Rialto Holdings, LLC and Subsidiaries

Fiscal Year 2015 Annual Report

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

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RIALTO HOLDINGS, LLC AND SUBSIDIARIES

ANNUAL REPORT
November 30, 2015

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. Although we believe that the expectations reflected in our forward-looking statements are reasonable, actual results could differ from those expressed in our forward-looking statements. Our future financial position and results of operations, as well as any forward-looking statements are subject to change and inherent risks and uncertainties. You should consider our forward-looking statements in light of a number of factors that may cause actual results to vary from our forward-looking statements including, but not limited to:

- risks discussed under the heading "*Risk Factors*" in this Annual Report, as well as our consolidated financial statements, accompanying notes, and the other financial information appearing elsewhere in this Annual Report;
- changes in general economic conditions, in our industry and in the commercial finance and the real estate markets;
- changes to our business and investment strategy;
- our ability to obtain and maintain financing arrangements;
- the financing and advance rates for our assets;
- our actual and 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 repayment dates for assets in which we invest;
- 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 potential 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 of 1940, as amended (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

You should not rely upon forward-looking statements as predictions of future events. Neither we nor any other person can assume the accuracy and completeness of forward-looking statements. The forward-looking statements contained in this Annual Report are made as of the date hereof, and the Company assumes no obligation to update or supplement any forward-looking statements to reflect events or circumstances after the date of those statements or to reflect the occurrence of anticipated or unanticipated events in the future.

REFERENCES TO RIALTO HOLDINGS, LLC AND SUBSIDIARIES

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. Unless the context suggests otherwise, references in this report to “Rialto,” the “Company,” “we,” “us” and “our” refer to Rialto Holdings, LLC and its subsidiaries.

PART I

Item 1. Business.

Overview

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, and investing our own capital in mortgage loans, real properties and real estate related securities. Our vertically-integrated investment and operating platform currently consists of 436 professionals operating from eleven offices across the United States ("U.S.") and three additional offices in Europe. 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., a provider of residential mortgage financing and other financial services and a national developer of high-quality multifamily rental properties. Lennar has over 7,700 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 underwriting and management process, including access to local market participants 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 the Company has been able to expand its geographical reach.

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 the drivers of real estate value creation and a strong track record of managing 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 restructuring and recapitalization of 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 financial institutions that were the traditional sources of this capital and the substantial need for that capital in the coming years.

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 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 we sell for inclusion in commercial mortgage-backed securities ("CMBS") securitizations as well as the origination of floating rate loans secured by commercial real estate properties that are sometimes undergoing transition, including lease-up, sell-out and renovation or repositioning; 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 an executive management team of 21 seasoned professionals averaging 21 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 quality real estate properties through multiple cycles. Rialto's management team 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 investments in (i) senior and subordinate debt; (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. Management's experience in these areas provide a base on which to opportunistically provide both debt and equity real estate capital while maintaining key controls over the investing, lending, value add and monetization processes.

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 substantial ongoing opportunities in the real estate markets.

Description of Business

Investment and Asset Management

We are one of the industry leaders in raising private capital and investing in real estate assets. We focus on long-term relationships with a global base of institutional investors, which include pension funds, funds-of-funds, foundations, endowments, insurance companies, corporations, family offices and others. Our investors value our investing expertise and diverse investment strategies, combined with our strong focus on risk management and our vertically-integrated operational infrastructure, which we believe have all contributed to our strong performance track record to date. In addition, 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 and a partner with AllianceBernstein L.P. ("AB") in our 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 investment of $4.3 billion of capital 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 generating over $900 million of profits for those investors.

Since 2011, we have raised and are managing three opportunistic real estate funds, one real estate related mezzanine debt fund, a CMBS B-piece fund, a number of co-investment vehicles and a separate account to invest in commercial real estate mezzanine loans for a global insurance company. Total equity capital commitments for these investment vehicles as of November 30, 2015, were approximately $3.3 billion.

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

Private Equity Vehicle	Inception Year	Commitment
Rialto Real Estate Fund, LP	2010	$700 million (including $75 million by the Company)
Rialto Real Estate Fund II, LP	2012	$1.3 billion (including $100 million by the Company)
Rialto Real Estate Fund III		
Rialto Real Estate Fund III - Debt, LP[1]	2015	$384 million (including $60 million by the Company)
Rialto Real Estate Fund III - Property, LP[1]	2015	$126 million (including $40 million by the Company)
Rialto Mezzanine Partners Fund, LP	2013	$300 million (including $34 million by the Company)
Rialto Capital CMBS Fund, LP	2014	$71 million (including $24 million by the Company)

(1) The targeted investment capital of the funds is $1.75 billion ($1 billion for the Rialto Real Estate Fund III – Debt, LP, and $750 million for the Rialto Real Estate Fund III – Property, LP).

In addition, we manage a $400 million separate account for a global insurance company. We earn fees for our role as a manager of these vehicles and for providing asset management and other services to these vehicles and other third parties.

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 that we believe help to create a competitive advantage for us.

Our business objective is to judiciously grow our assets under management and create value from our underlying investments, and in turn, increase our share of profits from the investments we make in our fund vehicles and our recurring fees and carried interest as an incentive for exceeding certain performance levels. As of November 30, 2015, we had approximately $7.3 billion in a variety of fee generating assets under management, based on gross unpaid principal balances, and had approximately $3.3 billion of equity under management, overseen by 231 professionals. Incentive income, or carried interest, generally does not accrue to us until investors have received back their investments plus specified returns on their investments. Because of that, we usually will not begin receiving incentive income with regard to a fund until five to seven years after the fund is created.

Over the past three years, we have become a leading CMBS special servicer, approved or rated by all the major rating agencies and we have grown our platform from zero to over $63 billion of special servicing rights on almost 4,300 underlying CMBS loans since April 2012. This includes commercial real estate properties across all property types – office, retail, industrial, apartments and hotels, in all 50 states. We expect this portion of our business to generate higher revenues in the coming years. 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 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 and currently have 45 associates dedicated to this business as of November 30, 2015. 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 or 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, 2015, we originated loans with a total principal balance of $2.6 billion and closed sales of $2.4 billion of originated loans into twelve separate securitization trusts, making us, by volume, making us one of the largest non-bank, non-broker/dealer commercial mortgage loan originator and contributor to CMBS transactions.

We also originate floating rate loans secured by commercial real estate properties that are sometimes undergoing transition, including lease-up, sell-out and renovation or repositioning. These floating rate loans are structured to fit the needs and business plans of property owners, and generally have LIBOR based floating rates (which are subject to a floor) and terms (including extension options) ranging from one to three years.

To finance our lending activities, we had $1.0 billion of committed warehouse repurchase facilities from three institutional counterparties. Additionally, the loan origination and securitization business entered into a revolving credit agreement with Lennar under which it will, subject to customary lending conditions, make advances on a revolving basis of up to $200 million, subject to certain limitations and the achievement of specified financial conditions. 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) 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. Interest income represents interest earned on originated loans from the time of origination until the time that we sell the loans. Lastly, the Company generates fees on certain loans at the time of origination.

Direct Investments

Through our Direct Investments business line, we were at one time an active acquirer of 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 manage, approximately 5,500 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 use it 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 helps 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 in which we are considering an investment. In a large majority of instances with regard to loans in excess of $100,000, the underwriting 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 monetizing real estate that we acquire either directly or through foreclosure. This enables us to apply our experience 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 currently have a group of approximately 143 associates who are responsible for working out non-performing loans and another group of approximately 98 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 both Rialto and Lennar 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 Company's 7.00% Senior Notes due 2018 (the "7.00% Senior Notes"). Prior to that, Rialto Capital Management, LLC and Rialto Investments, LLC, which was founded in 2007 and 2009, respectively, were direct wholly owned subsidiaries of Lennar. 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 the Company 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 remained as 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 $430.3 million as of November 30, 2015. As we receive proceeds of the winding down of the FDIC Portfolios 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) 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).

