen a higher percentage of partially performing loans included in the NPL pools. The borrowers on these categories of loans are making monthly interest and principal payments. As most of the NPL's monthly payments are based on LIBOR, small increases in LIBOR should increase the investment's monthly cash flows.

However, a very large increase in interest rates (+/- 400 basis points) may have a negative impact on the value of the underlying real estate for portfolio or single assets (absent any recovery in the economy or increase in inflation). These large increases in interest rates may increase real estate capitalization rates thereby decreasing the potential proceeds from a refinance or the sale of the underlying property. This is largely mitigated by underwriting assumptions that include capitalization rate sensitivities due to higher interest rates. Furthermore, for most acquisitions, we include higher capitalization rates at sale (in anticipation of higher interest rates).

In addition, some of our acquired assets may be financed with floating rate debt. In these cases, increases in short-term interest rates will increase monthly debt service payments and reduce the underlying investment's cash flows. Rialto manages this direct interest rate exposure on a case by case (via the purchase of LIBOR caps) basis.

Also, our loan origination and securitization activities are sensitive to changes in interest rates. The value of mortgage loans and mortgage-backed securities are affected by the level of market interest rates. Similarly, when we originate loans, either for ourselves or for our managed funds, the yields on those loans will depend to a significant extent on market interest rates. Also, when our loan origination and securitization business commits to make a mortgage loan with regard to a particular property, it usually specifies a formula for determining the interest rate, and fixes the interest rate when it makes the loan. However, the price for which the loan can be sold to a securitization trust will depend on market interest rates at the time the loan is sold, which may be several months after the loan is made. That creates a risk that by the time we actually fund the loan and sell it into a securitization pool, interest rates will have increased, and therefore, the spread between the amount we lend and the price for which we can sell the loan into a securitization pool (which declines as market interest rates rise), as well as interest on the borrowings we utilize to make the loan, will be less than we had anticipated. The Company generally seeks to close loans as closely to the sale date as possible and mitigates interest rate risk through utilization of hedging instruments, but those hedges are not perfect, and we could be adversely affected by unexpected changes in interest rates.

Additionally, in regards to our CMBS investments, the market value of these investments could fluctuate materially over time as the result of changes in mortgage spreads, treasury bond yields, capital market supply and demand factors, the performance of the underlying properties and loans in the CMBS trust and many other factors that affect high-yield fixed income products. These factors are out of our control, but could affect our ability to sell CMBS classes which we own or cause values to fluctuate, which may have an impact on our unrealized gains or losses on those securities held by our funds and that value of our investment in those funds.

New Accounting Pronouncements

See Note 2 of the notes to our consolidated financial statements for a comprehensive list of new accounting pronouncements.

Critical Accounting Policies and Estimates

Preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions about future events that affect the amounts reported in our consolidated financial statements and accompanying notes. Future events and their effects cannot be determined with absolute certainty. Therefore, the determination of estimates requires the exercise of judgment. Actual results could differ from those estimates, and such differences may be material to our consolidated financial statements. Listed below are those policies and estimates that we believe are critical and require the use of significant judgment in their application.

Management Fee Revenue

We provide investment management services to a variety of legal entities and investment vehicles such as funds, joint ventures, co-investment vehicle and other private equity structures. As a result, we earn and receive management fees, underwriting fees and due diligence fees. These fees are recorded over the period in which the services are performed, fees are determinable and collectability is reasonably assured. We receive investment management fees from investment vehicles based on (1) a percentage of committed or called capital during the commitment period and called capital after the commitment period ends, and (2) a percentage of invested capital less the portion of such invested capital utilized to acquire investments that have been sold (in whole or in part) or liquidated. Fees earned for underwriting and due diligence services are based on actual costs incurred.

In certain situations, we may earn additional fees when the return on assets managed exceeds contractual thresholds (“Carried Interest”), which is generally approximately six years after inception. Such revenue is only booked when substantially all of the contract terms are met, the contract is at or near completion and the amounts are known and collectability is reasonably assured. For most of our investment vehicles, such revenue is recognized at the end of the life of the vehicle, after a significant portion of the assets have been sold and investment gains and losses realized. We are currently exceeding these investment thresholds in Fund I and anticipate booking in the future significant revenues from our carried interest in Fund I and from other current and future investment funds. During 2014, $34.7 million was paid to us by Fund I as an advanced tax distribution in order to cover income tax obligations, resulting from the allocations of taxable income from our carried interest in Fund I. This amount of advanced carried interest is not subject to repayment or adjustment. We believe this to be a significant accounting policy because it represents a material portion of our revenue and is expected to comprise a growing portion of our future revenue as we manage more assets and sponsor new investment funds.

Loans Receivable — Revenue Recognition & Impairment

All of the acquired loans for which (1) there was evidence of credit quality deterioration since origination and (2) for which it was deemed probable that we would be unable to collect all contractually required principal and interest payments were accounted for under ASC Topic 310-30, *Loans and Debt Securities Acquired with Deteriorated Credit Quality*, ("ASC 310-30"). For loans accounted for under ASC 310-30, management determined upon acquisition the loan's value based on due diligence on each of the loans, the underlying properties and the borrowers. We determined fair value by discounting the cash flows expected to be collected adjusted for factors that a market participant would consider when determining fair value. Factors considered in the valuation were projected cash flows for the loan, the type of loan and related collateral, classification status and current discount rates. Since the estimates are based on projections, all estimates are subjective and can change due to unexpected changes in economic conditions or loan performance.

Under ASC 310-30, loans were pooled together according to common risk characteristics. A pool is then accounted for as a single asset with a single component interest rate and based on aggregate expectation of cash flows. The excess of the cash flows expected to be collected over the cost of the loans acquired is referred to as the accretable yield and is recognized in interest income over the remaining life of the loans using the effective yield method. The difference between the contractually required payments and the cash flows expected to be collected at acquisition is referred to as the nonaccretable difference. This difference is neither accreted into income nor recorded on our consolidated balance sheets.

We periodically evaluated our estimate of cash flows expected to be collected on our portfolios. These evaluations required the continued use of key assumptions and estimates, similar to those used in the initial estimate of fair value of the loans to allocate purchase price. Subsequent changes in the estimated cash flows expected to be collected would result in changes in the accretable yield and nonaccretable difference or reclassifications from nonaccretable yield to accretable yield. Increases in the cash flows expected to be collected would generally result in an increase in interest income over the remaining life of the loan or pool of loans. Decreases in expected cash flows due to further deterioration would generally result in an impairment recognized as a provision for loan losses, resulting in an increase to the allowance for loan losses. Prepayments were treated as a reduction of cash flows expected to be collected and a reduction of contractually required payments such that the nonaccretable difference was not affected.

During the fourth quarter of 2014, the Company's remaining accretable yield loan portfolio outstanding at October 1, 2014, was placed on nonaccrual status due to the uncertainty of Rialto's ability to estimate the timing and amount of the remaining future cash flows. The conversion from accrual to nonaccrual in accordance with ASC 310-30, resulted in an additional impairment charge of $10.1 million within the FDIC Portfolios and a recovery of $0.1 million in the Bank Portfolios. At November 30, 2014, these loans were classified and accounted for as nonaccrual loans.

We believe that the accounting related to loans with deteriorated credit quality and the accounting for accretable yield are critical accounting policies because of the significant judgment involved.

Nonaccrual Loans — Revenue Recognition & Impairment

At November 30, 2014 and 2013, there were loans receivable with a carrying value of $130.1 million and $8.3 million, respectively, for which interest income was not being recognized as they were classified as nonaccrual. As described above, this represents the entire balance of loans receivable at November 30, 2014. When forecasted principal and interest cannot be reasonably estimated at the loan acquisition or later date, management classifies the loan as nonaccrual and accounts for these assets in accordance with ASC 310-10, *Receivable*, (“ASC 310-10”). When a loan is classified as nonaccrual, any subsequent cash receipt is accounted for using the cost recovery method. In accordance with ASC 310-10, a loan is considered impaired when based on current information and events; it is probable that all amounts due according to the contractual terms of the loan agreement will not be collected. A provision for loan losses is recognized when the recorded investment in the loan is in excess of its fair value. The fair value of the loan is determined by using either the present value of expected future cash flows discounted at the loan’s effective interest rate or the fair value of the collateral less estimated costs to sell. For these reasons, we believe that the accounting for nonaccrual loans is a critical accounting estimate.

As previously described, during the fourth quarter of 2014, the Company’s remaining accretable yield loan portfolio outstanding at October 1, 2014, was placed on nonaccrual status. At November 30, 2014, these loans were classified and accounted for as nonaccrual loans.

Real Estate Owned

REO is real estate of which we have taken control or effective control in partial or full satisfaction of loans receivable. At the time of acquisition of a property through foreclosure of a loan, REO is recorded at fair value less estimated costs to sell if classified as held-for-sale or at fair value if classified as held-and-used, net, which becomes the property’s new basis. The fair values of these assets are determined in part by placing reliance on third-party appraisals of the properties and/or internally prepared analyses of recent offers or prices on comparable properties in the proximate vicinity. The third-party appraisals and internally developed analyses are significantly impacted by the local market economy, market supply and demand, competitive conditions and prices on comparable properties, adjusted for date of sale, location, property size, and other factors. Each REO is unique and is analyzed in the context of the particular market where the property is located. In order to establish the significant assumptions for a particular REO, we analyze historical trends, including trends achieved by Lennar’s local homebuilding operations, if applicable, and current trends in the market and economy impacting the REO. Using available trend information, we then calculate our best estimate of fair value, which can include projected cash flows discounted at a rate we believe a market participant would determine to be commensurate with the inherent risks associated with the assets and related estimated cash flow streams.

Changes in economic factors, consumer demand and market conditions, among other things, could materially impact estimates used in the third-party appraisals and/or internally prepared analyses of recent offers or prices on comparable properties. Thus, estimates can differ significantly from the amounts ultimately realized by us from the disposition of these assets. The amount by which the recorded investment in the loan is less than the REO’s fair value (net of estimated cost to sell if held-for-sale), is recorded as an unrealized gain on foreclosure in our consolidated statements of operations. The amount by which the recorded investment in the loan is greater than the REO’s fair value (net of estimated cost to sell if held-for-sale) is recorded as a provision for loan losses for nonaccrual loans and as an unrealized loss within Other REO expense, net, for accrual loans in our consolidated statements of operations.

Subsequent to obtaining REO via foreclosure or directly from a financial institution, management periodically performs valuations using the methodologies described above such that the real estate is carried at the lower of its cost basis or current fair value, less estimated costs to sell if classified as held-for-sale, or at the lower of its cost basis or current fair value if classified as held-and-used, net. Any subsequent valuation adjustments, operating expenses or income, and gains and losses on disposition of such properties are also recognized in our Other REO expense, net. REO assets classified as held- and-used are depreciated using a useful life of forty years for commercial properties and twenty seven and a half years for residential properties. Our REO assets classified as held-for-sale are not depreciated. Occasionally an asset will require certain improvements to yield a higher return. In accordance with ASC 970-340-25, *Real Estate*, construction costs incurred prior to acquisition or during development of the asset may be capitalized.

We believe that the accounting for REO is a critical accounting policy because of the significant judgment required in the third-party appraisals and/or internally prepared analysis of recent offers or prices of comparable properties in the proximate vicinity used to estimate the fair value of the REOs.

Loans Held-For-Sale

These originated mortgage loans are accounted for in accordance with ASC Topic 825, *Financial Instruments*, and consist of commercial loans that are carried at fair value in the accompanying consolidated balance sheets. Changes in fair values of the loans and the derivative instruments used to hedge their economic exposure are reflected in Gains from securitizations and other loan origination revenues in the accompanying consolidated statements of operations. Interest income on these loans is calculated based on the interest rate of the loan and is recorded in revenue in the accompanying consolidated statements of operations. Substantially all of the mortgage loans originated are sold within a short period of time in a securitization on a servicing released, non-recourse basis; although, the Company remains liable for certain limited industry-standard representations and warranties related to loan sales. The Company recognizes gains on the sale of loans into securitization trusts when control of the loans has been relinquished.

In the normal course of business, the Company uses derivative financial instruments to hedge its exposure to risks during the period from when the Company has originated a loan until the time in which the loan is sold. These derivatives are used for risk management purposes to reduce the Company’s exposure to fluctuations in mortgage-related interest rates as well as lessen its credit risk. The Company hedges its interest rate exposure through entering into interest rate swap futures. Credit exposure is managed at a portfolio level through entering into credit default swaps consisting of both single “A”, “AAA” and “BBB” rated CMBX swaps as well as CDX swaps. The Company does not enter into or hold derivatives for trading or speculative purposes.

We believe this is a critical accounting policy due to the significant judgment involved in estimating the fair value of loans held-for-sale during the period between the time the loan is originated and the time the loan is sold.

Consolidations of Variable Interest Entities

In 2010, the Company acquired indirectly 40% managing member equity interests in two limited liability companies (“LLCs”), with the FDIC owning the other 60%. We determined that each of the LLCs met the definition of a variable interest entity (“VIE”) and we were the primary beneficiary. In accordance with ASC 810-10-65-2, *Consolidations*, (“ASC 810-10-65-2”), we identified the activities that most significantly impact the LLCs’ economic performance and determined that we have the power to direct those activities. The economic performance of the LLCs is most significantly impacted by the performance of the LLCs’ portfolios of assets, which consist primarily of distressed residential and commercial mortgage loans. Thus, the activities that most significantly impact the LLCs’ economic performance are the servicing and disposition of mortgage loans and real estate obtained through loan foreclosures, restructuring of loans, or other planned activities associated with the monetizing of loans.

The FDIC does not have the unilateral power to terminate our role in managing the LLCs and servicing the loan portfolio. While the FDIC has the right to prevent certain types of transactions (i.e., bulk sales, selling assets with recourse back to the selling entity, selling assets with representations and warranties and financing the sales of assets without the FDIC's approval), the FDIC does not have full voting or blocking rights over the LLCs' activities, making their voting rights protective in nature, not substantive participating voting rights. Other than as described in the preceding sentence, which are not the primary activities of the LLCs, we can cause the LLCs to enter into both the disposition and restructuring of loans without any involvement of the FDIC. Additionally, the FDIC has no voting rights with regard to the operation/management of the operating properties that are acquired upon loan foreclosures (e.g. REO) and no voting rights over the business plans of the LLCs. The FDIC can make suggestions regarding the business plans, but we can decide not to follow the FDIC's suggestions and not to incorporate them in the business plans. Since the FDIC's voting rights are protective in nature and not substantive participating voting rights, we have the power to direct the activities that most significantly impact the LLCs' economic performance. In accordance with ASC 810-10-65-2, we determined that we had an obligation to absorb losses of the LLCs that could potentially be significant to the LLCs or the right to receive benefits from the LLCs that could potentially be significant to the LLCs based on the following factors:

- Rialto/Lennar owns 40% of the equity of the LLCs and has the power to direct activities of the LLCs that most significantly impact their economic performance through loan resolutions and the sale of REO.

- Rialto/Lennar has a management/servicer contract under which we earn a 0.5% servicing fee.

- Rialto/Lennar has guaranteed, as the servicer, its obligations under the servicing agreement up to $10.0 million.

We are aware that the FDIC, as the owner of 60% of the equity of each of the LLCs, may also have an obligation to absorb losses of the LLCs that could potentially be significant to the LLCs. However, in accordance with ASC Topic 810-10-25-38A, only one enterprise, if any, is expected to be identified as the primary beneficiary of a VIE. Since both criteria for consolidation in ASC 810-10-65-2 are met, we consolidated the LLCs. We believe that our assessment that we are the primary beneficiary of the LLCs is a critical accounting policy because of the significant judgment required in evaluating all of the key factors and circumstances in determining the primary beneficiary.