Lennar/Rialto Revolving Credit Agreement – Under the revolving credit agreement, Lennar, subject to customary lending conditions, makes advances to the Company on a revolving basis of up to $75 million. The original maturity date under the agreement was November 22, 2015, and was extended in November 2015 to November 22, 2017. Interest on advances is generally at LIBOR plus 3.50% for the applicable interest period. The Company is subject to certain customary covenants, including, but not limited to, limitations on fundamental changes, changes to lines of business and transactions with affiliates. The Company may repay outstanding amounts at any time, without premium or penalty and may re-borrow sums it repays. At November 30, 2015, no amounts were outstanding under this agreement.

Lennar/RMF Revolving Credit Agreement – On June 30, 2015, RMF, the Company's subsidiary that originates and sells commercial mortgage loans, entered into a revolving credit agreement ("Credit Agreement") with Lennar, as lender. Under the Credit Agreement, Lennar will, subject to customary lending conditions, make advances to RMF on a revolving basis of up to $200 million, subject to certain limitations and the achievement of specified financial conditions. The maturity date of the Credit Agreement is June 30, 2018. Interest accrued at LIBOR plus 3.50 until February 12, 2016, and under an amendment signed on February 12, 2016, accrues at either LIBOR plus 3.50% or ABR plus 2.50% after that date. RMF is subject to certain customary covenants, including, but not limited to, limitations on fundamental changes, changes to lines of business and transactions with affiliates. RMF may prepay outstanding amounts at any time, without premium or penalty. This credit facility is in addition to the $75 million facility extended by Lennar to Rialto. At November 30, 2015, no amounts were outstanding 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 its subsidiaries, without charge (although Lennar did require the Company to reimburse it for rent and other operating costs it advanced on the Company's behalf). On November 26, 2013, Lennar and the Company entered into a Support Services and Expense Reimbursement Agreement under which Lennar 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 Lennar a fee equal to the lower of the actual cost or fair market value of those services.

Tax Reimbursement Agreement – The Company and those of its subsidiaries that are not corporations are not recognized as taxpayers for federal income tax purposes or for income tax purposes in some states. Instead, their taxable income is treated as taxable income of Lennar. Further, the taxable income of the Company's subsidiaries that are corporations is included in Lennar's consolidated tax returns. Therefore, Lennar pays most of the taxes on the Company's taxable income. Because of this, Lennar and the Company entered into a Tax Reimbursement Agreement on November 26, 2013, which was effective September 1, 2013, pursuant to which the Company pays 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. This agreement will terminate if the Company is no longer a subsidiary of Lennar.

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 doing that 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.

Supervision and 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 and/or 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

If we were an investment company required to register under the Investment Company Act, we would have to terminate a number of our current activities or substantially change the way we conduct them. We currently are not an investment company subject to the Investment Company Act, as amended, because there are fewer than 100 holders of our securities and we do not currently propose to make a public offering. However, we attempt to conduct our operations so that we would not be required to register as an investment company under the Investment Company Act, even if there were more than 100 holders of our securities or if we decided to make a public offering. We believe we qualify for an exception to what constitutes an investment company for companies that are primarily engaged in purchasing or otherwise 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 at times 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 for companies that are primarily engaged in purchasing or otherwise 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. There may be at least one additional exception available to us, but it requires that all of our securities be held by persons who when they acquired our securities, met the statutory definition of Qualified Purchasers or the SEC’s definition of Knowledgeable Employees. Therefore, if at some time there were more than 100 holders of our securities and we did not qualify for the exception for companies that are primarily engaged in purchasing or otherwise acquiring mortgages and other liens on and interests in real estate, we would have to determine whether at that time we qualify for the exception for a company the outstanding securities of which are owned exclusively by persons who, when they acquired the securities, were Qualified Purchasers or Knowledgeable Employees .

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, was intended to make significant structural reforms to the financial services industry. The implications of the Dodd-Frank Act for our businesses depend to a large extent on the manner in which its implementing regulations are established and interpreted by the primary U.S. financial regulatory agencies – the Federal Reserve, the FDIC, the Office of the Comptroller of the Currency, the SEC and the Commodity Futures Trading Commission. The implications are also dependent on changes in market practices and structures in response to the requirements of the Dodd-Frank Act and financial reforms in other jurisdictions. Although a large number of rules have been finalized, many aspects of the Dodd-Frank Act remain subject to further rulemaking, take effect over various transition periods, or contain other elements that make it difficult to precisely anticipate their final impact. 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 at all times, every associate (i.e., employee) 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

Currently, we have 436 associates in eleven offices. Of these 436 associates, 273 are in our investment and asset management business line, 45 are in our loan origination and securitization business line and the remaining 118 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 what we believe to be 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. Since 2013, we have focused primarily 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 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.

Our financial statements may be materially affected if our estimates, including loan losses, 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 can reasonably be used may result in significantly different financial statements, and changes in our 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 loan losses, (ii) determining the fair value of relatively illiquid 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, and until they are improved, we may be vulnerable to errors in determining our financial results or to fraud.

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, including 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 a loan is foreclosed upon and we take title to the property, 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 making long-term direct investments in loans and 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). 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 failure in 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. 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 investments 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 reduce the market value of CMBS. Also, 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 heightened 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 funds, 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 we have subsidiaries that invest in funds and entities we manage, if those funds and entities perform poorly, our subsidiaries could be hurt.

We have subsidiaries that invest exclusively in funds or entities we manage. At November 30, 2015, our subsidiaries had $112.1 million of cash invested (net of returned capital), and commitments to invest an additional $100 million, in funds and entities we manage. If those funds and entities perform poorly, the value of our subsidiaries' investments would probably decline, and in addition, it would become difficult for our subsidiaries to find third-party investors in future funds it sponsors, which could adversely affect their ability to generate fee income.

Regulatory changes in the Unites States could adversely affect our current and future fundraising.

As a result of recent highly publicized financial scandals, investors, regulators and the general public have exhibited concerns over the integrity of both the U.S. financial markets and the regulatory oversight of these markets. As a result, the business environment in which our funds operate is subject to heightened regulation. As calls for additional regulation have increased, there may be a related increase in regulatory oversight of investment activities of alternative investment funds, including our investment funds and our future investment funds. Such oversight may cause us to incur additional expense and may result in fines if we are deemed to have violated any regulations.

The Dodd-Frank Act recently enacted by the U.S. Congress has changed and is expected to continue changing the regulatory environment for alternative investment funds, including our investment funds and our future investment funds. Dodd-Frank Act expands the registration requirements for investment advisers managing such funds, as well as subjecting large funds to supervisory oversight for purposes of assessing their potential to contribute to systemic risk. Although the SEC and other U.S. regulatory agencies have begun issuing rules and regulations to implement the requirements of Dodd-Frank, many of the provisions of Dodd-Frank still require the adoption of implementing regulations by the applicable agencies. Accordingly, it is not possible finally to assess Dodd-Frank's full impact on us, our investment funds or, in some cases, the instruments in which our investment funds may invest. As the regulatory environment evolves, compliance with any new laws or regulations could be difficult and may adversely affect the value of instruments held by our investment funds or the ability of our investment funds to pursue their investment strategies.