Valuation of Deferred Taxes

The Company records income taxes under the asset and liability method, whereby deferred tax assets and liabilities are recognized based on the future tax consequences attributable to temporary differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases and attributable to operating loss and tax credit carryforwards. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply in the years in which the temporary differences are expected to be recovered or paid. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in earnings in the period when the changes are enacted. Interest related to unrecognized tax benefits is recognized as a component of provision for income taxes in the accompanying consolidated statements of operations.

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

We believe that the accounting estimate for the valuation of deferred tax assets and liabilities is a critical accounting estimate because judgment is required in assessing the likely future tax consequences of events that have been recognized in our financial statements or tax returns. We base our estimate of deferred tax assets and liabilities on current tax laws and rates and, in certain cases, business plans and other expectations about future outcomes. Changes in existing tax laws or rates could affect actual tax results and future business results, which may affect the amount of deferred tax liabilities or the valuation of deferred tax assets over time. Our accounting for deferred tax consequences represents our best estimate of future events.

Goodwill

At November 30, 2014, our goodwill was $5.4 million. Goodwill represents the excess of the purchase price paid over the fair value of the net assets acquired. Evaluating goodwill for impairment involves the determination of the fair value of our reporting unit in which we have recorded goodwill. A reporting unit is a component of a business line for which discrete financial information is available and reviewed by management on a regular basis. Inherent in the determination of fair value of our reporting units is certain estimates and judgments, including the interpretation of current economic indicators and market valuations as well as our strategic plans with regard to our operations. To the extent additional information arises as our strategies change, it is possible that our conclusion regarding goodwill impairment could change, which could have a material effect on our financial position and results of operations. For these reasons, we believe that the accounting estimate related to goodwill impairment is a critical accounting estimate.

We recorded goodwill in connection with an acquisition during the first quarter of 2014. We review goodwill annually (or whenever indicators of impairment exist) for impairment. We evaluated the carrying value of our goodwill in the fourth quarter of 2014. We estimated the fair value of our Service Provider based on the income approach and concluded that goodwill impairment was not required for 2014. As of November 30, 2014, there were no significant identifiable intangible assets, other than goodwill. During the year ended November 30, 2014, we did not record goodwill impairment charges.

The income approach establishes fair value by methods which discount or capitalize earnings and/or cash flow by a discount or capitalization rate that reflects market rate of return expectations, market conditions and the risk of the relative investment. We used a discounted cash flow method when applying the income approach. This analysis includes operating income, interest expense, taxes and incremental working capital, as well as other factors. The projections used in the analysis are for a five-year period and represent what we consider to be normalized earnings.

In determining the fair value of our operations under the income approach, our expected cash flows are affected by various assumptions. The most significant assumptions affecting our expected cash flows are the discount rate, projected revenue growth rate and operating profit margin. The impact of a change in any of our significant underlying assumptions +/- 1% would not result in a materially different value.

RIALTO HOLDINGS, LLC AND SUBSIDIARIES

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INDEPENDENT AUDITORS' REPORT

To The Stockholder of
Rialto Holdings, LLC
Miami, Florida

We have audited the accompanying consolidated financial statements of Rialto Holdings, LLC and its subsidiaries (the "Company"), which comprise the consolidated balance sheets as of November 30, 2014 and 2013, and the related consolidated statements of operations, equity, and of cash flows for each of the three years in the period ended November 30, 2014, and the related notes to the consolidated financial statements.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Company's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Rialto Holdings, LLC and its subsidiaries as of November 30, 2014 and 2013, and the results of their operations and their cash flows for each of the three years in the period ended November 30, 2014 in accordance with accounting principles generally accepted in the United States of America.

Deloitte & Touche LLP

February 23, 2015

RIALTO HOLDINGS, LLC AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS
AS OF NOVEMBER 30, 2014 AND 2013
(In thousands)

	November 30, 2014	November 30, 2013
ASSETS		
Cash	$ 303,889	$ 201,496
Restricted cash	46,975	2,593
Receivables, net	153,773	111,833
Loans held-for-sale	113,596	44,228
Loans receivable, net	137,124	278,392
Real estate owned - held-for-sale	190,535	197,851
Real estate owned - held-and-used, net	255,795	428,989
Investments in unconsolidated entities	175,700	154,573
Investments held-to-maturity	17,290	16,070
Other assets, net	63,475	43,288
Total assets	$ 1,458,152	$ 1,479,313
LIABILITIES AND EQUITY		
LIABILITIES:		
Accounts payable	$ 3,068	$ 3,729
Accrued expenses and other liabilities	117,395	43,580
Deferred income tax liability, net	3,335	7,815
Due to Parent	1,053	12,447
Notes payable and other debts payable	623,246	441,883
Total liabilities	748,097	509,454
COMMITMENTS AND CONTINGENT LIABILITIES (Note 13)		
PARENT'S EQUITY	413,479	539,446
NONCONTROLLING INTERESTS	296,576	430,413
Total equity	710,055	969,859
Total liabilities and equity	$ 1,458,152	$ 1,479,313

See notes to consolidated financial statements.

RIALTO HOLDINGS, LLC AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF OPERATIONS
FOR EACH OF THE YEARS ENDED NOVEMBER 30, 2014, 2013 AND 2012
(In thousands)

	2014	2013	2012
REVENUES:			
Interest income	$ 70,438	$ 78,907	$ 103,913
REO revenue:			
Hospital revenues, net	26,367	4,737	-
Rental income	17,153	20,269	16,476
Gains from securitizations and other loan origination revenues	75,255	27,761	-
Management fees	84,828	31,392	34,943
Total revenues	274,041	163,066	155,332
EXPENSES:			
General and administrative expense	117,674	79,761	53,730
REO expense, net:			
Hospital expense, net	26,762	4,665	-
Other REO expense, net	13,741	3,554	46,256
Provision for loan losses	57,113	16,139	27,966
Interest expense	33,490	7,484	5,943
Servicing expense	19,438	32,565	46,598
Securitization and loan origination expenses	16,196	8,181	-
Amortization of debt issuance costs	3,041	5,680	4,565
Depreciation expense	2,162	1,262	188
Total expenses	289,617	159,291	185,246
EQUITY IN EARNINGS FROM UNCONSOLIDATED ENTITIES	59,277	22,353	41,483
GAIN ON SALE OF INVESTMENT SECURITIES	378	-	-
NET EARNINGS (INCLUDING NET (LOSS) EARNINGS ATTRIBUTABLE TO NONCONTROLLING INTERESTS)	44,079	26,128	11,569
LESS: NET (LOSS) EARNINGS ATTRIBUTABLE TO NONCONTROLLING INTERESTS	(22,493)	6,238	(14,383)
NET EARNINGS ATTRIBUTABLE TO RIALTO BEFORE PROVISION FOR INCOME TAXES	66,572	19,890	25,952
PROVISION FOR INCOME TAXES	25,539	8,028	10,484
NET EARNINGS ATTRIBUTABLE TO RIALTO	$ 41,033	$ 11,862	$ 15,468

See notes to consolidated financial statements.

RIALTO HOLDINGS, LLC AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF EQUITY
FOR EACH OF THE YEARS ENDED NOVEMBER 30, 2014, 2013 AND 2012
(In thousands)

	2014	2013	2012
PARENT'S EQUITY			
Beginning balance	$ 539,446	$ 53,163	$ 37,695
Net earnings attributable to Rialto	41,033	11,862	15,468
Distributions of capital to Parent	(167,000)	-	-
Noncash contribution from Parent	-	474,421	-
Ending balance	$ 413,479	$ 539,446	$ 53,163
NONCONTROLLING INTERESTS			
Beginning balance	$ 430,413	$ 445,286	$ 459,669
Net (loss) earnings attributable to noncontrolling interests	(22,493)	6,238	(14,383)
Reclassification of noncontrolling interest from due to Parent	-	5,000	-
Final bargain purchase acquisition adjustment	1,118	2,243	-
Distributions of capital to noncontrolling interests	(112,462)	(28,354)	-
Ending balance	$ 296,576	$ 430,413	$ 445,286
TOTAL EQUITY	$ 710,055	$ 969,859	$ 498,449

See notes to consolidated financial statements.

RIALTO HOLDINGS, LLC AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR EACH OF THE YEARS ENDED NOVEMBER 30, 2014, 2013 AND 2012
(In thousands)

	2014	2013	2012
CASH FLOWS FROM OPERATING ACTIVITIES:			
Net earnings attributable to Rialto	$ 41,033	$ 11,862	$ 15,468
Noncontrolling interest (loss) earnings	(22,493)	6,238	(14,383)
Adjustment to reconcile net earnings attributable to Rialto to net cash used in operating activities:			
Amortization of debt issuance costs and premium	2,745	5,680	4,565
Depreciation expense	6,393	5,345	6,988
Net losses on loan foreclosure	6,770	427	1,878
Gains on sale of real estate owned	(43,671)	(48,785)	(21,649)
Gain on bargain purchase acquisition	-	(8,532)	-
Equity in earnings from unconsolidated entities	(59,277)	(22,353)	(41,483)
Impairment on real estate owned	19,337	16,090	9,282
Deferred income tax (benefit) provision	(1,928)	(14,365)	10,707
Provision for loan losses	57,113	16,139	27,966
Distributions of earnings from unconsolidated entities	2,466	648	18,399
Accretion of discount on investments held-to-maturity	(1,220)	(1,058)	(916)
Gain on sale of investment securities	(378)	-	-
Originations of loans held-for-sale	(1,562,748)	(690,266)	-
Proceeds from sale of loans held-for-sale	1,458,671	536,951	-
Principal payments on loans held-for-sale	898	-	-
Unrealized gains on loans held-for-sale	(8,031)	(2,550)	-
Gain on retirement of debt	(4,555)	-	-
Changes in operating assets and liabilities:			
Restricted cash	(27,408)	(2,593)	-
Loans receivable, net	10,215	(9,050)	(19,775)
Other assets	(15,204)	(2,955)	(12,242)
Accounts payable	(661)	(391)	(3,927)
Due from Parent	(11,536)	-	-
Accrued expenses and other liabilities	54,128	17,056	(530)
Net cash used in operating activities	(99,341)	(186,462)	(19,652)
CASH FLOWS FROM INVESTING ACTIVITIES:			
Purchase of operating equipment, net	(4,361)	(4,053)	-
Receipts of principal payments on loans receivable	24,019	74,185	81,648
Proceeds from sales of real estate owned	269,698	239,215	183,883
Improvements to real estate owned	(14,278)	(9,407)	(13,945)
Distributions of capital from unconsolidated entities	68,914	42,556	83,368
Investments in unconsolidated entities	(41,523)	(66,953)	(43,555)
Originations of loans receivables	(7,000)	-	-
Proceeds from sale of investment securities	9,171	-	-
Acquisition of investment securities	(8,705)	-	-
Bargain purchase acquisition	-	(5,623)	-
Acquisition of loans receivable	-	(5,450)	-
Decrease (increase) in defeasance cash to retire notes payable	-	223,813	(4,427)
Net cash provided by investing activities	295,935	488,283	286,972

(Continued)

RIALTO HOLDINGS, LLC AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED NOVEMBER 30, 2014, 2013 AND 2012
(In thousands)

	2014	2013	2012
CASH FLOWS FROM FINANCING ACTIVITIES:			
Proceeds from 7.00% Senior Notes	104,525	250,000	-
Proceeds from Structured Notes	94,444	-	-
Repayment of notes payable and other debts payable	(75,879)	(471,255)	(191,221)
Net borrowings under warehouse repurchase facilities	65,254	76,017	-
Debt issuance costs	(3,083)	(7,262)	-
Distributions of capital to Parent	(167,000)	-	-
Repayment of indebtedness to Parent	-	(235,000)	-
Distributions of capital to noncontrolling interests	(112,462)	(28,354)	-
Increase (decrease) in due to Parent	-	210,219	(54,727)
Net cash used in financing activites	(94,201)	(205,635)	(245,948)
NET INCREASE IN CASH	102,393	96,186	21,372
CASH — Beginning of year	201,496	105,310	83,938
CASH — End of year	$ 303,889	$ 201,496	$ 105,310
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:			
Cash paid for interest on notes payable and other debts payable	$ 24,537	$ 7,074	$ 5,943
SUPPLEMENTAL DISCLOSURES OF NON-CASH INVESTING AND FINANCING ACTIVITIES:			
Real estate owned acquired through loan foreclosure	$ 57,390	$ 70,237	$ 183,911
Equity contribution from Parent	$ -	$ 474,421	$ -
Non-cash acquisition of Service Provider (see Note 6)	$ 8,317	$ -	$ -
Real estate owned acquired in bargain purchase acquisition	$ -	$ 31,818	$ -
Net liabilities assumed in bargain purchase acquisition	$ -	$ 6,200	$ -
Transfers of REO assets to Parent	$ -	$ 9,480	$ 11,335
Reductions in loans receivable from deficiency settlements	$ -	$ 619	$ 3,068

See notes to audited consolidated financial statements. (Concluded)

1. ORGANIZATION AND DESCRIPTION OF BUSINESS

Rialto Holdings, LLC, is a holding company that owns 100% of the legal entities Rialto Investments, LLC and Rialto Capital Management, LLC, and conducts its activities through those entities and their subsidiaries (collectively, "Rialto" or the "Company"). Rialto is a leading commercial real estate investment management, asset management, and finance company focused on 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 has a vertically-integrated investment and operating platform consisting of 383 professionals operating from ten offices across the United States ("U.S."). Founded in 2007, the Company is a wholly owned subsidiary of Lennar Corporation ("Lennar" or the "Parent"), which is one of the largest publicly traded homebuilders in the U.S., provider of financial services and national developer of high-quality multifamily rental properties. Lennar has over 6,800 employees, with homebuilding and development operations in 17 states. Although Rialto operates independently from Lennar, Rialto believes that its affiliation with Lennar provides several key competitive advantages in the Company's underwriting and management process, including access to local market networks that provide "just-in-time" insight on market conditions. In addition, Lennar's nationwide footprint and public company infrastructure provide an effective base on which to manage and add value to geographically diverse assets.

The Company conducts its business through three major business lines: investment and asset management, loan origination and securitization, and direct investments in real estate related assets. A comprehensive risk management approach is applied across the Company's business lines, which is rooted in management's deep understanding of fundamental real estate values and proven ability to manage these complementary business lines through multiple economic and credit cycles. Many of the Company's investment and asset management opportunities were initially generated from dislocations in the U.S. real estate markets from 2007 to 2010 and the efforts to restructure and recapitalize those markets.

The Company's primary business strategy is to raise, invest and manage third-party capital, as well as to invest its own capital, in its three major business lines.

Investment and Asset Management
The Company's real estate Investment and Asset Management business is a sponsor of, and an investor in private equity vehicles that invest in and manage real estate related assets.

Rialto is one of the industry leaders in raising and investing real estate private equity. The Company focuses on long-term relationships with a global base of institutional investors, which today include pension funds, fund-of-funds, foundations and endowments, corporations, other institutional investors, and family offices. The Company's fund investors value the Company's investing expertise and diverse investment strategies, combined with the Company's strong focus on risk management and its vertically integrated operational infrastructure, which lead to a strong performance track record to date. As an investment and asset manager, the Company has a fundamental focus on the alignment of interests with its investors in its funds, which include investing significant capital alongside its investors in each of the Company's fund vehicles.

This has included the Rialto Real Estate Fund, LP ("Fund I") that was initially formed in 2010 in which investors committed and contributed a total of $700 million of equity (including $75 million by the Company), the Rialto Real Estate Fund II, LP ("Fund II") that was formed in 2012 with investor commitments of $1.3 billion (including $100 million by the Company), the Rialto Mezzanine Partners Fund, LP (the "Mezzanine Fund") that was formed in 2013 with a target of raising $300 million in capital with investor commitments of $251.1 million (including $27.3 million committed by the Company) to invest in performing mezzanine commercial loans and the Rialto CMBS Fund, LP (the "CMBS Fund") with investor commitments of $46.4 million (including $15.8 million by the Company), that was created in 2014 to acquire, own and/or monetize securities whose value and income payments are derived from and collaterized by specific pools of underlying assets, referred to as commercial mortgage-backed securities ("CMBS"). In 2013, the Company also began managing a $200 million separate account for a global insurance company. Rialto earns fees for its role as a manager of these vehicles and for providing asset management and other services to these vehicles and other third parties. In January 2014, the Company acquired a loan servicer which provides loan servicing support for the Company's owned and managed portfolios and asset management services for the Company's small balance loan portfolio (See Note 6).

The Company's vertically integrated underwriting and loan and real estate asset management platform, along with its extensive relationship with borrowers, real estate owners, loan originators, brokers and other third parties, and its access to Lennar's regional and local real estate expertise provide unique insight into local markets nationwide and allow the Company to develop customized investment management solutions that the Company believes should enable it continue to generate superior results.

The Company's business objective is to judiciously grow its assets under management and create value from its underlying investments, and in turn increase its recurring fees, as well as its share of profits from the investments the Company makes in its fund vehicles. As of November 30, 2014, the Company had over $2.5 billion of equity under management overseen by 233 professionals. The Company earns management fees based on the amount of capital it manages; incentive income based on the performance of its fund vehicles, and investment income from its principal investments.

Over the past two years, Rialto has become a leading investor and approved and rated special servicer by all the major rating agencies for CMBS growing its platform from zero to over $50 billion of special servicing since April 2012. The Company's servicing platform includes ongoing and active surveillance and special servicing activities.

Loan Origination and Securitization
The Company's Loan Origination and Securitization business, Rialto Mortgage Finance ("RMF"), began commercial mortgage loan origination activities in 2013 with a group of 22 professionals and currently has 34 associates as of November 30, 2014. RMF originates fixed rate, first mortgage loans, secured by stabilized, income-producing commercial real estate properties, which are sold through securitizations. These loans generally have five, seven and ten year terms. An internal team sources lending opportunities through a network of direct borrower and third-party intermediary relationships. The Company has a standardized credit and underwriting process, which begins an initial due diligence review and continues through a legal and underwriting process. The Company's credit committee approves loans based on the credit quality of the loan as well as its anticipated execution in the credit markets. During the year ended November 30, 2014, the Company originated loans with a total principal balance of $1.6 billion and sold and closed $1.5 billion of originated loans into eight separate securitization trusts, making the Company, by volume, the third largest non-bank contributor of loans to CMBS securitizations in the U.S.

To finance its lending activities, the Company had $500 million of committed term credit facilities from two institutional counterparties and subsequently increased the capacity under its committed term credit facilities to $650 million during July, 2014. The Company seeks to sell loans as quickly as feasible once funded. In addition, while the Company holds loans on its balance sheet before securitization, it hedges underlying interest rates and credit spreads using a variety of strategies and tools available in the market.

The Company generates revenue and liquidity through the following methods: (i) the sale of its loans; (ii) the sale of servicing rights; (iii) net interest income and (iv) loan origination fees. Servicing rights to the loans the Company originates are sold to a variety of institutions that derive revenue from fees earned on the administration of these loans. Net interest income on loans is interest revenue earned from loans prior to the time that the Company sells the loans less any financing costs from its credit facilities used in loan origination. Lastly, the Company generates fees on certain loans at the time of origination.

Direct Investments
Through the Company's Direct Investments business line, Rialto has been among the most active acquirers of portfolios of distressed real estate loans and assets from banks, government entities and other financial institutions.

In 2010, the Company acquired indirectly 40% managing member equity interests in two limited liability companies ("LLCs"), in partnership with the Federal Deposit Insurance Corporation ("FDIC"). The FDIC retained 60% equity interests in the LLCs. The LLCs hold performing and non-performing loans formerly owned by 22 failed financial institutions and when the Company acquired its interests in the LLCs, the two portfolios consisted of approximately 5,500 distressed residential and commercial real estate loans ("FDIC Portfolios"). The FDIC provided $626.9 million of financing with 0% interest, which was non-recourse to the Company and the LLCs and has been paid off (see Note 9). Additionally, if the LLCs exceed expectations and meet certain internal rate of return and distribution thresholds, the Company's equity interest in the LLCs could be reduced from 40% down to 30%, with a corresponding increase to the FDIC's equity interest from 60% to 70%. As these thresholds have not been met, distributions will continue being shared 60% / 40% with the FDIC. During the year ended November 30, 2014, $184.9 million had been distributed by the LLCs, of which $110.9 million was paid to the FDIC and $74.0 million was paid to the Company.

The LLCs meet the accounting definition of a variable interest entity ("VIE") and since the Company was determined to be the primary beneficiary, the Company consolidated the LLCs. At November 30, 2014, these consolidated LLCs had total combined assets and liabilities of $508.4 million and $21.6 million, respectively. At November 30, 2013, these consolidated LLCs had total combined assets and liabilities of $727.1 million and $20.2 million, respectively.

Also in 2010, the Company acquired approximately 400 distressed residential and commercial real estate loans ("Bank Portfolios") and over 300 real estate owned ("REO") properties from three financial institutions. The Company paid $310 million for the Bank Portfolios and real estate related assets of which $124 million was financed through a five year senior unsecured note provided by one of the selling institutions.

In addition, in 2010, the Company purchased approximately $43 million face amount of non-investment grade CMBS for $19.4 million, representing a 55% discount from par value.

The Company also manages certain operating assets that are acquired through loan foreclosures, which as of November 30, 2014, includes a hospital operation (see Note 6).

The Company's objective is to continue to monetize and wind down these distressed commercial real estate portfolios in order to free up the underlying capital to recycle cash to achieve higher returns elsewhere in the company.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Significant accounting principles and practices used in the preparation of the consolidated financial statements are as follows:

Basis of Presentation - The consolidated financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America ("GAAP"). The accompanying consolidated financial statements include the accounts of the Company and all of its subsidiaries. All intercompany transactions and balances have been eliminated.

Reclassification – Certain prior year amounts in the consolidated financial statements have been reclassified to conform to 2014 presentation.

Use of Estimates - The preparation of financial statements in conformity with GAAP requires the Company's management to make estimates and assumptions that affect the reported amounts of assets and liabilities, at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Significant items subject to such estimates and assumptions include expected cash flows on distressed loans, allowances for loan losses, valuation of loans held-for-sale, real estate acquired in connection with foreclosures or in satisfaction of loans, and fair value of loans held-for-sale derivative instruments. Actual results could differ from those estimates.

Restricted Cash - Restricted cash includes funds held in a separate bank account that are designated for the repayment of accrued interest on notes payable in the event that cash on hand is not sufficient to service the debt. The Company also established a restricted cash account related to the RMF business line. These funds are restricted as they are upfront deposits and application fees the Company receives before originating loans. Once the loan has been originated, the Company recognizes the income and the cash is no longer restricted. Also, during January 2014, the Company acquired a loan service provider (see Note 6). Restricted cash is held in escrow by the loan service provider on behalf of customers and lenders and is disbursed in accordance with agreements between the transacting parties.

Loans Receivable - Revenue Recognition and Impairment - All of the acquired loans for which (1) there was evidence of credit quality deterioration since origination and (2) it was deemed probable that the Company would be unable to collect all contractually required principal and interest payments were accounted for under Accounting Standards Codification ("ASC") Topic 310-30, *Loans and Debt Securities Acquired with Deteriorated Credit Quality*, ("ASC 310-30"). For loans accounted for under ASC 310-30, management determined upon acquisition the loan's value based on due diligence on each of the loans, the underlying properties, and the borrowers. The Company determined fair value by discounting the cash flows expected to be collected, adjusted for factors that a market participant would consider when determining fair value. Factors considered in the valuation were projected cash flows for the loans, type of loan and related collateral and current discount rates.

Under ASC 310-30, loans were pooled together according to common risk characteristics. A pool is then accounted for as a single asset with a single component interest rate and an aggregate expectation of cash flows. The excess of the cash flows expected to be collected from the loans receivable at acquisition over the initial investment for those loans receivable is referred to as the accretable yield and is recognized as interest income over the expected life of the pools primarily using the effective yield method. The difference between contractually required payments at acquisition and the cash flows expected to be collected is referred to as the nonaccretable difference. This difference is neither accreted into income nor recorded on the Company's consolidated balance sheets.

Changes in the expected cash flows of loans receivable from the date of acquisition would either impact the accretable yield or result in a charge to the provision for loan losses in the period in which the changes became probable. Prepayments were treated as a reduction of cash flows expected to be collected and a reduction of contractually required payments such that the nonaccretable difference was not affected. Subsequent significant decreases to the expected cash flows would generally result in a charge to the provision for loan losses, resulting in an increase to the allowance for loan losses, and a reclassification from accretable yield to nonaccretable difference. Subsequent probable and significant increases in cash flows would result in a recovery of any previously recorded allowance for loan losses, to the extent applicable, and a reclassification from nonaccretable difference to accretable yield. Amounts related to the ASC 310-30 loans are estimates and may change as the Company obtains additional information related to the respective loans and the inherent uncertainty associated with estimating the amount and timing of the expected cash flows associated with distressed residential and commercial real estate loans. The timing and amount of expected cash flows and related accretable yield could also be impacted by disposal of loans, loan payoffs or expected foreclosures, which result in removal of the loans from the pools. Since the cash flows were based on projections, they were subjective and could change due to unexpected changes in economic conditions and loan performance.

During the fourth quarter of 2014, the Company's remaining accretable yield loan portfolio outstanding at October 1, 2014, was placed on nonaccrual status due to the uncertainty of the Company's ability to estimate the timing and amount of the remaining future cash flows. The conversion from accrual to nonaccrual in accordance with ASC 310-30, resulted in an additional impairment charge of $10.1 million within the FDIC Portfolios and a recovery of $0.1 million in the Bank Portfolios. At November 30, 2014, these loans were classified and accounted for as nonaccrual loans.

Nonaccrual Loans - Revenue Recognition and Impairment - For loans in which forecasted principal and interest could not be reasonably estimated at the loan acquisition date or subsequently, management classified these loans as nonaccrual and accounts for these assets in accordance with ASC 310-10, *Receivables*, ("ASC 310-10"). As described above, this represents the remaining portfolio of loans receivable at November 30, 2014. When a loan is classified as nonaccrual, any subsequent cash receipt is accounted for using the cost recovery method. In accordance with ASC 310-10, a loan is considered impaired when based on current information and events, it is probable that all amounts due according to the contractual terms of the loan agreement will not be collected. A provision for loan losses is recognized when the recorded investment in the loan is in excess of its fair value. The fair value of the loan is determined by using either the present value of expected future cash flows discounted at the loan's effective interest rate, the loan's obtainable market price, or the fair value of the collateral less estimated costs to sell.

Loans held-for-sale and Derivative Instruments – The originated commercial mortgage loans are classified as Loans held-for-sale on the consolidated balance sheet and are recorded at fair value. The Company elected the fair value option for its loans held-for-sale in accordance with ASC 825, *Financial Instruments*, ("ASC 825"), which permits entities to measure various financial instruments and certain other items at fair value on a contract-by-contract basis. Management believes that 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. Changes in fair values of the loans and the derivative instruments are reflected in Gains from securitizations and other loan origination revenues in the accompanying consolidated statements of operations. Interest income on these loans is calculated based on the interest rate of the loan and is recorded within revenue as Interest income in the accompanying consolidated statements of operations. Substantially all of the mortgage loans originated are sold within a short period of time into a securitization on a servicing released, non-recourse basis; although, the Company remains liable for certain limited industry-standard representations and warranties related to loan sales. The Company recognizes gains on the sale of loans into securitization trusts when control of the loans has been relinquished. As of November 30, 2014 and 2013, the Company had $147.2 million and $109.3 million, respectively, in originated loans that were transferred to receivables, net in the accompanying consolidated balance sheets as they had been sold into a securitization trust but had not yet settled as of year end.

In the normal course of business, the Company uses derivative financial instruments on these loans during the period from when the Company has originated the loan until the time in which the loan is sold. These derivatives, which are carried at fair value, are used for risk management purposes to minimize its exposure to fluctuations in mortgage-related interest rates as well as lessen its credit risk. The Company hedges its interest rate exposure through entering into interest rate swaps and swap futures and as of November 30, 2014, had fair values of approximately $1.4 million in a liability position. As of November 30, 2013, the Company had interest rate swap futures with fair values of approximately $31,000 in a liability position. Credit exposure is managed at a portfolio level through entering into credit default swaps consisting of both single "A", "AAA" and "BBB" rated CMBX swaps as well as CDX swaps, which as of November 30, 2014 and 2013, had a fair value of $1.7 million and $0.8 million, respectively, in contracts in an asset position and $0.8 million and $0.3 million, respectively, in a liability position. The Company does not enter into or hold derivatives for trading or speculative purposes (see Note 11). Derivative instruments in gain positions are recorded in Other assets, net in the accompanying consolidated balance sheets (see Note 8), while derivative instruments in loss positions are recorded within Accrued expenses and other liabilities in the accompanying consolidated balance sheets.

Deficiency Interest Income - Deficiency recoveries from foreclosed loans is a component of the Company's operations. Upon receipt of consideration from a deficiency settlement, the Company determines the fair value of the net assets received and records interest income. During the years ended November 30, 2014, 2013 and 2012, the Company recorded $28.3 million, $15.8 million and $20.1 million, respectively, in deficiency interest income.

Variable Interest Entities - In 2010, the Company acquired indirectly 40% managing member equity interests in two limited liability companies ("LLCs"), in partnership with the FDIC. The Company determined that each of the LLCs met the definition of a VIE and that the Company was the primary beneficiary. In accordance with ASC 810-10-65-2, *Consolidations*, ("ASC 810-10-65-2"), the Company identified the activities that most significantly impact the LLCs' economic performance and determined that it has the power to direct those activities. The economic performance of the LLCs is most significantly impacted by the performance of the LLCs' portfolios of assets, which consisted primarily of distressed residential and commercial mortgage loans. Thus, the activities that most significantly impact the LLCs' economic performance are the servicing and disposition of mortgage loans and real estate obtained through loan foreclosures, restructuring of loans, or other planned activities associated with the monetizing of loans.

The FDIC does not have the unilateral power to terminate the Company's role in managing the LLCs and servicing the loan portfolio. While the FDIC has the right to prevent certain types of transactions (i.e., bulk sales, selling assets with recourse back to the selling entity, selling assets with representations and warranties and financing the sales of assets without the FDIC's approval), the FDIC does not have full voting or blocking rights over the LLCs' activities, making their voting rights protective in nature, not substantive participating voting rights. Other than as described in the preceding sentence, which are not the primary activities of the LLCs, the Company can cause the LLCs to enter into both the disposition and restructuring of loans without any involvement of the FDIC. Additionally, the FDIC has no voting rights with regard to the operation/management of the operating properties that are acquired upon loan foreclosures (e.g. REO) and no voting rights over the business plans of the LLCs. The FDIC can make suggestions regarding the business plans, but the Company can decide not to follow the FDIC's suggestions and not to incorporate them in the business plans. Since the FDIC's voting rights are protective in nature and not substantive participating voting rights, the Company has the power to direct the activities that most significantly impact the LLCs' economic performance.