Although the full scope of these potential regulatory changes are not yet known, such changes could have a meaningful impact on the financial industry. We may be adversely affected if new or revised legislation or regulations are enacted, or by changes in the interpretation or enforcement of existing rules and regulations imposed by the SEC, other U.S. governmental regulatory authorities or self-regulatory organizations that supervise the financial markets and their participants. Such changes could place limitations on the types of investors that can invest in our investment funds or on the conditions under which our investment funds may acquire investments. Further, such changes may limit the scope of investing activities we may undertake for our investment funds. It is impossible to determine the extent of the impact of any new laws, regulations or initiatives that may be proposed, or whether any of the proposals will become law. Any changes in the regulatory framework applicable to our business, including the changes described above, may impose additional costs on us, require special attention of our senior management or result in limitations on the manner in which we conduct our business. Moreover, as calls for additional regulation have increased, there may be a related increase in regulatory investigations of other investment activities of alternative asset management funds, including our funds. Compliance with any new laws or regulations could make compliance more difficult and expensive, affect the manner in which we conduct our business and adversely affect our profitability.

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 to 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 distressed mortgage debt, foreclosed properties and other real estate related assets that have been adversely affected by the recent recession or otherwise. At least some of the firms with which we compete, or will compete, for investment opportunities have, or will have, a cost of capital or targeted investment return that is lower than ours or that of the funds we manage, and therefore, those firms may be able to pay more for investment opportunities 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.

A principal source of the revenues we expect to receive from funds and other investment vehicles are distributions with regard to our carried interests in those investment vehicles. Although we receive management fees and other fees from investment vehicles we manage, they do little more than cover our costs. We become entitled to receive carried interest distributions, or other forms of incentive compensation, when distributions to investors by investment vehicles exceed the sums the investors invested plus specified returns on their investments. In all likelihood, we will not start receiving distributions with regard to our carried interest in an investment vehicle until at least five years after the investment vehicle received its initial funding. The first fund we formed is currently estimated to begin making carried interest 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 carried interest distributions may be delayed, or we might not receive any carried interest distributions, other than advance distributions to cover the taxes we must pay with regard to our carried interests.

We have assigned part of our carried interests as employee compensation.

We have adopted a Carried Interest Incentive Plan under which we can assign up to 40% of the sums that are distributed with regard to our carried interest in an investment vehicle as incentive compensation to our senior managers and other employees who are involved in our management of investment funds and other investment vehicles, and we can assign up to an additional 10% of those sums to employees of Lennar and its subsidiaries, other than us, who contribute to the success of the funds we manage. We have assigned to our employees 40% of any sums distributed with regard to our carried interest in each of the investment vehicles we formed and are currently managing, but we have not made any assignments to employees of Lennar or its subsidiaries other than us. Depending on the performance of the funds and other investment vehicles we manage, the sums we pay to employees under the Carried Interest Incentive Plan in particular years could be very large, and could significantly reduce our earnings in those years.

A significant source of our pretax earnings in fiscal 2014 and 2015 was advance distributions from investment funds and other investment vehicles to reimburse us for tax obligations we incurred.

We are entitled to receive from each of the investment funds and other investment vehicles we manage advances against carried interest distributions to which we may become entitled in the future in order to cover our income tax obligations resulting from allocations of taxable income to us as a result of our carried interest even though we are not yet, and may never become, entitled to distributions with regard to our carried interests in particular funds or other investment vehicles. For the years ended November 30, 2015 and 2014, we received advance distributions totaling $20 million and $34.7 million, respectively. Because the advance distributions are not subject to repayment or adjustment even if we never become entitled to distributions with regard to our carried interests, they are treated as revenues when we receive them. The advance distributions we received for the years ended November 30, 2015 and 2014, equaled 72% and 52%, respectively, of the net earnings attributable to us before provision for incomes taxes in those years.

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 we expect in most cases 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 have already 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 in Spain and any expansion into other 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, the implantation of currency controls, material changes in a specific country's or region's political or economic conditions, differences in the legal and regulatory systems, reputational risks and cultural differences which may lead to competitive disadvantages due, among other things, to our need to comply with U.S. securities and 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 do business.

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.

Almost all 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 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 fund nearly $675 million 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 on favorable terms or at all when they mature, 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 between 2016 and 2018, 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 four warehouse repurchase facilities that totaled $1 billion as of November 30, 2015, all of which will mature between 2016 and 2018. 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.

Certain loans we hold may be more illiquid and involve a greater risk of loss than long-term loans.

We originate and hold balance sheet loans that typically mature in three years or less, to provide financing to borrowers seeking short-term funding in connection with the acquisition or transition (for example, lease up and/or rehabilitation) of commercial real estate. Such a borrower often has identified a transitional asset that has been under-managed and/or is located in a recovering market. If the market in which the asset is located fails to recover according to the borrower's projections, or if the borrower fails to improve the quality of the asset's management and/or the value of the asset, the borrower may not receive a sufficient return on the asset to satisfy the interim loan, and we bear the risk that we may not recover some or all of our initial expenditure. In addition, borrowers usually use the proceeds of a long-term mortgage loan to repay the floating rate loan.

Further, the loans may be relatively less liquid than loans against stabilized properties due to their short life, their potential unsuitability for securitization, any unstabilized aspects of the underlying real estate and the difficulty of recovery in the event of a borrower's default. This lack of liquidity may significantly impede our ability to respond to adverse changes in the performance of our floating rate loan portfolio and may adversely affect the value of the portfolio.

Such "liquidity risk" may be difficult or impossible to hedge against and may also make it difficult to effect a sale of such assets as we may need or desire. As a result, if we are required to liquidate all or a portion of our floating rate loan portfolio quickly, we may realize significantly less than the value at which such investments were previously recorded, which may fail to maximize the value of the investments or result in a loss.

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 2015, the hospital has experienced periods of profitability and for the year ended November 30, 2015, the hospital had consolidated operating earnings of $2.2 million. If the hospital were to operate at a loss and we are unable to improve the operating margins of the hospital, our consolidated results of operations could be further harmed.

Risks Related to our Indebtedness

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 for sales of 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 two separate credit agreements under which Lennar has agreed to advance up to $275 million in aggregate 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 are currently 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 Act, may have adverse effects on our industry. For example, in October 2014, final rules were promulgated under the Dodd-Frank Act that require mortgage lenders or third-party B-piece buyers to retain a portion of the risk related to securitized loans. Those rules may reduce the price of CMBS, limit the overall volumes of CMBS related loan purchases and limit our liquidity, which could adversely impact our Loan Origination and Securitization business as well as our Investment and Asset Management 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 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.

If we were required to register under the Investment Company Act of 1940, we could not conduct our activities as we currently do.

If we were an investment company required to register under the Investment Company Act, we would have to terminate a number of our current activities or substantially change the way we conduct them. We currently are not an investment company required to register under the Investment Company Act, because there are fewer than 100 holders of our securities and we do not currently propose to make a public offering. However, we attempt to conduct our operations so that we would not be required to register as an investment company under the Investment Company Act, even if there were more than 100 holders of our securities or if we decided to make a public offering. We believe we qualify for an exception to what constitutes an investment company because of an exception for companies that are primarily engaged in purchasing or otherwise 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 primarily engaged in purchasing or otherwise acquiring mortgages and other liens or interests in real estate. Some of the possible changes as to which the SEC sought comment could, if they were implemented, make it even more difficult for us to qualify for that exception.

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.