In accordance with ASC 810-10-65-2, the Company determined that it had an obligation to absorb losses of the LLCs that could potentially be significant to the LLCs or the right to receive benefits from the LLCs that could potentially be significant to the LLCs based on the following factors:

- Rialto/Lennar owns 40% of the equity of the LLCs and has the power to direct the activities of the LLCs that most significantly impact their economic performance through loan resolutions and the sale of REO.
- Rialto/Lennar has a management/servicer contract under which the Company earns a 0.5% servicing fee.
- Rialto/Lennar has guaranteed, as the servicer, its obligations under the servicing agreement up to $10 million.

The Company is aware that the FDIC, as the owner of 60% of the equity of each of the LLCs, may also have an obligation to absorb losses of the LLCs that could potentially be significant to the LLCs. However, in accordance with ASC 810-10-25-38A, only one enterprise, if any, is expected to be identified as the primary beneficiary of a VIE.

Since both criteria for consolidation in ASC 810-10-65-2 are met, the Company consolidated the LLCs.

During 2011, the Company acquired an equity interest in several joint ventures as part of a deficiency settlement. Management determined that each of the joint ventures met the definition of a VIE. In accordance with ASC 810-10-65-2, management identified the activities that most significantly impact the joint ventures' economic performance and determined whether it has the power to direct those activities in the joint ventures. The activities that most significantly impact the joint ventures' economic performance are the servicing and maintenance of an entity's underlying asset, which consists of commercial real estate. Although the Company has no obligation to provide financial support to any of its VIEs and has only its equity investment at risk, the Company has determined it has the right to direct the activities and to potentially receive significant benefits from one of the joint venture entities due to its majority ownership and equity position in the entity. Since both criteria for consolidation in ASC 810-10-65-2 are met, the Company has consolidated the joint ventures in its consolidated financial statements.

Real Estate Owned - REO represents real estate which the Company has taken control of or has effective control of in partial or full satisfaction of loans receivable. At the time of acquisition through foreclosure of a loan, REO is recorded at fair value less estimated costs to sell if classified as held-for-sale and at fair value if classified as held-and-used, which becomes the property's new basis. The fair values of these assets are determined in part by placing reliance on third-party appraisals of the properties and/or internally prepared analysis of recent offers or prices on comparable properties in the proximate vicinity. The third-party appraisals and internally developed analysis are significantly impacted by local market economy, market supply and demand, competitive conditions, and prices on comparable properties, adjusted for date of sale, location, property size, and other factors. Each REO is unique and is analyzed in the context of the particular market where the property is located. In order to establish the significant assumptions for a particular REO, the Company analyzes historical and current trends in the market and economy impacting the REO. Using available trend information, the Company then calculates its best estimate of fair value, which can include projected cash flows discounted at a rate that management believes a market participant would determine to be commensurate with the inherent risks associated with the assets and related estimated cash flow streams.

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

Subsequent to obtaining REO via foreclosure or directly from a financial institution, management periodically performs valuations using the methodologies described above such that the real estate is carried at the lower of its carrying value or current fair value, less estimated costs to sell if classified as held-for-sale. Held-and-used assets are tested for recoverability whenever changes in circumstances indicate that its carrying value may not be recoverable, and impairment losses are recorded for any amount by which the carrying value exceeds its fair value. Any subsequent impairment losses, operating expenses or income, and gains and losses on disposition of such properties are also recognized in income. REO assets classified as held-and-used are depreciated using a useful life of forty years for commercial properties and twenty seven and a half years for residential properties. REO assets classified as held-for-sale are not depreciated. Occasionally, an asset will require certain improvements to yield a higher return. In accordance with ASC 970-340-25, *Real Estate*, construction costs incurred prior to acquisition or during development of the asset are capitalized.

Operating Equipment – Operating equipment is recorded at cost and is included in Other assets, net in the consolidated balance sheets. The assets are depreciated over their estimated useful lives using the straight-line method. At the time operating properties and equipment are disposed of, the asset and related accumulated depreciation are removed from the accounts and any resulting gain or loss is credited or charged to earnings. The estimated useful life for equipment is two to ten years and for leasehold improvements is five years or the life of the lease, whichever is shorter.

Goodwill – Goodwill represents the excess of the purchase price paid over the fair value of the net assets acquired. Evaluating goodwill for impairment involves the determination of the fair value of the Company's reporting unit in which the Company has recorded goodwill. A reporting unit is a component of a business line for which discrete financial information is available. Inherent in the determination of fair value of the Company's reporting unit is certain estimates and judgments, including the interpretation of current economic indicators and market valuations as well as the Company's strategic plans with regard to the Company's operations. To the extent additional information arises or the Company's strategies change, it is possible that the Company's conclusion regarding goodwill impairment could change, which could have a material effect on the Company's financial position and results of operations.

The Company recorded goodwill in connection with an acquisition during the first quarter of 2014 (see Note 6) and is recorded in Other assets, net in the accompanying consolidated balance sheets. The Company reviews goodwill annually (or whenever indicators of impairment exist) for impairment. The Company evaluated the carrying value of the Company's goodwill in the fourth quarter of 2014. The Company estimated the fair value on the income approach and concluded that goodwill impairment was not required for 2014. As of November 30, 2014, there were no significant identifiable intangible assets, other than goodwill.

Management Fees Revenue - The Company provides services to a variety of legal entities and investment vehicles such as funds, joint ventures, co-investment partnerships, and other private equity structures to manage their respective investments. As a result, the Company earns and receives investment management fees, underwriting fees and due diligence fees. These fees are recorded over the period in which the services are performed, fees are determinable and collectability is reasonably assured. The Company receives investment management fees from investment vehicles based on 1) a percentage of committed or called capital during the commitment period and called capital after the commitment period ends, 2) a percentage of invested capital less the portion of such invested capital utilized to acquire investments that have been sold (in whole or in part) or liquidated. Fees earned for underwriting and due diligence services are based on actual costs incurred.

In certain situations, the Company may earn additional fees when the return on assets managed exceeds contractual thresholds (“Carried Interest”). Such revenue is only booked when substantially all of the contract terms are met, the contract is at or near completion and the amounts are known and collectability is reasonably assured. Since such revenue is recognized at the end of the life of the investment vehicle, after substantially all of the assets have been sold and investment gains and losses realized, the possibility of claw back provisions is limited.

Hospital Revenues, net - The Company recognizes revenues from the Hospital operation acquired in 2013 in the period in which services are provided. Amounts the Company receives for treatment of patients covered by governmental programs, such as Medicare and Medicaid, and other third-party payers such as health maintenance organizations, preferred provider organizations and other private insurers, are generally less than our established billing rates. Revenues are recorded at estimated net amounts due from patients, third-party payers and others for healthcare services provided. Accordingly, revenues are reduced to net realizable value through an allowance for contractual discounts. For certain payers, such as Medicare, Medicaid, as well as some managed care payers with which the Company has contractual arrangements, the contractual allowances are calculated based on defined payment terms. For other payers, the contractual allowances are determined based on historical data by insurance plan. All contractual adjustments, regardless of type of payer or method of calculation, are reviewed and compared to actual experience.

Debt Issuance Costs - Certain issuance costs were incurred for the financing of the FDIC notes payable (“Notes”). These costs were approximately 3% of the principal balance of the Notes and any unamortized balance was written-off during 2013 as a result of the repayment of the Notes (see Note 9). Additionally, certain issuance costs were incurred for the financing of the 7.00% Senior Notes due 2018 (the “7.00% Senior Notes”). These costs were approximately 2% of the principal balance of the 7.00% Senior Notes. Also, issuance costs of $1.8 million were incurred as a result of the sale of notes through a securitized structured note offering (see Note 9). The Company also secured two warehouse repurchase facility (“Facilities”) agreements and incurred $2.5 million of fees associated with the Facilities. In the third quarter of 2014, the Company incurred an additional $0.5 million of fees in relation to a commitment increase on one of the Facilities. Such costs associated with the Notes and the Facilities were deferred and are amortized to interest expense over the expected term of the underlying debt using the straight-line method, which approximates the effective-interest method. These costs are reflected as Other assets, net in the accompanying consolidated balance sheets.

Income Tax - Rialto is included in the consolidated federal income tax return of Lennar. However, in accordance with the tax sharing arrangement with Lennar, income taxes have been provided as if the Rialto reporting group filed as a separate federal consolidated group. Current income tax expense is recorded as an increase in amounts due to Parent. As such, no income tax payments are made directly by Rialto. The Company records income taxes under the asset and liability method, whereby deferred tax assets and liabilities are recognized based on the future tax consequences attributable to temporary differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases and attributable to operating loss and tax credit carryforwards. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply in the years in which the temporary differences are expected to be recovered or paid. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in earnings in the period when the changes are enacted. Interest related to unrecognized tax benefits is recognized as a component of provision for income taxes in the accompanying consolidated statements of operations.

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

Concentration of Risk - The Company's success depends to a certain extent on the general economic conditions of the geographic markets of the Company's acquired loans and foreclosed assets. At November 30, 2014, assets held by the Company were primarily concentrated in the states of Georgia, Arizona, Florida, Nevada, South Carolina and North Carolina. As of November 30, 2013, assets held by the Company were primarily concentrated in the states of Georgia, Florida, Arizona, Nevada, South Carolina and North Carolina. Adverse changes in the economic conditions of these geographical areas may have a significant impact on the Company's commercial and residential real estate loans, the ability of borrowers to repay these loans and the value of the collateral securing these loans. The aforementioned may have a negative effect on the Company's business, financial condition, and results of operations.

A significant portion of the Company's management fee revenue is derived from investment funds that the Company sponsors and manages. For the years ended November 30, 2014, 2013 and 2012, 92%, 94% and 67%, respectively, of the Company's management fee revenue was earned from investment funds that the Company sponsored and managed.

The Company purchased a loan servicer in January 2014 (see Note 6). The loan servicer provides loan servicing and certain asset management services for the Company's distressed loan portfolios and for the loans owned by the investment funds that the Company sponsors, which represents the entire portion of the revenues derived from this business. Consolidated revenue of $5.2 million (after elimination of intercompany transactions) were recorded by the loan servicer for the year ended November 30, 2014, respectively, which are included in Management fee revenue in the accompanying consolidated statements of operations.

Recent Accounting Pronouncements - In December 2011, the Financial Accounting Standards Board ("FASB") issued ASU 2011-11, *Disclosures about Offsetting Assets and Liabilities*, ("ASU 2011-11"), which requires entities to disclose information about offsetting and related arrangements of financial instruments and derivative instruments. In January 2013, this guidance was amended by ASU 2013-01, *Clarifying the Scope of Disclosures about Offsetting Assets and Liabilities* ("ASU 2013-01"). ASU 2013-01 limits the scope of ASU 2011-11 to certain derivatives, repurchase and reverse repurchase agreements, and securities borrowing and lending transactions. The guidance was effective for the Company's fiscal year beginning December 1, 2013, and subsequent interim periods. The adoption of this guidance, which is related to disclosure only, did not have a material effect on the Company's consolidated financial statements.

In April 2013, the FASB issued ASU 2013-04, *Liabilities,* ("ASU 2013-04"). ASU 2013-04 provides guidance for the recognition, measurement, and disclosure of obligations resulting from joint and several liability arrangements for which the total amount of the obligation is fixed at the reporting date. ASU 2013-04 will be effective for the Company's fiscal year beginning December 1, 2014, and subsequent interim periods. The adoption of ASU 2013-04 is not expected to have a material effect on the Company's consolidated financial statements.

In June 2013, the FASB issued ASU 2013-08, *Investment Companies*, ("ASU 2013-08). ASU 2013-08 amends the criteria for an entity to qualify as an investment company under ASC 946. While ASU 2013-08 is not expected to significantly change which entities qualify for the specialized investment company accounting in ASC 946, it (1) introduces new disclosure requirements that apply to all investment companies and (2) amends the measurement criteria for certain interests in other investment companies. ASU 2013-08 also amends the requirements in ASC 810 related to qualifying for the “investment company deferral” in ASU 2010-10 as well as the requirements in ASC 820 related to qualifying for the “net asset value practical expedient” in ASU 2009-12. ASU 2013-08 was effective for the Company’s second fiscal quarter beginning March 1, 2014. The adoption of ASU 2013-08 did not have a material effect on the Company’s consolidated financial statements.

In July 2013, the FASB issued ASU 2013-11, *Presentation of an Unrecognized Tax Benefit When a Net Operating Loss Carryforward, a similar Tax Loss, or a Tax Credit Carryforward Exists,* (“ASU 2013-11”). ASU 2013-13 is intended to end inconsistent practices regarding the presentation of an unrecognized tax benefits when a net operating loss ("NOL"), a similar tax loss or a tax credit carryforward is available to reduce the taxable income or tax payable that would result from the disallowance of a tax position. ASU 2013-11 will be effective for the Company’s fiscal year beginning December 1, 2014 and subsequent interim periods. The adoption of ASU 2013-11 is not expected to have a material effect on the Company’s consolidated financial statements.

In August 2014, the FASB issued ASU 2014-15, *Presentation of Financial Statements – Going Concern (Subtopic 205-40): Disclosure of Uncertainties About an Entity’s Ability to Continue as a Going Concern,* (“ASU 2014-15”). ASU 2014-15 requires management to perform interim and annual assessments on whether there are conditions or events that raise substantial doubt about the entity’s ability to continue as a going concern within one year of the date the financial statements are issued and to provide related disclosures, if required. ASU 2014-15 will be effective for the Company’s fiscal year beginning December 1, 2016. The adoption of ASU 2014-15 is not expected to have a material effect on the Company’s consolidated financial statements.

3. LOANS RECEIVABLE, NET, ACCRETABLE YIELD AND LOANS HELD-FOR-SALE

Loans Receivable, net – The following table displays the loan portfolio by aggregate-level collateral-type classifications at November 30, 2014 and 2013 (in thousands):

	2014	2013
Land	$ 89,603	$ 166,950
Single family homes	20,402	59,647
Commercial properties	14,305	38,060
Other	12,814	13,735
Loans receivable, net	$ 137,124	$ 278,392

During the fourth quarter of 2014, the Company’s remaining accretable yield loan portfolio outstanding at October 1, 2014, was placed on nonaccrual status due to the uncertainty of the Company’s ability to estimate the timing and amount of the remaining future cash flows on these loans. The conversion from accrual is to nonaccrual is in accordance with ASC 310-30, resulted in an additional impairment charge of $10.1 million with the FDIC Portfolios and a recovery of $0.1 million in the Bank Portfolios.

As of November 30, 2014 and 2013, the outstanding balance and carrying value of loans accounted for under ASC 310-30 was as follows (in thousands):

	2014	2013
Outstanding principal balance	$ -	$ 586,901
Carrying value	$ -	$ 270,075

Accretable Yield – The activity in the accretable yield for the FDIC Portfolios and Bank Portfolios during the years ended November 30, 2014 and 2013 were as follows (in thousands):

	2014	2013
Beginning balance	$ 73,144	$ 112,899
Additions	8,988	70,077
Deletions	(54,482)	(60,582)
Accretions	(27,650)	(49,250)
Ending balance	$ -	$ 73,144

Additions primarily represent reclassifications from nonaccretable difference to accretable yield on the portfolios. Deletions represent loan impairments, net of recoveries, and disposal of loans, which includes foreclosure of underlying collateral and result in the removal of the loans from the accretable yield portfolios as well as recoveries of loan impairments if conditions change or improve. During the year ended November 30, 2014, deletions also included a reclassification to nonaccretable difference due to the change from accretable yield to nonaccrual described above.

Other Accrual Loans – In August 2014, RMF originated a floating rate commercial loan for a principal amount of $7.0 million. The loan is a six-month term loan bearing interest of LIBOR (subject to a 50 basis point floor) plus 550 basis points, which was 6.00% as of November 30, 2014. This loan has an optional extension clause for one additional six-month term whereby the principal balance will be repaid at maturity.

Loans Held-For-Sale – During the year ended November 30, 2014, the Company originated commercial loans with a total principal balance of $1.6 billion and sold $1.5 billion of originated loans into eight separate securitizations which includes $147.2 million of originated loans that were sold into a securitization trust but had not yet settled as of year end, and thus, the sale price of $153.8 million of these loans were included as Receivables, net in the accompanying consolidated balance sheets.

4. ALLOWANCE FOR LOAN LOSSES

The allowance for loan losses is a valuation reserve established through provisions for loan losses charged against income. The allowance for loan losses is maintained at a level that management deems sufficient to absorb probable losses inherent in the loan portfolio. Loans deemed to be uncollectible are charged against the allowance for loan losses, while recoveries of previously charged-off amounts are credited to the allowance for loan losses.

The following table shows the activity related to the allowance for loan losses for the years ended November 30, 2014 and 2013 (in thousands):

	2014		
	Accrual	Nonaccrual	Total
Beginning balance	$ 18,952	$ 1,213	$ 20,165
Provision for loan losses	44,577	12,536	57,113
Reclassification from accretable yield to nonaccrual (1)	(53,265)	53,265	-
Charge-offs	(10,264)	(8,688)	(18,952)
Ending balance	$ -	$ 58,326	$ 58,326

	2013		
	Accrual	Nonaccrual	Total
Beginning balance	$ 12,178	$ 3,722	$ 15,900
Provision for loan losses	14,241	1,898	16,139
Charge-offs	(7,467)	(4,407)	(11,874)
Ending balance	$ 18,952	$ 1,213	$ 20,165

(1) During the fourth quarter of 2014, the Company changed from recording accretable yield income on a loan pool basis to recording income on a cost recovery basis per loan as expected cash flows on the remaining loan portfolios could no longer be reasonably estimated. At November 30, 2014, these loans were classified and accounted for as nonaccrual loans.

At November 30, 2013, the carrying value of loans accounted for under ASC 310-30 totaled approximately $270.1 million and was assessed for impairment at the pool level. The Company's homogeneous pools were comprised of loans with similar characteristics such as loan type and the geographical location of the underlying collateral. At November 30, 2013, the Company had approximately $19.0 million of allowance for loan losses against loans of this type. As previously described, during the fourth quarter of 2014, the Company changed from recording accretable yield income on a loan pool basis to recording income on a cost recovery basis per loan as expected cash flows on the remaining loan portfolios could no longer be reasonably estimated. At November 30, 2014, these loans were classified and accounted for as nonaccrual loans.

At November 30, 2014 and 2013, there were loans receivable with a carrying value of approximately $130.1 million and $8.3 million, respectively, which are considered impaired under ASC 310-10, and for which interest income was not being recognized as they were classified as nonaccrual. At November 30, 2014 and 2013, the Company had approximately $58.3 million and $1.2 million, respectively, of allowance for loan losses against the nonaccrual loans.

In August 2014, RMF originated a floating rate loan for a principal amount of $7.0 million. The loan is a six-month term loan bearing interest of LIBOR (subject to a 50 basis point floor) plus 550 basis points, which was 6.00% as of November 30, 2014. This loan has an optional extension clause for one additional six-month term whereby the principal balance will be repaid at maturity.

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

The following tables represent nonaccrual loans in the FDIC Portfolios and Bank Portfolios accounted for under ASC 310-10 aggregated by collateral type at November 30, 2014 and 2013 (in thousands):

	2014			
	Unpaid	Recorded Investment		Total
Collateral Type	Principal Balance	With Allowance	Without Allowance	Recorded Investment
Land	$ 228,245	$ 85,912	$ 3,691	$ 89,603
Single family homes	66,183	18,096	2,306	20,402
Commercial properties	34,048	3,368	3,918	7,286
Other	64,284	5	12,809	12,814
Total	$ 392,760	$ 107,381	$ 22,724	$ 130,105

	2013			
	Unpaid	Recorded Investment		Total
Collateral Type	Principal Balance	With Allowance	Without Allowance	Recorded Investment
Land	$ 6,791	$ 249	$ 2,304	$ 2,553
Single family homes	15,125	519	4,119	4,638
Commercial properties	3,400	498	628	1,126
Total	$ 25,316	$ 1,266	$ 7,051	$ 8,317

The average recorded investment in impaired loans totaled approximately $69 million and $24 million, respectively, for the years ended November 30, 2014 and 2013.

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

Accrual - Loans in which forecasted cash flows under the loan agreement, as it might be modified from time to time, can be reasonably estimated at the date of acquisition and subsequently. The risk associated with loans in this category related to the possible default by the borrower with respect to principal and interest payments and thus a decline in the forecasted cash flows used to determine accretable yield income and the recognition of impairment through an allowance for loan losses. As previously described, during the fourth quarter of 2014, the Company changed from recording accretable yield income on a loan pool basis to recording income on a cost recovery basis per loan as expected cash flows on the remaining loan portfolios could no longer be reasonably estimated. At November 30, 2014, the Company had no ASC 310-30 loans classified as accrual loans.

In August 2014, RMF originated a floating rate loan for a principal amount of $7.0 million. The loan is a six-month term loan bearing interest of LIBOR (subject to a 50 basis point floor) plus 550 basis points, which was 6.00% as of November 30, 2014. This loan has an optional extension clause for one additional six-month term whereby the principal balance will be repaid at maturity.

Nonaccrual - Loans in which forecasted principal and interest could not be reasonably estimated at the date of acquisition or subsequently. Although the Company believes the recorded investment balance will ultimately be realized, the risk of nonaccrual loans relates to a decline in the value of the collateral securing the outstanding obligation and the recognition of impairment through an allowance for loan losses if the recorded investment in the loan exceeds the fair value of the collateral. As described above, this represents the majority balance of loans receivable at November 30, 2014.

Risk categories net of allowance for loan losses at and November 30, 2014 and 2013 (in thousands):

	2014		
Collateral Type	**Accrual**	**Nonaccrual**	**Total**
Land	$ -	$ 89,603	$ 89,603
Single family homes	-	20,402	20,402
Commercial properties	7,019	7,286	14,305
Other	-	12,814	12,814
Total	$ 7,019	$ 130,105	$ 137,124

	2013		
Collateral Type	**Accrual**	**Nonaccrual**	**Total**
Land	$ 164,397	$ 2,553	$ 166,950
Single family homes	55,009	4,638	59,647
Commercial properties	36,934	1,126	38,060
Other	13,735	-	13,735
Total	$ 270,075	$ 8,317	$ 278,392

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

5. REAL ESTATE OWNED

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

Upon the acquisition of REO through loan foreclosure, gains and losses are recorded in Other REO expense, net in the accompanying consolidated statements of operations. The amount by which the recorded investment in the loan is less than the REO's fair value (net of estimated cost to sell if held-for-sale), is recorded as an unrealized gain upon foreclosure. The amount by which the recorded investment in the loan is greater than the REO's fair value (net of estimated cost to sell if held-for-sale) is recorded as a provision for loan losses for nonaccrual loans and as an unrealized loss within Other REO expense, net for accrual loans.

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

Included in real estate owned held-and-used, net is real estate acquired in a bargain purchase acquisition of $35.0 million (see Note 6).

The following tables present the activity in REO for the years ended November 30, 2014 and 2013 (in thousands):

	2014	2013
REO held-for-sale, beginning balance	$ 197,851	$ 134,161
Additions	-	15,985
Improvements	8,176	5,791
Sales	(226,027)	(190,430)
Impairments	(9,441)	(5,573)
Transfers to Parent	-	(9,480)
Transfers from held-and-used, net [1]	219,976	247,397
REO held-for-sale, ending balance	$ 190,535	$ 197,851

	2014	2013
REO held-and-used, net, beginning balance	$ 428,989	$ 601,022
Additions	55,407	86,262
Improvements	6,102	3,616
Impairments	(11,501)	(10,517)
Depreciation	(3,226)	(3,997)
Transfers to held-for-sale [1]	(219,976)	(247,397)
REO held-and-used, net, ending balance	$ 255,795	$ 428,989

[1] During the years ended November 30, 2014 and 2013, the Company transferred certain properties from REO held-and-used, net to REO held-for-sale as a result of changes in the disposition strategy of the real estate assets.

For the years ended November 30, 2014, 2013 and 2012, the Company recorded $43.7 million, $48.8 million and $21.6 million, respectively, of net gains from sales of REO. For the years ended November 30, 2014, 2013 and 2012, the Company recorded net unrealized losses of $6.8 million, $0.4 million and $1.9 million, respectively, from acquisitions of REO through foreclosure. In addition, during the year ended November 30, 2013, the Company recorded a gain of $8.5 million related to a bargain purchase acquisition which included cash and a loan receivable consideration (see Note 6). These net gains (losses) are recorded in Other REO expense, net, in the accompanying consolidated statements of operations.

6. ACQUISITIONS

Acquisition of Service Provider – Until January 2014, the Company had an approximately 5% investment in a financial services company that had a business segment that provides service and infrastructure to the residential home loan market (the "Service Provider"), and which has provided loan servicing support for the Company's owned and managed portfolios and asset management services for the Company's small balance loan portfolio. In January 2014, the Company acquired 100% of this business segment of the Service Provider in exchange for the Company's 5% interest mentioned above.

The following table outlines the assets and liabilities of the acquired Service Provider, net, at the time of acquisition (in thousands):

Assets acquired		
Restricted cash	$	16,974
Operating equipment		514
Deferred taxes		2,854
Goodwill		5,094
Other assets		435
Assets acquired	$	25,871
Liabilties assumed		
Accounts payable, accruals and other liabilities	$	17,554
Net Assets Acquired	$	8,317

Acquisition of Hospital – In November 2013, in settlement of a loan acquired as part of the Company's Bank Portfolios, the Company acquired the real estate and operating entity of a hospital (the "Hospital"). This transaction was the result of a Chapter 11 reorganization plan approved on November 7, 2013. The first part of the reorganization plan required Rialto to make a $10 million cash investment that will be used to complete improvements in the hospital and emergency room facilities, provide for working capital requirements and begin to repay secured and unsecured court approved claims per the reorganization plan. The Hospital guaranteed the payment of bankruptcy administrative claims of approximately $17.5 million owed to three groups of secured and unsecured creditors. In return, the Company acquired 100% of the Hospital operating entity effective November 8, 2013 which became a fully consolidated entity of the Company.

The Company has contracted a third-party hospital operating company (the "Third-party Operator") to operate and manage the hospital. Additionally, a 20% equity interest in the real estate entity that owns the Hospital's land and building was exchanged for the administrative bankruptcy claims of several doctors who were original shareholders of the hospital. As of November 30, 2014, the exact amount of the claims that will be allowed has not yet been determined, therefore, the noncontrolling interest has not been distributed. Rialto has the right to withhold the distribution of this noncontrolling interest until all such requirements are satisfied.

Neither Rialto nor the Third-party Operator shall receive any distribution from operations other than the reduced management fee and payments until all creditors have been paid in full, which management believes can occur within two years.

As a result of this transaction, the Company recorded a gain on acquisition of $8.5 million during the year ended November 30, 2013, primarily consisting of the difference between the fair value of the Hospital real estate collateral acquired and the carrying value of the loan receivable. The Company completed its purchase price allocation in early 2014.

The following table outlines the final purchase price allocation assets and liabilities of the acquired entity, net, of which the amounts were not significantly different than provisional amounts used at time of acquisition in 2013 (in thousands):

Assets acquired		
Real estate owned - held-and-used, net	$	34,789
Operating equipment		4,058
Other assets		7,438
Assets acquired	$	46,285
Liabilties assumed		
Accounts payable and accruals and other liabilities	$	4,521
Notes payable		12,397
Noncontrolling interest		3,360
Liabilities assumed	$	20,278
Net Assets Acquired	$	26,007

7. INVESTMENTS

Short-term Investment Securities

During the second quarter of 2014, the Company purchased a CMBS bond at a cost of $8.7 million and sold the bond for $9.1 million, resulting in a gain of $0.4 million, disclosed as Gain on sale of investment securities in the accompanying consolidated statements of operations.

Investments Held-to-Maturity

Commercial Mortgage-Backed Securities – A CMBS B-piece totaling $43.0 million was acquired in 2010 for $19.4 million, representing a 55% discount to par value. These securities bear interest at a coupon rate of 4% and have a stated and assumed final distribution date of November 2020 and a stated maturity date of October 2057. The Company reviews changes in estimated cash flows periodically, to determine if other-than-temporary impairment has occurred on its investment securities. Based on the Company’s assessment, no impairment charges were recorded during the years ended November 30, 2014, 2013 and 2012. The carrying value of the investment securities at November 30, 2014 and 2013, was $17.3 million and $16.1 million, respectively. The fair value of the investment securities at November 30, 2014 and 2013, was $17.2 million and $16.0 million, respectively. The Company classified these securities as held-to-maturity based on its intent and ability to hold the securities until maturity.

In a CMBS transaction, monthly interest received from all of the pooled loans is paid to the investors, starting with those investors holding the highest rated bonds and progressing in an order of seniority based on the class of security. Based on the aforementioned, the principal and interest repayments of a particular class are dependent upon collections on the underlying mortgages, which are affected by prepayments, extensions and defaults.

Investments in Unconsolidated Entities

Investment Funds

Fund I – In 2010, the Company completed its first closing of Fund I. Fund I's objective was to invest in distressed real estate assets and other related investments that fit within Fund I's investment parameters. As of November 30, 2013, the total equity commitments of Fund I were $700 million (including $75 million committed and contributed by the Company.) All capital commitments have been called, funded and invested. In addition, approximately $332 million of proceeds from underlying asset activities and financings were recycled and invested. Fund I has been closed to additional commitments. During the years ended November 30, 2014 and 2013, the Company received distributions of $32.4 million and $42.6 million, respectively, as a return of capital. During the year ended November 30, 2014, the Company received distributions of $2.1 million as a return on capital. As of November 30, 2014 and 2013, the carrying value of the Company's investment in Fund I was $71.8 million and $75.7 million, respectively. During the years ended November 30, 2014, 2013 and 2012, the Company's share of earnings from Fund I was $30.6 million, $19.4 million and $21.0 million, respectively.