PART II

Item 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion and analysis of financial condition and results of operations should be read in conjunction with the consolidated financial statements and the accompanying notes of Rialto Holdings, LLC and Subsidiaries included within this Annual Report. This Management's Discussion and Analysis of Financial Condition and Results of Operations contains forward-looking statements. See "*Cautionary Statement Regarding Forward-Looking Statements*" and "*Risk Factors*" within this Annual Report for a discussion of the uncertainties, risks, and assumptions associated with these statements. Actual results may differ materially from those contained in any of the forward-looking statements as a result of various factors, including, but not limited to, those in described in Item 1A "*Risk Factors*" in this Annual Report.

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 392 professionals operating from eleven offices across the United States ("U.S.") and three additional offices in Europe. Founded in 2007, we are a wholly owned subsidiary of Lennar, which is one of the largest publicly traded homebuilders in the U.S., a provider of residential mortgage financing and other financial services and a national developer of high-quality multifamily rental properties. Lennar has over 7,700 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 Rialto'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 the Company has been able to expand its geographical reach.

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 the drivers of real estate value creation and a strong track record of managing 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 restructuring and recapitalization of 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 of this capital and the substantial need for that capital in the coming years.

Business Outlook

For the year ended November 30, 2015, we generated $27.8 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. 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 approximately $7.3 billion in assets under management. Since 2009, Rialto has participated in over $5.4 billion of equity investments, acquiring over $11 billion of real estate loans, securities, commercial and residential properties. As we have been 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 generating investment management, asset management, and other servicing fees and performance based incentive revenues (carried interests). Currently, we have raised over $605 million of capital for our third fund vehicle and are planning for additional closings of commitments during 2016.

Looking forward, we expect to grow our management fees and receive carried interest distributions as the investments in our real estate funds are monetized in the future. In addition, we participate as an investor in the funds we sponsor, earning our share of earnings from the underlying investments rather than 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. If the funds we sponsor had ceased operations and hypothetically liquidated all their investments for their estimated fair values on November 30, 2015, we would have received $148.3 million with regard to our carried interests, which is net of $54.7 million already received as advanced distributions to cover income tax obligations we incurred with regard to our carried interest (but before allocation of 40% of this to employees under our Carried Interest Incentive Plan). The advanced distributions are not subject to clawbacks and will reduce future carried interest payments to which we become entitled from the applicable funds and therefore have been recorded as revenues. 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 interests.

We have become a leading commercial mortgage-backed securities ("CMBS") special servicer, approved and rated by all the major rating agencies for commercial mortgage-backed securities and growing our platform from zero to over $63 billion of special servicing rights on almost 4,300 underlying CMBS loans in just the last few years. This includes commercial real estate properties across all property types – office, retail, industrial, apartments and hotels, in all 50 states. We expect this portion of our business to generate a greater proportion of our management fees going forward.

Our Loan Origination and Securitization business is now one of the largest non-bank commercial mortgage loan originator and contributor to CMBS transactions, and is generating margins among the best in the industry. We believe the commercial real estate finance market currently presents substantial opportunities for new originations, as it is characterized by significant maturities of existing loans that need to be refinanced, often steady or increasing cash flows from the underlying stabilized properties and a historically low interest rate environment. 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 the opportunity to originate commercial first mortgage loans to continue to be substantial. Over the next five years, $1.7 trillion of commercial real estate debt is scheduled to mature (according to Trepp) 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 or they have been limited by regulators.

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. And while we expect to liquidate a majority of these assets by the end of 2016, we do not expect significant earnings either from our direct investment in the FDIC Portfolios, or from the portfolios of loans we acquired from banks in 2010 (the "Bank Portfolios").

(1) Results of Operations

Financial information relating to our operations for the years ended November 30, 2015, 2014 and 2013, was as follows:

	2015	2014	2013
REVENUES:			
Interest income	$ 45,518	$ 70,438	$ 78,907
REO revenue:			
Hospital revenues, net	38,193	26,367	4,737
Rental income	10,367	17,153	20,269
Gains from securitizations and other loan origination revenues	93,698	75,255	27,761
Management fees	82,707	84,828	31,392
Total revenues	270,483	274,041	163,066
EXPENSES:			
General and administrative expense	126,526	117,674	79,761
REO expense, net:			
Hospital expense, net	35,968	26,762	4,665
Other REO expense, net	209	13,741	3,554
Provision for loan losses	10,363	57,113	16,139
Interest expense	39,104	33,490	7,484
Servicing expense	10,970	19,438	32,565
Securitization and loan origination expenses	29,498	16,196	8,181
Amortization of debt issuance costs	5,081	3,041	5,680
Depreciation expense	2,391	2,162	1,262
Total expenses	260,110	289,617	159,291
EQUITY IN EARNINGS FROM UNCONSOLIDATED ENTITIES	22,293	59,277	22,353
(LOSS) GAIN ON SALE OF INVESTMENT SECURITIES	(129)	378	-
NET EARNINGS (INCLUDING NET EARNINGS (LOSS) ATTRIBUTABLE TO NONCONTROLLING INTERESTS)	32,537	44,079	26,128
LESS: NET EARNINGS (LOSS) ATTRIBUTABLE TO NONCONTROLLING INTERESTS	4,765	(22,493)	6,238
NET EARNINGS ATTRIBUTABLE TO RIALTO BEFORE PROVISION FOR INCOME TAXES	27,772	66,572	19,890
PROVISION FOR INCOME TAXES	10,997	25,539	8,028
NET EARNINGS ATTRIBUTABLE TO RIALTO	$ 16,775	$ 41,033	$ 11,862

2015 versus 2014

In the year ended November 30, 2015, net earnings before provision for income taxes were $27.8 million (which included $32.5 million of operating earnings offset by $4.8 million of net earnings attributable to noncontrolling interests), compared to net earnings before provision for income taxes of $66.6 million (which included $44.1 million of operating earnings and an add back of $22.5 million of net loss attributable to noncontrolling interests) in the same period last year.

In the year ended November 30, 2015, revenues were $270.5 million compared to $274.0 million in the same period last year. Revenues decreased $3.6 million primarily due to a decrease in interest income as a result of a decrease in the portfolio of loans we own due to loan collections, resolutions, payoffs, and the change from the accretion method of accounting for interest income recognition to the nonaccrual cost recovery method. This decrease was partially offset by an increase in gains from securitizations and other loan origination revenues and interest income from Rialto Mortgage Finance ("RMF") as the origination volume and number of securitizations increased. Additionally, management fees benefitted from the receipt of $20.0 million in 2015 and $34.7 million in 2014, respectively, of advance tax distributions with regard to the Company's carried interests in real estate funds to cover income tax obligations resulting from the allocations of taxable income to our carried interests in these funds. Hospital revenues also increased $11.8 million due to increased patient volume.

In the year ended November 30, 2015, expenses were $260.1 million compared to $289.6 million in the same period last year. Expenses decreased primarily due to a $46.8 million decrease in loan impairments due to the change from the accretable yield method and because of a reduction in the number of loans outstanding under the FDIC Portfolios and Bank Portfolios. This was partially offset by an increase in securitization and loan origination expenses from having four additional securitizations at a higher volume during the current year compared to the same period last year. Additionally, there was an increase in interest expense related to greater borrowings under the RMF warehouse repurchase facilities due to the increased volume. There was also an increase in general and administrative expenses relating to an increase in compensation expense as well as an increase in hospital expenses stemming from increased patient volume.

In the year ended November 30, 2015, we had equity in earnings from unconsolidated entities of $22.3 million, which included $9.7 million of our share of earnings from the Rialto Real Estate Fund I, LP ("Fund I"), $7.4 million of our share of earnings from the Rialto Real Estate Fund II, LP ("Fund II"), $3.0 million of our share of earnings from the Rialto Capital CMBS Fund ("CMBS Fund") and $2.2 million of our share of earnings from the Rialto Mezzanine Partners Fund, LP ("Mezzanine Fund"). Equity in earnings from unconsolidated entities was $59.3 million in the same period last year, which included $30.6 million of our share of earnings from Fund I, $15.9 million of our share of earnings from Fund II, $10.8 million of our share of earnings from the CMBS Fund and $1.9 million of our share of earnings from the Mezzanine Fund. While realized results continue to be strong across our sponsored investment funds, unrealized gains recognized on CMBS investments being marked up to fair value were largely recognized during 2014 and did not occur to the same extent during 2015 as our CMBS values did not rise to the same extent in 2015.

As of November 30, 2015 and 2014, we had three and two warehouse repurchase facilities, respectively, that mature in fiscal year 2016 with commitments totaling $900 million and $650 million, respectively, to use in our Loan Origination and Securitization business. Borrowings under these facilities were $317.1 million and $141.3 million, respectively, as of November 30, 2015 and November 30, 2014. On August 31, 2015, we entered into a separate $100 million repurchase facility to finance the origination of floating rate loans. Borrowings under this fourth facility were $36.3 million as of November 30, 2015. Loans financed under this facility are held as accrual loans within Loans receivable, net. As of November 30, 2015 and 2014, these loans totaled approximately $76.1 million and $7.0 million, respectively.

On June 30, 2015, RMF entered into a $200 million revolving credit agreement with Lennar, as lender, that matures on June 30, 2018. This new Credit Facility is in addition to the $75 million facility extended by Lennar to Rialto. At November 30, 2015, no amounts were outstanding under this facility.

During 2013, the LLCs we own in partnership with the FDIC finished repaying $626.9 million of loans from the FDIC ahead of schedule and thus, were able to start distributing capital to investors. During the years ended November 30, 2015 and 2014, $149.7 million and $184.9 million, respectively, were distributed by the LLCs, of which $89.8 million and $110.9 million, respectively, was distributed to the FDIC and $59.9 million and $74.0 million, respectively, was distributed to us.

2014 versus 2013

In the year ended November 30, 2014, net earnings before provision for income taxes were $66.6 million (which included $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 $26.1 million of operating earnings offset by $6.2 million of net earnings attributable to noncontrolling interests) in the same period of 2013.

In the year ended November 30, 2014, revenues were $274.0 million compared to $163.1 million in the same period of 2013. Revenues increased $110.9 million primarily due to an increase management fees, increased revenues due to larger sales volume in our RMF business and improvement in our hospital operations. Management fees benefitted from the receipt of $34.7 million of advance tax distributions from Fund I in order to cover income tax obligations resulting from the allocations of taxable income related to our carried interests in these funds. Additionally, hospital revenues increased $21.6 million due to it being operational for the entire year unlike in 2013 when it was only operational for one month. These increases were offset by decreases in interest income and rental income of $8.5 million and $3.1 million, respectively, as a result of a decrease in the portfolio of loans we own due to loan collections, resolutions, payoffs and reduced income producing REO from sales of those properties as well as no longer recognizing interest income under the accretable yield method. Instead, interest income is recognized to the extent that loan collections exceed their carrying value.

In the year ended November 30, 2014, expenses were $289.6 million compared to $159.3 million in the same period of 2013. Expenses increased $130.3 million primarily due to an increase in loan impairments of $41.0 million due to changes in the estimated cash flows expected to be collected from the FDIC Portfolios and Bank Portfolios and the change from the accretable yield method of interest income recognition to a cost recovery basis method in 2014. Interest expense increased $26.0 million due to the issuance of the 7.00% Senior Notes and subsequent add-on, the securitized structured notes issued in May and November 2014, and the warehouse repurchase facilities. Additionally, hospital expense increased $22.1 million due to it being operational for the entire year unlike in 2013 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 due to the increase in both the number and volume of securitizations period over period. This was partially offset by an increase general and administrative expenses relating to an increase in compensation expense as well as an increase in hospital expenses stemming from increased patient volume.

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 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 of 2013, 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. Unrealized gains recognized on CMBS investments being marked up to fair value were largely recognized during the 2014 period and did not occur during 2013.

During the years ended November 30, 2014 and 2013, $184.9 million and $46.7 million, respectively, were distributed by the LLCs, of which $110.9 million and $28.4 million, respectively, was distributed to the FDIC and $74.0 million and $18.3 million, respectively, was distributed to us.

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, and we expect to receive in the future distributions with regard to carried interests we hold in the vehicles. As discussed in the Business Outlook, these types of revenues are becoming increasingly important to us as we move away from using our own capital to invest directly 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 receiving carried interest revenue after distributions to investors that have met specified investment return thresholds. Carried interests 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 funds sponsored by the Company that invest in real estate related assets and other investments as of November 30, 2015 and 2014 (in thousands):

	Inception Year	Equity Commitments	Equity Commitments Called	Commitment to fund by the Company	Funds contributed by the Company	Net cash invested by the Company 2015	Net cash invested by the Company 2014
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	1,305,000	100,000	100,000	74,053	49,199
Rialto Real Estate Fund III							
Rialto Real Estate Fund III - Debt, LP [1]	2015	383,876	-	60,000	-	-	-
Rialto Real Estate Fund III - Property, LP [1]	2015	126,357	-	40,000	-	-	-
Rialto Mezzanine Partners Fund, LP	2013	300,000	300,000	33,799	33,799	27,883	17,960
Rialto Capital CMBS Fund, LP	2014	70,660	70,660	23,735	23,735	10,181	4,845
						$ 112,117	$ 72,004

(1) In November 2015, the Company completed the first closing of commitments from Rialto Real Estate Fund III – Debt, LP, and Rialto Real Estate Fund III – Property, LP, collectively referred to as Fund III. Fund III's objective is to invest in commercial real estate related debt and preferred equity opportunities of all types, as well as value add real estate acquisitions and real estate property requiring repositioning.

The following table reflects the carrying value of the Company's investments in funds that invest in real estate related assets and other investments, as of November 30, 2015 and 2014 (in thousands):

	2015	2014
Rialto Real Estate Fund I, LP	$ 68,570	$ 71,831
Rialto Real Estate Fund II, LP	99,947	67,652
Rialto Real Estate Fund III		
Rialto Real Estate Fund III - Debt, LP	-	-
Rialto Real Estate Fund III - Property, LP	-	-
Rialto Mezzanine Partners Fund, LP	32,344	20,226
Rialto Capital CMBS Fund, LP	23,233	15,265
Other Investments	775	726
	$ 224,869	$ 175,700

The Company's share of earnings from unconsolidated entities was as follows for the years ended November 30, 2015, 2014 and 2013 (in thousands):

	2015	2014	2013
Rialto Real Estate Fund I, LP	$ 9,676	$ 30,612	$ 19,391
Rialto Real Estate Fund II, LP	7,440	15,929	2,523
Rialto Real Estate Fund III			
Rialto Real Estate Fund III - Debt, LP (1)	(27)	-	-
Rialto Real Estate Fund III - Property, LP (1)	(51)	-	-
Rialto Mezzanine Partners Fund, LP	2,194	1,913	354
Rialto Capital CMBS Fund, LP	3,013	10,823	-
Other Investments	48	-	85
	$ 22,293	$ 59,277	$ 22,353

(1) Equity in loss from Fund III for the year ended November 30, 2015, relates to formation costs incurred in November 2015.