If Fund I had ceased operations and liquidated all its investments for their estimated fair values on November 30, 2014, the Company would have received $144.7 million with regard to its carried interest for that fund. However, Fund I did not cease operations and liquidate its investments on November 30, 2014, and the actual sum the Company receives with regard to its carried interest in Fund I may be substantially higher or lower than $144.7 million. No amount has been recognized in the Company's consolidated statements of operations with regard to its carried interest in Fund I, except for a payment the Company received from Fund I in the amount of $34.7 million that was paid to it by Fund I as an advanced tax distribution of its carried interest in order to cover any income tax obligations, resulting from the allocations of taxable income from its carried interest in Fund I. This amount of advanced carried interest is not subject to repayment or adjustment but would serve to reduce future carried interest payments earned from Fund I. Therefore, were Fund I to hypothetically liquidate at November 30, 2014, as described above, the Company would have received net payments of $110.0 million, which represents the $144.7 million earned less the advanced tax distribution of $34.7 million already received. However, Fund I did not cease operations and liquidate its investments on November 30, 2014, and the actual sum the Company receives with regard to its carried interest in Fund I may be substantially higher or lower than $144.7 million. See Note 2, Summary of Significant Accounting Policies in the notes to the consolidated financial statements for more information on how the Company records revenues attributable to Carried Interest.

Fund II – In 2013, the Company conducted the first closing of commitments of Fund II. Fund II's objective during its commitment period is to acquire and manage distressed and other value-add real estate assets and other related investments that fit Fund II's investment parameters. Fund II's final closing occurred in December 2013 with total equity commitments of $1.3 billion, including $100 million by the Company. As of November, 2014, $760.1 million of the $1.3 billion in equity commitments had been called, of which, the Company contributed its portion of $58.2 million. During the year ended November 30, 2014, the Company received distributions of $9.0 million as a return of capital. As of November 30, 2014 and 2013, the carrying value of the Company's investment in Fund II was $67.7 million and $53.1 million, respectively. During the year ended November 30, 2014 and 2013, the Company's share of earnings from Fund II was $15.9 million and $2.5 million, respectively.

Mezzanine Fund – In 2013, the Company had its first Mezzanine Fund closing of equity commitments with a target of raising $300 million in equity to invest in mezzanine commercial loans. These loans are typically secured by equity interests in the borrowing entity owning the real estate. As of November 30, 2014, the Mezzanine Fund had total equity commitments of $251.1 million and capital invested of $188.6 million, including $27.3 million committed and $20.5 million invested by the Company. For the year ended

November 30, 2014, the Company received distributions of $16.5 million as a return of capital. As of November 30, 2014 and 2013, the carrying value of the Company's investment in the Mezzanine Fund was $20.2 million and $16.7 million, respectively. For the years ended November 30, 2014, the Company's share of earnings from the Mezzanine Fund was $1.9 million and $0.4 million, respectively.

CMBS Fund – In 2014, the Company launched the CMBS Fund. The purpose of the CMBS Fund is to acquire, own and/or monetize commercial mortgage-backed securities B-pieces with at least some portion of the collateral being originated by the RMF business line. As of November 30, 2014, the CMBS Fund had total committed and invested capital of $46.4 million, including $15.8 million committed and invested by the Company. During the year ended November 30, 2014, the Company received distributions of $10.9 million and $0.4 million, respectively, as a return of capital and as a return on capital, respectively. As of November 30, 2014, the carrying value of the Company’s investment in the CMBS Fund was $15.3 million. For the year ended November 30, 2014, the Company’s share of earnings was $10.8 million.

Fund I, Fund II, the Mezzanine Fund and the CMBS Fund are unconsolidated entities and are accounted for under the equity method of accounting. They were determined to have the attributes of an investment company in accordance with ASC 946, *Financial Services - Investment Companies*, (“ASC 946”), as amended by ASU 2013-08, the attributes of which are different from the attributes that would cause a company to be an investment company for purposes of the Investment Company Act of 1940. As a result, Fund I, Fund II, the Mezzanine Fund and the CMBS Fund’s assets are recorded at fair value with increases/decreases in fair value recorded in their respective statements of operations, the Company’s share of which will be recorded in Equity in earnings from unconsolidated entities in the accompanying consolidated statements of operations. The Company determined that Fund I, Fund II, the Mezzanine Fund and the CMBS Fund are not variable interest entities but rather voting interest entities due to the following factors:

- The Company determined that Rialto’s general partner interest and all the limited partners’ interests qualify as equity investment at risk.
- Based on the capital structure of Fund I, Fund II, the Mezzanine Fund and the CMBS Fund (100% capitalized via equity contributions), the Company was able to conclude that the equity investment at risk was sufficient to allow Fund I, Fund II, the Mezzanine Fund and the CMBS Fund to finance its activities without additional subordinated financial support.
- The general partner and the limited partners in Fund I, Fund II, the Mezzanine Fund and the CMBS Fund, collectively, have full decision-making ability as they collectively have the power to direct the activities of Fund I, Fund II, the Mezzanine Fund and the CMBS Fund, due to the fact that Rialto, in addition to being a general partner with a substantive equity investment in Fund I, Fund II, the Mezzanine Fund and the CMBS Fund, also provides services to Fund I, Fund II, the Mezzanine Fund and the CMBS Fund under a management agreement and an investment agreement, which are not separable from Rialto’s general partnership interest.
- As a result of all these factors, the Company has concluded that the power to direct the activities of Fund I, Fund II, the Mezzanine Fund and the CMBS Fund reside in its general partnership interest and thus with the holders of the equity investment at risk.
- In addition, there are no guaranteed returns provided to the equity investors and the equity contributions are fully subjected to Fund I, Fund II, the Mezzanine Fund and the CMBS Fund’s operational results, thus the equity investors absorb the expected negative and positive variability relative to Fund I, Fund II, the Mezzanine Fund and the CMBS Fund.
- Finally, substantially all of the activities of Fund I, Fund II, the Mezzanine Fund and the CMBS Fund are not conducted on behalf of any individual investor or related group that has disproportionately fewer voting rights (i.e., on behalf of any individual limited partner).

Having concluded that Fund I, Fund II, the Mezzanine Fund and the CMBS Fund are voting interest entities, the Company evaluated the funds under the voting interest entity model to determine whether, as general partner, it has control over Fund I, Fund II, the Mezzanine Fund and the CMBS Fund. The Company determined that it does not control Fund I, Fund II, the Mezzanine Fund and the CMBS Fund as its general partner, because the unaffiliated limited partners have substantial kick-out rights and can remove Rialto as general partner at any time for cause or without cause through a simple majority vote of the limited partners. In addition, there are no significant barriers to the exercise of these rights. As a result of determining that the Company does not control Fund I, Fund II, the Mezzanine Fund and the CMBS Fund under the voting interest entity model, Fund I, Fund II, the Mezzanine Fund and the CMBS Fund are not consolidated in the Company's financial statements.

The following table reflects information regarding the private equity funds sponsored by the Company that invest in real estate related assets and other investments as of November 30, 2014 (in thousands):

	Inception Year	Equity Commitments	Equity Commitments Called	Commitment to fund by the Company	Funds contributed by the Company	Net funds invested by the Company
Rialto Real Estate Fund I, LP	2010	$ 700,006	$ 700,006	$ 75,000	$ 75,000	$ -
Rialto Real Estate Fund II, LP	2012	1,305,000	760,058	100,000	58,242	49,199
Rialto Mezzanine Partners Fund	2013	251,100	188,600	27,299	20,504	17,960
Rialto Capital CMBS Fund, LP	2014	46,442	46,442	15,774	15,774	4,845
						$ 72,004

The following table reflects the carrying value of the Company's investments in private equity funds that invest in real estate related assets and other investments, as of November 30, 2014 and 2013 (in thousands):

	2014	2013
Rialto Real Estate Fund I, LP	$ 71,831	$ 75,729
Rialto Real Estate Fund II, LP	67,652	53,103
Rialto Mezzanine Partners Fund	20,226	16,724
Rialto Capital CMBS Fund, LP	15,265	-
Other Investments	726	9,017
	$ 175,700	$ 154,573

The Company's share of earnings from unconsolidated entities was as follows for each of the years ended November 30, 2014, 2013 and 2012 (in thousands):

	2014	2013	2012
Rialto Real Estate Fund I, LP	$ 30,612	$ 19,391	$ 21,026
Rialto Real Estate Fund II, LP	15,929	2,523	-
Rialto Mezzanine Partners Fund	1,913	354	-
Rialto Capital CMBS Fund, LP	10,823	-	-
Other Investments	-	85	20,457
	$ 59,277	$ 22,353	$ 41,483

Summarized Condensed Financial Information

On a consolidated 100% basis related to Rialto's investments in unconsolidated entities that are accounted for by the equity method was as follows as of November 30, 2014 and 2013, and for the each of the years ended November 30, 2014, 2013 and 2012 (in thousands):

Balance Sheets

	2014	2013
Assets:		
Cash and cash equivalents	$ 141,609	$ 332,968
Loans receivable	512,034	523,249
Real estate owned	378,702	285,565
Investment securities	795,306	381,555
Investments in partnerships	311,037	149,350
Other assets	45,451	191,624
	$ 2,184,139	$ 1,864,311
Liabilities and equity:		
Accounts payable and other liabilities	$ 20,573	$ 108,514
Notes payable	395,654	398,445
Partner loans	-	163,940
Equity	1,767,912	1,193,412
	$ 2,184,139	$ 1,864,311

Statements of Operations

	2014	2013	2012
Revenues	$ 150,452	$ 251,533	$ 414,027
Costs and expenses	95,629	252,563	243,483
Other income, net [1]	479,929	187,446	713,710
Net earnings of unconsolidated entities	$ 534,752	$ 186,416	$ 884,254
Equity in earnings from unconsolidated entities	$ 59,277	$ 22,353	$ 41,483

(1) Other income, net for the year ended November 30, 2014, includes Fund I, Fund II and CMBS Fund's realized and unrealized gains on investments as well as other income from REO. Other income, net for the year ended November 30, 2013, includes Fund I and Fund II's realized and unrealized gains on investments as well as other income from REO. Other income, net for the year ended November 30, 2012, includes Fund I's realized and unrealized gains on investments as well as the Public-Private Investment Program Fund's ("PPIP Fund") mark-to-market unrealized gains and losses, of which the Company's portion was a small percentage. In addition, for the year ended November 30, 2012, other income, net also includes realized gains from the sale of investments in the portfolio underlying the PPIP Fund, of which the Company's portion was a small percentage.

8. OTHER ASSETS, NET

The Company's Other assets, net consisted of the following at November 30, 2014 and 2013 (in thousands):

	2014	2013
Management fee receivables from sponsored investment funds	$ 3,573	$ 8,200
Debt issuance costs - net	7,417	6,910
Operating equipment	12,538	14,959
Accounts receivable	23,193	7,653
Deposits and other	15,060	4,778
Derivative contracts	1,694	788
Total other assets, net	$ 63,475	$ 43,288

9. NOTES PAYABLE AND OTHER DEBTS PAYABLE

The Company's Notes payable and other debts payable consisted of the following at November 30, 2014 and 2013 (in thousands):

	2014	2013
Senior Notes, net	$ 351,939	$ 250,000
Bank Portfolios	60,622	90,933
Warehouse Repurchase Facilities	141,272	76,017
Structured Notes, net	57,950	-
Notes payable - other	11,463	24,933
Total Notes payable and other debts payable	$ 623,246	$ 441,883

Senior Notes

In November 2013, the Company issued $250 million aggregate principal amount of 7.00% Senior Notes , at a price of 100% in a private placement. Proceeds from the offering, after payment of expenses, were approximately $245 million. The Company used $100 million of the net proceeds from the sale of the 7.00% Senior Notes, and subsequently an additional $135 million of working capital, to repay sums that were previously advanced to the Company by Lennar. Interest on the 7.00% Senior Notes is due on June 1 and December 1 of each year, and the 7.00% Senior Notes will mature on December 1, 2018. In March 2014, the Company issued an additional $100 million aggregate principal amount, as an add-on to the 7.00% Senior Notes, at a price of 102.25%, in a private placement. The terms from the add-on offering have identical terms as the 7.00% Senior Notes. Proceeds from the offering, after payment of expenses, were approximately $101.7 million. The Company is using most of the funds to provide additional working capital to its RMF business, in addition to funding contributions to its investment funds or for other general corporate purposes. At November 30, 2014, the carrying amount of the 7.00% Senior Notes were $351.9 million.

The Company may redeem all or a portion of the 7.00% Senior Notes at the following redemption prices (expressed as a percentage of principal) beginning December 1 of each of the years indicated below:

Year	Percentage
2015	103.50%
2016	101.75%
2017	100.00%

The Company must also pay any accrued and unpaid interest through, but not including, the date of redemption. Interest on the 7.00% Senior Notes is due semi-annually, with the first payment made on June 1, 2014. The Company may redeem all or a portion of the 7.00% Senior Notes at any time, before December 1, 2015, at a redemption price equal to 100% of the principal amount, plus a make-whole premium and accrued and unpaid interest. Before December 1, 2015, the Company may redeem up to 35% of the aggregate principal amount of the 7.00% Senior Notes with the proceeds of public offerings of equity at a redemption price equal to 107% of the principal amount of the 7.00% Senior Notes, plus accrued and unpaid interest.

The 7.00% Senior Notes indenture limits the ability of the Company or any of the Company’s Restricted Subsidiaries (as defined in the indenture governing the 7.00% Senior Notes) to make distributions, other than the repayment of indebtedness owed, to Lennar. However, these limits will not apply at any time when the Company and its Restricted Subsidiaries have a Consolidated Non-Funding Debt to Equity Ratio (as such term defined in the 7.00% Senior Notes Indenture dated November 4, 2013) of 1.50 to 1.00 or less. The Company is in compliance with all debt covenants as of November 30, 2014.

The 7.00% Senior Notes are Rialto’s senior unsecured and unsubordinated obligations, rank equally with all of Rialto’s other unsecured and unsubordinated indebtedness, and are senior to any of Rialto’s future indebtedness that is expressly subordinated in right of payment to the 7.00% Senior Notes and junior to any of Rialto’s secured indebtedness to the extent of the value of the assets securing that indebtedness. The 7.00% Senior Notes are guaranteed by existing and future directly or indirectly 100% owned subsidiaries other than subsidiaries which Rialto designates as unrestricted subsidiaries (which subject those subsidiaries to limits on investments by the Company and other restrictions). A 100% owned subsidiary can only become an unrestricted subsidiary if it is a borrower under a warehouse repurchase facility or is prevented from guaranteeing the 7.00% Senior Notes by any applicable law, regulation or contractual restriction which cannot be removed through commercially reasonable efforts.

Upon a Change of Control Triggering Event, the Company will be required to make an offer to repurchase all the outstanding 7.00% Senior Notes at a price in cash equal to 101% of the principal amount of the 7.00% Senior Notes, plus any accrued and unpaid interest to, but not including, the repurchase date.

Prior to the Company’s issuance of the 7.00% Senior Notes, its Investment and Asset Management business line and its Direct Investments business line were funded largely by Lennar. As a result of the 7.00% Senior Notes offering, the Company has become substantially self-sustaining, and the Company will request funding from Lennar only to the extent, if any, it is required to supplement its own resources (which Lennar has no obligation to provide, aside from up to $75 million the Company can borrow under a Revolving Credit Agreement). During 2013, Lennar entered into a Revolving Credit Agreement with the Company under which, subject to customary lending conditions, Lennar will at any time make advances to the Company on a revolving basis up to a maximum of $75 million. The revolving facility will terminate in November 2015. Borrowings bear interest at LIBOR plus 3.5%. At November 30, 2014, no amounts had been borrowed or repaid under this agreement. During 2013, the Company repaid $235 million that Lennar had provided to the Company (including the $100 million repaid with proceeds of the sale of the 7.00% Senior Notes).

During 2014, the Company used its excess cash to dividend $167 million to Lennar. The remaining capital Lennar had invested in the Company, which all is in the form of equity, was $413.5 million as of November 30, 2014. As the Company receives proceeds of the winding down of the FDIC LLCs and its Bank Portfolios, the Company expects to return at least a portion of Lennar’s remaining investment.