As a manager of real estate funds, we are entitled to receive additional revenue through a carried interest if they meet certain thresholds. The amounts presented in the table below are advance distributions received with regard to the Company's carried interests in order to cover income tax obligations resulting from allocations of taxable income to those carried. These advance distributions are not subject to clawbacks but will reduce future carried interest payments to which the Company becomes entitled from the applicable funds. Because they are not subject to clawbacks even if the future carried interest payments never become due, the advanced distributions have been recorded as revenues.

The following table represents amounts received as advanced tax distributions as of November 30, 2015 and 2014 (in thousands):

	2015	2014
Rialto Real Estate Fund I, LP	$ 9,588	$ 34,693
Rialto Real Estate Fund II, LP	9,383	-
Rialto Mezzanine Partners Fund, LP	513	-
Rialto Capital CMBS Fund, LP	516	-
	$ 20,000	$ 34,693

The following table represents amounts we would have received had our funds ceased operations and hypothetically liquidated all their investments at their estimated fair value on of November 30, 2015, both gross and net of amounts received as advance tax distributions.

(in thousands)	Hypothetical Carried Interest	Paid as Advanced Tax Distribution	Hypothetical Carried Interest, Net
Rialto Real Estate Fund I, LP	$ 159,285	$ (44,281)	$ 115,004
Rialto Real Estate Fund II, LP	39,980	(9,383)	30,597
Rialto Mezzanine Partners Fund, LP	494	(513)	(19)
Rialto Capital CMBS Fund, LP	3,223	(516)	2,707
	$ 202,982	$ (54,693)	$ 148,289

The Rialto Holdings, LLC Carried Interest Incentive Plan ("Plan") provides participants in the Plan the opportunity to participate in distributions made by a fund or other investment vehicle (a "Fund") managed by a subsidiary of Rialto. Under the Plan, Rialto may assign its right to receive carried interest payments from a fund to a limited liability company (a "Carried Interest Entity") and distribute to its employees or to employees of Lennar who are involved in the management of the Fund, units of the Carried Interest Entity that entitle the holders to specified percentages of distributions made from the Fund to the Carried Interest Entity. Currently included in the Plan are all of our fund vehicles excluding Fund I. Rialto may distribute to some of its employees units entitling them to up to 40% of the distributions received by the Carried Interest Entity and to employees of other Lennar entities units entitling them to up to 10% of the distributions received by the Carried Interest Entity. The Plan is administered by a Committee comprised of two members of Lennar's management and one member of Rialto's management. The units issued to employees are subject to vesting schedules and forfeiture or repurchase provisions in the case of a termination of employment. The Plan requires that each participant enter into a Non-Competition, Non-Solicitation and Confidentiality Agreement. A Carried Interest Entity will make advance tax distributions to participants to enable them to pay taxes to the extent the taxes they are required to pay are more than the total distributions they have received.

During the year, the Company recorded $8.1 million of compensation expense related to the Plan, of which $3.0 million related to the amortization of the share-based compensation expense over the vesting period and is recorded as minority interest on the consolidated balance sheet at November 30, 2015.

Loan Origination and Securitization

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 or ten year terms. Generally those loans are between $2 and $75 million in size. 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. Our loans are directly originated by an internal team that has longstanding and strong relationships with borrowers and mortgage brokers throughout the U.S. We follow a rigorous investment process, which begins with an initial due diligence; continues through a comprehensive legal and underwriting process incorporating multiple internal and external checks and balances; and culminates in approval or disapproval of each prospective investment by our Credit Committee. During the year ended November 30, 2015, we originated loans with a total principal balance of $2.6 billion and sold $2.4 billion of originated loans into twelve separate securitization trusts.

As of November 30, 2015, we had three warehouse repurchase facilities that mature in fiscal year 2016 with commitments totaling $900 million to help finance our lending activities. 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.

Additionally, the loan origination and securitization business entered into a revolving credit agreement under which Lennar will, subject to customary lending conditions, make advances on a revolving basis of up to $200 million, subject to certain limitations and the achievement of specified financial conditions.

We also originate floating rate loans secured by commercial real estate properties that are sometimes undergoing transition, including lease-up, sell-out and renovation or repositioning. To finance these floating rate accrual loans, on August 31, 2015, the Company entered into a separate $100 million repurchase facility. Loans made directly by the Company, as opposed to in one of its fund vehicles or separate accounts, are held as accrual loans within Loans receivable, net. As of November 30, 2015 and 2014, these loans totaled approximately $76.1 million and $7.0 million, respectively.

Borrowings under these four facilities were $353.4 million as of November 30, 2015.

Net profit from loans sold into securitizations

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 proceeds of the sale of servicing rights.

We find net profit from loans sold into securitizations to be useful as a supplemental measure of the volume of transactions in our Loan Origination and Securitization business. Net profit from loans sold into securitizations is a key measure of the success of our loan origination and securitization business.

Below are the results from sales of loans held-for-sale into securitizations for the years ended November 30, 2015, 2014 and 2013 (dollars in thousands):

	2015	2014	2013
Number of loans	229	146	47
Originated loans sold, including those not settled	$ 2,412,562	$ 1,494,075	$ 646,266
Number of securitizations	12	8	4
Net margin	3.1%	4.3%	3.2%
Income from sale of securitized loans [1]	$ 100,192	$ 77,191	$ 28,778
Expenses from sale of securitized loans	$ 29,498	$ 16,196	$ 8,181
Net securitization profit	$ 70,694	$ 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.

	2015	2014	2013
Total securitization revenues	$ 100,192	$ 77,191	$ 28,778
Loan origination and processing fees	1,947	1,100	251
Net realized and unrealized losses on loans and hedging instruments	(8,441)	(3,036)	(1,268)
Gain from securitizations and other loan origination revenues	$ 93,698	$ 75,255	$ 27,761

Direct Investments

Through our Direct Investments business line, we were at one time 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. Our current objective is to continue to monetize and wind down these distressed commercial real estate portfolios in order to free up the underlying capital and to use the 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.

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, 2015 and 2014, and its operating results are included in our consolidated statements of operations for the years ended November 30, 2015 and 2014.

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. As of November 30, 2015, $1.4 million remains payable to pre-petition bankruptcy creditors.

Other

CMBS Investment — In September 2015, we acquired an approximately $23 million face amount non-investment grade CMBS bond for $14 million, representing a 39% discount from par value, and simultaneously sold $11.7 million of this bond with a cost basis of $7.1 million for $7.0 million. 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.

Primary Servicer — 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.

Other — In December 2014, we made an investment of $18.0 million in a non-marketable equity security of an unaffiliated, private commercial real estate services company, in which we do not have a controlling interest or significant influence. This equity security is carried at cost and included in Other assets, net, in the accompanying consolidated balance sheets.

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 or interest and other expenses for the years ended November 30, 2015, 2014 and 2013, which were as follows (in thousands):

	2015	2014	2013
General and administrative expenses	$ 120,489	$ 110,868	$ 74,769
Interest and other expenses	29,554	29,949	2,070

General and administrative costs increased for both the years ended November 30, 2015 and 2014, because of increases in personnel costs due to the growth of our Loan Origination and Securitization business and accruals for performance-based compensation and expenses related to the Carried Interest Plan. Interest and other expenses remained relatively flat from 2014 to 2015. The increase from 2013 to 2014 is due to the addition of interest and related amortization expense related to the 7.00% Senior Notes as well as interest associated with the Bank Portfolio debt (which is unsecured and was classified as corporate debt in 2014, rather than attributed to Direct Investments as it was in 2013) in addition to the growth of our Loan Origination and Securitization business.