Bank Portfolios
In September 2010, the Company acquired approximately 400 distressed residential and commercial real estate loans and over 300 REO properties from three financial institutions. The Company paid $310 million for the distressed real estate and real estate related assets of which $124 million was financed through a five

year senior unsecured note provided by one of the selling institutions of which $33.0 million of principal amount was retired in 2012. The Bank Portfolios' notes payable have an interest rate of the higher of 4.5% or 1 month LIBOR plus 3.75%.

In January 2014, the Company extended the maturity date of the Bank Portfolio's note payable from September 30, 2013 to September 30, 2016. Additionally, in February 2014, the Company rescheduled the three remaining principal payments of $30.3 million to be due on December 15, 2014, 2015 and 2016. There are only two principal payments remaining as the Company made the first payment of $30.3 million in November 2014. As of November 30, 2014 and 2013, there was $60.6 million and $90.9 million, respectively, outstanding.

Warehouse Repurchase Facilities
The Company's RMF business is funded by its two warehouse repurchase facilities and the proceeds of the sale of the 7.00% Senior Notes in excess of the $100 million that was paid to Lennar. As of November 30, 2013, the Company had secured two warehouse repurchase financing agreements for use in the RMF business that mature in fiscal year 2015 totaling $650 million as of November 30, 2014, to help finance the loans the Company originates. The first $250 million warehouse loan facility originated during 2013 has a maturity date of August 9, 2015 with an option for a one time, one year extension. The second $400 million warehouse loan facility originated during 2013 has a maturity date of October 8, 2015 with an option for a one time, one year extension. These facilities are in the form of two separate repurchase agreements, and each is secured by a 75% interest in the originated commercial loans financed under the facilities. Both of these Facilities bear interest at LIBOR plus 2.25% (with one subject to a LIBOR floor of 0.25%) calculated on the then outstanding principal amount (2.5% at November 30, 2014). The Facilities require the Company to maintain a minimum liquidity, tangible net worth, interest coverage and debt to equity ratios. The Company is in compliance with all debt covenants as of November 30, 2014. The Facilities require immediate repayment of the 75% interest in the secured commercial loans when the loans are sold in a securitization. As of November 30, 2014 and 2013, the Company had $141.3 million and $76.0 million, respectively, outstanding under the Facilities.

Structured Notes
In May 2014, the Company issued $73.8 million principal amount of notes through a securitized structured note offering (the "Structured Notes") collaterized by certain assets originally acquired in the Bank Portfolios transaction at a price of 100%, with an annual coupon rate of 2.85%. Proceeds from the offering, after payment of expenses and hold backs for cash reserved were $69.1 million. In November 2014, Rialto sold the second tranche of the Structured Notes at a price of 99.5%. The initial principal amount of this second tranche was $20.8 million and has an annual coupon rate of 5.00%. Proceeds from the sale were $20.7 million, including accrued interest. The estimated final payment date from the Structured Notes is December 15, 2015. Monthly payments of principal and interest are based on the priority of available cash per the cash management agreement. The overcollateralization percentage required by the structure is defined as the ratio of the aggregated allocated basis and the balance in the interest reserve account divided by the outstanding principal balance of the notes on each payment date to be greater than 125%. At November 30, 2014, there was $58.0 million outstanding related to the Structured Notes. The Company is in compliance with all debt covenants as of November 30, 2014.

Notes Payable – Other
On January 31, 2011, the Company obtained a monetary judgment on an unpaid principal balance of a loan receivable. Effective May 2, 2011, the Company entered into a settlement agreement in consideration for a stay of execution on the monetary judgment and agreed to accept the conveyance of full and partial ownership interests in entities that own numerous real estate assets. The real estate assets are comprised primarily of commercial office buildings. At the time the Company acquired these ownership interests, the underlying assets had a fair value of approximately $20.5 million including the assumption of notes payable

totaling approximately $15.1 million which are reflected within Notes payable – other, in the table above. As part of the settlement agreement, the Company also accepted a secured promissory note receivable in the amount of $2.5 million from the obligor which is included in the Company's consolidated balance sheet within Loans receivable, net. The note bears interest at 5% per annum and requires interest only payments of $125,000 over the next five years with the principal amount due on May 30, 2016. The $2.5 million promissory note is secured by a stock pledge and pledge of cash distributions from additional commercial office building assets, of which the obligor is an owner. These notes payable have interest rates ranging from 5.5% to 6.9%.

See Note 6 for further discussion of the remaining notes payable included in the Notes payable – other line item above.

In connection with the acquisition of the FDIC Portfolios, the FDIC provided $626.9 million of financing with 0% interest, which was non-recourse to the Company and the LLCs and has been paid off as of November 30, 2013. Pursuant to ASC 835-30, *Imputed Interest*, ("ASC 835-30"), interest was not imputed, as the Notes were issued and guaranteed by a governmental agency. The notes were secured by the loans held by the LLCs.

Notes payable and other debts payable have interest rates ranging from 0.00% to 7.00%, and mature as follows as of November 30, 2014 (in thousands):

Year	Amount
2015	$ 144,665
2016	94,007
2017	31,460
2018	353,114
Total Notes payable and other debts payable	$ 623,246

10. OTHER REO EXPENSE, NET

The Company's Other REO expense, net consisted of the following for the years ended November 30, 2014, 2013 and 2012 (in thousands):

	2014	2013	2012
Realized gains on the sale of REO	$ (43,671)	$ (48,785)	$ (21,649)
Unrealized losses on loan foreclosure	6,770	427	1,878
Impairment on REO	19,337	16,090	9,282
REO expenses	31,305	44,354	56,745
Gain on bargain purchase acquisition	-	(8,532)	-
Other REO expense, net	$ 13,741	$ 3,554	$ 46,256

11. FINANCIAL INSTRUMENTS AND FAIR VALUE MEASUREMENTS

The following table presents the carrying amounts and estimated fair values of financial instruments held by the Company at November 30, 2014 and 2013 (in thousands), respectively, 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, restricted cash, receivables, net, accounts payable and due to Parent, which had fair values approximating their carrying amounts due to the short maturities and liquidity of these instruments.

		2014		2013	
Assets	**Fair Value Hierarchy**	**Carrying Amount**	**Fair Value**	**Carrying Amount**	**Fair Value**
Loans receivable, net	Level 3	$ 137,124	$ 142,881	$ 278,392	$ 305,810
Investments held-to-maturity	Level 3	$ 17,290	$ 17,155	$ 16,070	$ 15,952
Liabilities					
Notes payable and other debts payable	Level 2	$ 481,974	$ 499,064	$ 365,866	$ 362,356
Warehouse repurchase facilities	Level 2	$ 141,272	$ 141,272	$ 76,017	$ 76,017

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

Loans receivable, net - The fair value of loans receivable, net is based on the fair value of the underlying collateral less estimated cost to sell or discounted cash flows, if estimable.

Investments held-to-maturity - The fair value for investments held-to-maturity is based on discounted cash flows.

Notes payable and other debts payable - The fair value of notes payable and other debts payable was calculated based on discounted cash flows using the Company's weighted average borrowing rate. For the Structured Notes, the pricing of the debt is largely dependent on the collateral risk profile, making the structure unique. While the market is currently developing around different deal structures for such a note offering, management believes carrying value approximates fair value.

Warehouse repurchase facilities - The fair value of the warehouse repurchase facilities is assumed to approximate its carrying value because of its short duration and variable interest rates.

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.

Credit derivatives – The fair value of credit derivatives are based on quoted market prices for similar investments traded in active markets.

Interest rate derivatives – The fair value of interest rate swap futures are based on quoted market prices for identical investments traded in active markets. The fair value of interest rate swaps are based on observable values for underlying interest rates and market determined risk premiums.

During the years ended November 30, 2014 and 2013, there have been no changes in the Company's valuation methodologies.

Fair Value Measurements - Authoritative accounting literature establishes a framework for using fair value to measure assets and liabilities and defines fair value as the price that would be received to sell an asset or paid to transfer a liability (an exit price) as opposed to the price that would be paid to acquire the asset or received to assume the liability (an entry price). A fair value measure should reflect the assumptions that market participants would use in pricing the asset or liability, including the assumptions about the risk inherent in a particular valuation technique, the effect of a restriction on the sale or use of an asset, and the risk of nonperformance. Required disclosures include stratification of balance sheet amounts measured at fair value based on inputs the Company uses to derive fair value measurements. These levels include:

- *Level 1* valuations, where the valuation is based on quoted market prices for identical assets or liabilities traded in active markets (which include exchanges and over-the-counter markets with sufficient volume).

- *Level 2* valuations, where the valuation is based on quoted market prices for similar instruments traded in active markets, quoted prices for identical or similar instruments in markets that are not active, and model-based valuation techniques for which all significant assumptions are observable in the market.

- *Level 3* valuations, where the valuation is generated from model-based techniques that use significant assumptions not observable in the market, but observable based on Company-specific data. These unobservable assumptions reflect the Company's own estimates for assumptions that market participants would use in pricing the asset or liability. Valuation techniques typically include discounted cash flow models and similar techniques, but may also include the use of market prices of assets or liabilities that are not directly comparable to the subject asset or liability.

Fair Value on a Recurring Basis - Assets accounted for under ASC 825 are initially measured at fair value. Expected gains and losses from initial measurement and subsequent changes in fair value are recognized in revenue.

The Company's financial instruments measured at fair value on a recurring basis as of November 30, 2014 and 2013, are summarized below (in thousands):

	2014		
	Fair Value Hierarchy	**Fair Value**	**Total Gains (Losses)**
Financial Assets			
Loans held-for-sale [(1)]	Level 3	$ 113,596	$ 1,495
Credit default swaps	Level 2	1,694	31
Financial Liabilities			
Interest rate swaps and swap futures	Level 2	$ (1,376)	$ (1,346)
Credit default swaps	Level 2	(766)	30

(1) The aggregate fair value of loans held-for-sale of $113.6 million at November 30, 2014, exceeds their aggregate principal balance of $111.8 million by $1.8 million.

	2013		
	Fair Value Hierarchy	Fair Value	Total Gains (Losses)
Financial Assets			
Loans held-for-sale (1)	Level 3	$ 44,228	$ 33
Credit default swaps	Level 2	788	-
Financial Liabilities			
Interest rate swaps and swap futures	Level 2	$ (31)	$ (31)
Credit default swaps	Level 2	(318)	(318)

(1) The aggregate fair value of loans held-for-sale of $44.2 million at November 30, 2013, exceeds their aggregate principal balance of $44.0 million by $0.2 million.

The following table represents a reconciliation of the beginning and ending balance for the Company's Level 3 recurring fair value measurements of loans held-for-sale (in thousands):

	2014	2013
Loans held-for-sale, beginning of period	$ 44,228	$ -
Loan originations	1,562,748	690,266
Originated loans sold, including those not settled	(1,494,075)	(646,266)
Interest and principal paydowns	(800)	195
Changes in fair value	1,495	33
Loans held-for-sale, end of period	$ 113,596	$ 44,228

Fair Value on a Nonrecurring Basis - From time to time, certain assets may be recorded at fair value on a nonrecurring basis. These nonrecurring fair value adjustments typically are a result of real estate acquisition through foreclosure, the application of the lower of cost or fair value accounting and impairments. For example, if the fair value of an asset in these categories falls below its cost basis, it is considered to be at fair value at the end of the period of the adjustment. In periods where there is no adjustment, the asset is generally not considered to be at fair value. The assets measured at fair value on a nonrecurring basis are summarized below (in thousands):

		2014		
	Fair Value Hierarchy	Cost Basis (1)	Fair Value	Total Net Losses
Financial Assets				
Impaired loans receivable	Level 3	$187,218	$130,105	$ (57,113)
Non-Financial Assets				
REO - held-and-used, net (2)	Level 3			
Upon acquisition/transfer		$ 60,572	$ 55,407	$ (5,165)
Upon management periodic valuations		39,728	28,227	(11,501)
REO - held-for-sale (3)	Level 3			
Upon acquisition/transfer		$ 26,750	$ 25,145	$ (1,605)
Upon management periodic valuations		50,115	42,279	(7,836)

		2013		
	Fair Value Hierarchy	Cost Basis (1)	Fair Value	Total Net Gains (Losses)
Financial Assets				
Impaired loans receivable	Level 3	$237,829	$221,690	$ (16,139)
Non-Financial Assets				
REO - held-and-used, net (2)	Level 3			
Upon acquisition/transfer		$ 79,775	$ 86,262	$ 6,487
Upon management periodic valuations		22,743	12,226	(10,517)
REO - held-for-sale (3)	Level 3			
Upon acquisition/transfer		$ 14,367	$ 15,985	$ 1,618
Upon management periodic valuations		26,772	21,199	(5,573)

	Fair Value Hierarchy	2012 Cost Basis (1)	Fair Value	Total Net Gains (Losses)
Financial Assets				
Impaired loans receivable	Level 3	$354,687	$326,721	$ (27,966)
Non-Financial Assets				
REO - held-and-used, net (2)	Level 3			
Upon acquisition/transfer		$172,654	$175,114	$ 2,460
Upon management periodic valuations		33,003	26,300	(6,703)
REO - held-for-sale (3)	Level 3			
Upon acquisition/transfer		$ 14,325	$ 9,987	$ (4,338)
Upon management periodic valuations		19,718	17,139	(2,579)

(1) Cost basis represents the carrying value of selected assets before gains or impairment.

(2) REO - held-and-used, net, assets are initially recorded at fair value at the time of acquisition through, or in lieu of, loan foreclosure. The fair value of REO, held-and-used, net, is based upon the appraised value at the time of foreclosure or management's best estimate. In addition, management periodically performs valuations of its REO, held-and-used, net. These gains (losses) upon acquisition and impairments are included within Other REO expense, net, in the Company's consolidated statements of operations for the years ended November 30, 2014, 2013 and 2012.

(3) REO - held-for-sale, assets are initially recorded at fair value less estimated costs to sell at the time of transfer. The fair value of REO, held-for-sale, is based upon the appraised value at the time of transfer or management's best estimate. In addition, management periodically performs valuations of its REO, held-for-sale. These gains (losses) upon transfer and impairments are included within Other REO expense, net, in the Company's consolidated statements of operations for the years ended November 30, 2014, 2013 and 2012.

The following is a description of the valuation methodologies used for certain assets that are potentially recorded at fair value on a nonrecurring basis:

Loans receivable - If impaired, the fair value of nonaccrual loans is based on discounted cash flows, or the fair value of the collateral less estimated disposition costs. If impaired, the fair value of accrual loan pools are based on discounted cash flows. The fair value of the real estate is determined through a combination of appraisals, broker opinions of value and management's best estimate. The fair value of the underlying collateral is determined in part by placing reliance on independent third-party appraisals of the properties and/or internally prepared analysis of recent offers or prices on comparable properties in the proximate vicinity.

Real Estate Owned – held-and-used, net and held-for-sale - REO classified as held-and-used is initially recorded at fair value and real estate classified as held-for-sale is recorded at fair value less estimated disposition costs at the time of acquisition. The fair values of these assets are determined in part by placing reliance on independent third-party appraisals of the properties and/or internally prepared analyses of recent offers or prices on comparable properties in the proximate vicinity.