Investment and Asset Management

Overview

(in thousands)	2015	2014
Total Assets	$ 224,093	$ 175,726

	2015	2014	2013
Revenues	$ 89,751	$ 93,404	$ 33,137
Equity in earnings from unconsolidated entities	22,244	59,278	22,202
Gain on sale of investment securities	-	378	-
Net earnings before income taxes and overhead	111,995	153,060	55,341

2015 versus 2014

Investment and Asset Management revenues decreased 4% year over year mainly due to a decrease in advance distributions of carried interest received in 2015 compared to 2014. During the current year, $20.0 million of advanced distributions were received with regard to the Company's carried interest in the real estate funds in order to cover income tax obligations resulting from allocations of taxable income to our carried interests in these funds in the current period. This compared to $34.7 million of advance distributions received in 2014 relating to fiscal years 2011 through 2014 income tax. The portion of these advance tax distributions related to the fiscal years from 2011 through 2013 was $21.7 million. Excluding these catch-up amounts relating to prior years, the advanced distributions actually increased from $13.0 million in 2014 to $20.0 million in 2015. Additionally, fiscal 2015 saw increases in fees derived from growing equity and assets under management in Fund II, the Mezzanine Fund and the CMBS Fund.

Equity in earnings declined year over year due to decreases in the Company's share of earnings from the funds. The Company's share of earnings from Fund I were $9.7 million compared to $30.6 million in the prior year. The decrease in earnings from Fund I was primarily due to lower unrealized gains from fair value mark-ups on CMBS investments. The Company's share of earnings from Fund II were $7.4 million compared to $15.9 million in the prior year. The decrease in earnings from Fund II was primarily due to the lower unrealized gains from fair value mark-ups on CMBS investments. In addition, the Company's share of earnings in the CMBS Fund was $3.0 million compared to $10.8 million in the prior year, when there were significantly more partial sales of underlying investment securities at gains. The Company's share of earnings in the Mezzanine Fund for 2015 remained relatively constant compared to the prior year.

2014 versus 2013

Investment and Asset Management revenues increased 182% from 2013 to 2014 mainly due to the $34.7 million that was paid to us by Fund I as an advance tax distribution, which represented amounts paid to cover fiscal years 2011 through 2014 income tax obligations, including $21.7 million relating to fiscal years 2011 through 2013. Additionally, revenues increased due to increases in fees derived from growing equity and assets under management in Fund II, the Mezzanine Fund and the CMBS Fund, as well as an increase in special servicing fees and primary servicing fees partly due to the acquisition of the Service Provider.

Equity in earnings increased from 2013 to 2014 due to increases in the Company's share of earnings from the funds. The Company's share of earnings from Fund I were $30.6 million compared to $19.4 million in the same period prior year. The increase in earnings From Fund I was primarily due to greater unrealized gains from fair value mark-ups on CMBS investments. The Company's share of earnings in Fund II was $15.9 million compared to $2.5 million in the same period prior year. 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 2014. The Company's share of earnings in the CMBS Fund was $10.8 million compared to zero in the same period 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 same period prior year. The increase in earnings was due to an increase in interest income on loans resulting from a larger invested base of loans.

Loan Origination and Securitization

Overview

(in thousands)	2015	2014
Total Assets	$ 636,420	$ 322,361

	2015	2014	2013
Revenues	$ 113,964	$ 86,166	$ 33,772
Net earnings before income taxes and overhead	69,683	60,392	21,977

2015 versus 2014

Loan Origination and Securitization revenues increased 32% year over year mainly due to an increase in revenues from higher securitization volume as well as an increase in interest income on originated loans. During the year ended November 30, 2015, the Company originated loans with a total principal balance of $2.6 billion and sold $2.4 billion of originated loans into twelve separate securitizations at an average net margin of 3.1%, whereas for the same period in 2014, the Company originated loans with a total principal balance of $1.6 billion and sold $1.5 billion of loans into eight separate securitizations at an average net margin of 4.3%. Additionally, interest income increased to $20.3 million in 2015 from $10.9 million in 2014. This decrease in net margin was attributed to wider CMBS spreads throughout all credit classes which resulted from growing volatility within the real estate capital markets during the second half of the year.

2014 versus 2013

Loan Origination and Securitization revenues increased 155% from 2013 to 2014 mainly due to an increase in revenues from higher securitization volume as well as an increase in interest income on 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 4.3% whereas for the same period 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%. As the number and volume of loan originations increased year over year, interest income increased to $10.9 million in 2014 from $6.0 million in 2013.

Direct Investments

Overview

(in thousands)	2015	2014
Total Assets	$ 582,452	$ 730,616

	2015	2014	2013
Revenues	$ 73,812	$ 102,594	$ 96,157
Equity in earnings (loss) from unconsolidated entities	49	(1)	151
Net (loss) earnings before income taxes and overhead	(3,864)	(6,063)	19,386

2015 versus 2014

Direct Investments revenues decreased 28% year over year mainly due to decreases in interest income and rental income as a result of a decrease in the portfolio of loans and REO the Company owns as a result of loan collections, resolutions and reduced income producing REO from sales of those properties. Additionally, revenues declined as interest income is no longer being recognized under the accretable yield accounting method in 2015 as it was during 2014. Rather, interest income is recognized only to the extent that loan collections exceed carrying value. Expenses in this business line also decreased due to a decrease in the amount of loan impairments recorded in the current year. A larger amount of loan losses were recorded last year as a result of changes in the estimated cash flows expected in the FDIC Portfolios. The decrease in revenues was slightly offset by an increase in hospital revenues due to an increase in patient volume quarter over quarter.

2014 versus 2013

Direct Investments revenues increased 7% from 2013 to 2014 mainly due 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 the hospital was 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 as a result of loan collections, resolutions and REO foreclosures. Expenses in this business line also increased due to loan impairments recorded in the current year 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's full year of operations in 2014 compared to less than a month's worth in 2013. REO expenses increased due to higher unrealized losses on loan foreclosures and higher impairment charges on REO in 2014. Additionally, 2013 included a gain on the hospital acquisition of $8.5 that was a one-time occurrence for this period.

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, 2015					
	Investment and Asset Management	Loan Origination & Securitization	Direct Investments	Corporate	Eliminations	Total Consolidated
Total Assets	$ 224,093	$ 636,420	$ 582,452	$ 755,775	$ (688,794)	$ 1,509,946
Revenues	89,751	113,964	73,812	-	(7,044)	270,483
Equity in earnings from unconsolidated entities	22,244	-	49	-	-	22,293
Net earnings (loss) before income taxes and overhead	111,995	69,683	(3,864)	(150,042)	-	27,772

	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	$ 730,616	$ 918,315	$ (695,035)	$ 1,451,983
Revenues	93,404	86,166	102,594	-	(8,123)	274,041
Equity in earnings from unconsolidated entities	59,278	-	(1)	-	-	59,277
Gain on sale of investment securities	378	-	-	-	-	378
Net earnings (loss) before income taxes and overhead	153,060	60,392	(6,063)	(140,817)	-	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	$ 1,010,378	$ 48,934	$ -	$ 1,474,590
Revenues	33,137	33,772	96,157	-	-	163,066
Equity in earnings from unconsolidated entities	22,202	-	151	-	-	22,353
Net earnings (loss) before income taxes and overhead	55,341	21,977	19,386	(76,814)	-	19,890

The Total Asset elimination amounts in the table above represent corporate investment in the other business lines and the Revenue elimination largely represents the elimination of primary loan servicing fee revenues charged by our Service Provider to our Direct Investments business line.

(2) 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 sources of liquidity have been (1) capital contributions of loans from Lennar, (2) cash generated from our business activities, including proceeds from the liquidation of investments we have made, 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% Senior Notes, (4) borrowings under the warehouse repurchase facilities and (5) proceeds from the Structured Notes.