12. INCOME TAXES

Rialto is included in the consolidated federal income tax return of Lennar. Although some entities in the Rialto consolidated reporting group are limited liability companies that have elected to be treated as disregarded entities or partnerships for federal income tax purposes, in accordance with the tax sharing arrangement with Lennar, income taxes have been provided as if the Rialto reporting group filed as a separate federal consolidated group. Current income tax expense is recorded as an increase in amounts due to Parent. As such, no material income tax payments are made directly by Rialto. Income taxes are accounted for in accordance with ASC 740, *Income Taxes*, ("ASC 740"). Under ASC 740, deferred tax assets and liabilities are determined based on temporary differences between financial reporting carrying values and tax bases of assets and liabilities, and are measured by using enacted tax rates expected to apply to taxable income in the years in which those differences are expected to reverse.

The provision for income taxes for the years ended November 30, 2014, 2013 and 2012, consists of the following (in thousands):

	2014	2013	2012
Current:			
Federal	$ 23,785	$ 19,038	$ (415)
State	3,682	3,355	192
	27,467	22,393	(223)
Deferred:			
Federal	(1,553)	(12,045)	9,255
State	(375)	(2,320)	1,452
	(1,928)	(14,365)	10,707
	$ 25,539	$ 8,028	$ 10,484

Deferred income taxes reflect the net tax effects of temporary differences between carrying amounts of the assets and liabilities for financial reporting purposes and the amount used for income tax purposes. At November 30, 2014 and 2013, the tax effects of temporary differences that give rise to deferred tax assets and deferred tax liabilities are as follows (in thousands):

	2014	2013
Deferred tax assets:		
Reversals and accruals	$ 14,399	$ 8,453
Fixed assets	189	-
Loans and REO investments	2,126	-
Net operating losses	2,213	-
Total deferred tax assets	18,927	8,453
Deferred tax liabilities:		
Investments in joint ventures	(22,262)	(13,588)
Loans and REO investments	-	(2,680)
Total deferred tax liabilities	(22,262)	(16,268)
Deferred tax liabilities, net	$ (3,335)	$ (7,815)

A reduction of the carrying amounts of deferred tax assets by a valuation allowance is required if, based on the available evidence, it is more likely than not that such assets will not be realized. In accordance with the tax sharing arrangement with Lennar, income taxes have been provided as if the Rialto reporting group filed as a separate federal consolidated group. Therefore, the need to establish a valuation allowance for deferred tax assets is assessed periodically by the Company based on the more-likely-than-not realization threshold criterion. In the assessment for a valuation allowance, appropriate consideration is given to all positive and negative evidence related to the realization of the deferred tax assets. This assessment considers, among other matters, the nature, frequency and severity of current and cumulative losses, forecasts of future profitability and the duration of statutory carryforward periods.

As of November 30, 2014 and 2013, the Company concluded that it was more likely than not that Rialto's deferred tax assets would be utilized. This conclusion was based on a detailed evaluation of all relevant evidence, both positive and negative. As of November 30, 2014 and 2013, Rialto has a deferred tax liability totaling $3.3 million and $7.8 million, respectively. As a result, no valuation allowance is required.

A reconciliation of the statutory rate and the effective tax rate for each of the years ended November 30, 2014, 2013 and 2012, is as follows:

	Percentage of Pretax Income		
	2014	2013	2012
Statutory rate	35.00%	35.00%	35.00%
State income taxes, net of federal income tax benefit	3.23%	3.15%	4.00%
Meals & entertainment	0.13%	0.31%	0.00%
Change in allocated uncertain tax positions	0.00%	0.00%	1.40%
Change in rate applied to deferred tax assets and liabilities	0.00%	1.91%	0.00%
Effective rate	38.36%	40.37%	40.40%

The following table summarizes the changes in gross unrecognized tax benefits for the years ended November 30, 2014, 2013 and 2012 (in thousands):

	2014	2013	2012
Balance — beginning of year	$ -	$ 416	$ 1,955
Decreases of prior year items due to tax sharing arrangement with Lennar	-	(416)	(1,539)
Balance — end of year	$ -	$ -	$ 416

In accordance with the tax sharing arrangement with Lennar, for the tax year ended November 30, 2012, the gross unrecognized tax benefits of Lennar were allocated to the Company on a pro rata basis based on revenues. Beginning with tax year November 30, 2013, the Company has determined that an evaluation of the Company's standalone uncertain tax positions would be more meaningful than an allocation of Lennar's uncertain tax positions. Accordingly, gross unrecognized tax benefits of Lennar are no longer being allocated but rather the Company's standalone unrecognized tax benefits are evaluated independent of the gross unrecognized tax benefits of Lennar.

At November 30, 2014, 2013 and 2012, the Company had $0.0 million, $0.0 million and $0.4 million respectively, of gross unrecognized tax benefits. As the Company has no unrecognized tax benefit at November 30, 2014, there is no effect on the Company's effective tax rate.

During the year ended November 30, 2013, the Company's gross unrecognized tax benefits decreased by $0.4 million as a result of the decision to evaluate the Company's standalone unrecognized tax benefits independent of the gross unrecognized tax benefits of Lennar. During the year ended November 30, 2012, the Company's gross unrecognized tax benefits decreased by $1.5 million related to a reduction of the allocation of Lennar unrecognized tax benefits.

As of November 30, 2014 and 2013, the Company has $0.0 million accrued for interest and penalties. The Company recognizes interest and penalties accrued related to unrecognized tax benefits in the provision for income taxes.

The IRS is currently examining Lennar's federal income tax return for fiscal year 2013 which includes the results of the Company. Lennar participates in an IRS examination program, Compliance Assurance Process, "CAP." This program operates as a contemporaneous exam throughout the year in order to keep exam cycles current and achieve a higher level of compliance. Additionally, certain state taxing authorities are examining various fiscal years of Lennar. The final outcome of these examinations is not yet determinable. The statute of limitations for Lennar and the Company's major tax jurisdictions remains open for examination for fiscal year 2005 and subsequent years.

13. CONTRACTUAL OBLIGATIONS AND COMMERCIAL COMMITMENTS

The Company is party to various claims, legal actions and complaints arising in the ordinary course of business. In the opinion of management, the ultimate resolution of any claims or lawsuits will not have a material adverse effect on the Company's business, consolidated financial position, results of operations or cash flows.

The following table summarizes certain of the Company's contractual obligations at November 30, 2014 (in thousands):

		Payments Due by Period			
	Total	Less than 1 year	1 to 3 years	3 to 5 years	More than 5 years
Notes payable and other debts payable (1)	$ 481,974	$ 3,393	$ 125,467	$ 353,114	$ -
Warehouse repurchase facilities (2)	141,272	141,272	-	-	-
Interest commitments under interest bearing debt (3)	107,206	30,873	51,806	24,527	-
Investment commitments (4)	48,553	48,553	-	-	-
RMF rate lock commitment (5)	44,000	44,000	-	-	-
Operating leases	7,800	2,027	3,241	2,532	-
Total contractual obligations	$ 830,805	$ 270,118	$ 180,514	$ 380,173	$ -

(1) Amount includes $58.0 million related to the Structured Notes with an assumed final payment date of December 15, 2015.

(2) Warehouse facilities are assumed to be paid off in the short-term as soon as loans held-for-sale are securitized, which is normally within 2 to 3 months.

(3) Interest commitments on variable interest bearing debt are determined based on the interest rate as of November 30, 2014.

(4) Amount includes the Company's capital commitments to Fund II and the Mezzanine Fund.

(5) Relates to one loan the Company is contractually obligated to fund but has yet to release the funds to the borrower.

14. PARENT COMPANY TRANSACTIONS

Rialto Holdings, LLC, formed in 2013 in order to facilitate the offering of the 7.00% Senior Notes, is a direct, wholly owned subsidiary of Lennar. Rialto Corporation, a direct, wholly owned subsidiary of Rialto Holdings, LLC, was formed in 2013 for the sole purpose of acting as a co-issuer. However, Rialto Capital Management, LLC, and Rialto Investments, LLC, each a direct, wholly owned subsidiary of Rialto Holdings, LLC, were founded in 2007 and 2009, respectively. Prior to the 7.00% Senior Notes offering, Lennar had provided all the funds that had been used by the Company, other than funds generated from assets that were owned, or fees or proceeds of management fees the Company received. On November 14, 2013, the day the 7.00% Senior Notes were issued, Lennar contributed to the Company's equity the entire outstanding balance of the amount it had invested in the Company (an amount previously classified as "Due to Parent") in excess of $235 million. The $235 million remaining constituted indebtedness of the Company to Lennar. However, the Company applied $100 million of the gross proceeds of the sale of the 7.00% Senior Notes and $135 million of working capital to fully retire this indebtedness as of November 30, 2013.

The 7.00% Senior Notes indenture limits the ability of the Company or any of the Company's Restricted Subsidiaries (as defined in the indenture governing the 7.00% Senior Notes) to make distributions, other than the repayment of indebtedness owed, to Lennar. However, these limits will not apply at any time when the Company and its Restricted Subsidiaries have a Consolidated Non-Funding Debt to Equity Ratio (as such term is defined in the 7.00% Senior Notes Indenture dated November 14, 2013) of 1.50 to 1.00 or less.

During 2014, the Company used its excess cash to dividend $167 million to Lennar. The remaining capital Lennar has invested in the Company, which all is in the form of equity, was $413.5 million as of November 30, 2014. As the Company receives proceeds of the winding down of the FDIC LLCs and Bank Portfolios, the Company expects to return at least a portion of Lennar's remaining investment.

Pursuant to the Company's Operating Agreement, the Company's sole member, Lennar, has the authority, power, and discretion to manage and control the business, affairs, and properties of the Company, to make all decisions regarding those matters and to perform any and all other acts customary or incident to the management of the Company's business. Additionally, in the Company's Operating Agreement, the Company agrees to indemnify the Company's members, manager, officers, and employees against losses, claims, damages and liabilities except in certain circumstances outlined in the Operating Agreement (i.e., in instances of gross negligence, willful misconduct or fraud).

Revolving Credit Agreement – Lennar will have no obligation to provide additional funds to the Company, other than pursuant to a revolving credit agreement between Lennar and the Company. Under the revolving credit agreement, Lennar will, subject to customary lending conditions, make advances to the Company on a revolving basis of up to $75 million. The maturity date will be November 22, 2015 and the Company will pay interest on advances at LIBOR plus 3.5% for the applicable interest period. The Company is subject to certain customary covenants, including, but not limited to, limitations on fundamental changes, limitations on changes to line of business and transactions with affiliates. The Company may repay outstanding amounts at any time, without premium or penalty, on 10 business days' prior notice, and may re-borrow sums it repays. As of November 30, 2014, no amounts were outstanding under this agreement and no amounts had ever been borrowed or repaid under this agreement.

Support Services and Expense Reimbursement Agreement – Prior to the 7.00% Senior Notes offering, Lennar had provided management, treasury, information technology, income tax, payroll and administrative services to the Company and to its subsidiaries. In the past, Lennar had not charged the Company for those services (although Lennar did require the Company to reimburse it for rent and other operating costs it advanced on the Company's behalf). However, on November 26, 2013, Lennar and the Company entered into a Support Services and Expense Reimbursement Agreement under which Lennar has agreed to provide specified accounting, information technology, tax, legal, human resources, treasury, occupancy, office and other administrative services to the Company and its subsidiaries and the Company will pay a fee equal to the lower of the actual cost or fair market value of those services to Lennar. As of November 30, 2014, the Company has $0.8 million recorded as a receivable from Lennar, whereby $4.3 million was billed by Lennar to the Company and $5.1 million was paid by the Company to Lennar under this agreement.

Tax Reimbursement Agreement – The Company and most of its subsidiaries are not recognized as taxpayers for federal income tax purposes or for income tax purposes in some states. Instead, its taxable income and the taxable income of its subsidiaries that are limited liability companies and other types of non-corporate entities, is treated as taxable income of Lennar. Because Lennar, as the Company's sole member, is required to include at least most of the Company's federal taxable income in Lennar's federal taxable income, the Company entered into a Tax Reimbursement Agreement on November 26, 2013, which was effective September 1, 2013, pursuant to which the Company will pay Lennar each time the Company would be required to pay federal or state income taxes if it were a taxable corporation, the sum equal to the federal or state income tax the Company would have been required to pay if it and its subsidiaries were all taxable corporations, minus any federal or state income taxes the Company or its subsidiaries actually pay. The Company will make such payment to Lennar five days prior to the date on which Lennar files applicable tax returns. This agreement will terminate if the Company is no longer a subsidiary of Lennar. As of November 30, 2014 and 2013, the Company has $1.9 million and $12.4 million recorded as a liability to Lennar, respectively, under this Tax Reimbursement Agreement on the accompanying consolidated balance sheets.

Prior to the 7.00% Senior Notes Offering – Prior to November 2013, cash funding had been provided by the Parent for operating capital on an as-needed basis. Excess operating funds generated by the Company and any cash distributions from unconsolidated entities had been swept back to Lennar. No interest had been charged for the use of funds provided by the Parent. All cash funding, net of amounts swept back to Lennar were recorded as Due to Parent for periods prior to November 2013.

15. SUBSEQUENT EVENTS

In connection with the preparation of the consolidated financial statements, the Company evaluated subsequent events occurring after the balance sheet date of November 30, 2014 through February 23, 2015, the date the consolidated financial statements were available to be issued, and concluded that no events, other than those described below, have occurred that required recognition or disclosure in the consolidated financial statements.

On December 26, 2014, $56.4 million was distributed by the two FDIC LLCs, of which $33.8 million was paid to the FDIC and $22.6 million was paid to the Company. On January 26, 2015, $12.8 million was distributed by the two FDIC LLCs, of which $7.7 million was paid to the FDIC and $5.1 million was paid to the Company. From inception to date, $300.8 million has been distributed by the LLCs, of which $180.5 million has been paid to the FDIC and $120.3 million has been paid to the Company.

During December 2014, Fund I distributed $20.0 million to its limited partners (including $2.2 million to the Company). During February 2015, Fund I distributed $15.0 million to its limited partners (including ($1.6 million to the Company). From inception to date, Fund I has distributed $937.0 million to its limited partners (including $108.2 million to the Company). During February 2015, Fund I distributed $3.4 million to the Company as the general partner. From inception to date, Fund I has distributed $38.1 million to the Company as the general partner.

During December 2014, Fund II called $100.0 million of equity commitments of which the Company was responsible for $7.7 million. From inception to date, the Company has contributed $65.9 million of its total commitment of $100.0 million. During December 2014, Fund II distributed $10.0 million to its limited partners (including $0.8 million to the Company). From inception to date, Fund II has distributed $125.0 million to its limited partners (including $9.8 million to the Company).

During December 2014, the Mezzanine Fund closed on additional equity commitments of $33.2 million from new investors, bringing the total equity commitments to $284.3 million. During December 2014, the Mezzanine Fund called $24.9 million of equity commitments with no additional increase in the Company's commitments with $6.8 million remaining to be called. During February 2015, the Mezzanine Fund held its final closing of capital commitments, bringing total commitments to $300.0 million. During December 2014, the Mezzanine Fund distributed $1.5 million to its investors (including $0.2 million to the Company). During January 2015, the Mezzanine Fund distributed $1.7 million to its investors (including $0.2 million to the Company). During February 2015, the Mezzanine Fund distributed $1.7 million to its investors (including $0.2 million to the Company). From inception to date, the Mezzanine Fund distributed $15.8 million to its investors (including $3.1 million to the Company).

During December 2014, the CMBS Fund distributed $3.1 million to its investors (including $0.4 million to the Company). From inception to date, the CMBS Fund has distributed $33.5 million to its investors (including $11.7 million to the Company).