Our primary uses of liquidity are for (1) the funding of loan and real estate-related investments including our contributions to the funds we sponsor, (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.

At November 30, 2015, we had $150.2 million in cash.

Our notes payable and other debts payable, net of debt issuance costs, consisted of the following at November 30, 2015 and 2014 (in thousands):

	2015	2014
Senior Notes, net	$ 347,944	$ 347,113
Bank Portfolios	30,311	60,622
Warehouse Repurchase Facilities	353,404	141,272
Structured Notes, net	31,317	56,607
Notes payable - other	8,752	11,463
Total Notes payable and other debts payable, net	$ 771,728	$ 617,077

Senior Notes, net

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 of 7.00% Senior Notes in an add-on private placement, at a price of 102.25%. Proceeds from the add-on placement, after payment of expenses, were approximately $101.7 million. The Company used most of the funds to provide additional working capital to its Loan Origination and Securitization business, fund contributions to its investment funds or for other general corporate purposes. At November 30, 2015 and 2014, the carrying amount net of debt issuance costs of the 7.00% Senior Notes was $347.9 million and $347.1 million, respectively.

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
2016	101.75%
2017	100.00%

The Company must also pay any accrued and unpaid interest on the 7.00% Senior Notes that are redeemable through, but not including, the date of redemption.

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, 2015.

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 subjects 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 became substantially self-sustaining, and any funding from Lennar since then has been under credit agreements with arm's length terms. During 2013, Lennar entered into a Revolving Credit Agreement with us under which, subject to customary lending conditions, Lennar makes advances to us on a revolving basis up to a maximum of $75 million. The revolving facility, with an original maturity date of November 2015, was extended for two years to November 2017. Borrowings bear interest at LIBOR plus 3.50% for LIBOR loans and at the greater of: (i) the Prime Rate, (ii) the Federal Funds Effective Rate plus 0.5%, or (iii) one-month LIBOR plus 1.00%, plus a 2.50%, margin for ABR Loans (as defined). At November 30, 2015, no amounts were outstanding.

On June 30, 2015, RMF entered into a revolving credit agreement ("Credit Agreement") with Lennar, as lender. Under the Credit Agreement, Lennar will, subject to customary lending conditions, make advances to RMF on a revolving basis of up to $200 million, subject to certain limitations and the achievement of specified financial conditions. The maturity date of the Credit Agreement is June 30, 2018. Interest accrued at LIBOR plus 3.50% until February 12, 2016, and, under an amendment signed on February 12, 2016, accrues at either LIBOR plus 3.50% or ABR plus 2.50% after that date. RMF is subject to certain customary covenants, including, but not limited to, limitations on fundamental changes, limitations on changes to lines of business and transactions with affiliates. RMF may prepay outstanding amounts at any time, without premium or penalty. This new Credit Agreement is an addition to the $75 million facility extended by Lennar to Rialto. At November 30, 2015, no amounts were outstanding under this agreement.

The following table summarizes the activities from both revolving credit agreements during the year ended November 30, 2015 (in thousands):

	Lennar/Rialto	Lennar/RMF	Total
Aggregate borrowings	$ 75,000	$ 410,000	$ 485,000
Interest expense paid to Lennar	-	1,058	1,058
Repayments, including interest expense	(75,000)	(411,058)	(486,058)
Ending balance	$ -	$ -	$ -

During 2014, we used our excess cash to pay $167 million of dividends to Lennar. The remaining capital that Lennar had invested in us, which all is in the form of equity, was $430.3 million as of November 30, 2015. As we receive proceeds of the winding down of the FDIC Portfolios 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 $124.0 million was financed through a five-year senior unsecured note provided by one of the selling institutions for which the maturity was extended to December 15, 2016. As of November 30, 2015 and 2014, the outstanding balance amount under the five-year senior unsecured note was $30.3 million and $60.6 million, respectively.

Warehouse Repurchase Facilities
At November 30, 2015, warehouse repurchase facilities financing the RMF loan origination and securitization business and warehouse repurchase facility financing floating rate accrual loans were as follows (in thousands):

		Maximum Aggregate Commitment
364-day warehouse repurchase facility that matures March 2016 [1]	$	250,000
364-day warehouse repurchase facility that matures August 2016		250,000
364-day warehouse repurchase facility that matures October 2016 (one year extension)		400,000
Loan Origination and Securitization business total	$	900,000
Warehouse repurchase facility that matures August 2018 (two - one year extensions)		100,000
Total	$	1,000,000

[1] This facility was subsequently extended to March 2017.

RMF uses the three facilities totaling $900 million to finance its loan originations until the loans are sold in a securitization and the proceeds are collected. The facilities are expected to be renewed or replaced with other facilities when they mature. Each of these facilities is secured by a 75% interest in the originated commercial loans financed. The facilities require immediate repayment to the extent loans securing them are sold in securitizations and the proceeds are collected.

On August 31, 2015, the Company entered into a separate $100 million repurchase facility to finance the origination of floating rate loans. This facility has a maturity date of August 31, 2018, with two one-year extension options. The facility bears interest at one-month-LIBOR plus the applicable pricing margin which ranges from 2.00% to 2.50% based on asset type. Loans financed under this facility are held as accrual loans within Loans receivable, net.

As of November 30, 2015 and 2014, the Company had $353.4 million and $141.3 million, respectively, outstanding under the four facilities. 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, 2015.

Structured Notes, net
In May 2014, the Company issued $73.8 million principal amount of notes through a securitized structured note offering (the “Structured Notes”) collateralized by certain assets acquired as part of the Bank Portfolios transaction at par, 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, Rialto sold a 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, after payment of expenses, were $20.7 million, including accrued interest. The estimated final payment date of the Structured Notes is April 2017, however, the final retirement of the debt could extend past that date. Monthly payments of principal and interest are based on the priority of available cash per a cash management agreement. The overcollateralization percentage required by the structure is 125%. As of November 30, 2015 and 2014, the outstanding amount of Structure Notes, net of debt issuance costs was $31.3 million and $56.6 million, respectively. The Company is in compliance with all debt covenants as of November 30, 2015.

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 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, 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 with a 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, 2015, 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 will 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 (used in) provided by our operating, investing and financing activities is summarized as follows:

(in thousands)		2015		2014
Operating activities	$	(231,811)	$	(99,341)
Investing activities		18,818		295,935
Financing activities		59,323		(94,201)
(Decrease) increase in cash	$	(153,670)	$	102,393

Operating Cash Flow Activities

Cash used in operating activities totaled $231.8 million and $99.3 million, respectively, representing an increase of 133% year over year. During the year ended November 30, 2015, cash used in operating activities was impacted largely by our Loan Origination and Securitization business that used cash for loan originations of $2.6 billion partially offset by the sale of these loan originations into twelve separate securitization trusts for a cash inflow of $2.4 billion as well as the settlement of $165.6 million of loans sold which included $153.8 million of loans that had not settled as of prior year end and $11.9 million of other originated loans sold. There was a decrease in accruals and other liabilities of $25.9 million largely related to accrued compensation from 2014 paid in 2015. Additionally, there were $13.9 million in deferred income tax benefits for the year (as an operating cash usage) representing relatively large current income tax payments to Lennar under our Tax Sharing Agreement for the year. These cash uses were offset by net earnings attributable to Rialto of $16.8 million.

During the year ended November 30, 2014, our cash used in operating activities was impacted largely by our Loan Origination and Securitization business that used cash for loan originations of $1.6 billion partially offset by the sale of a portion of these loan originations into eight separate securitization trusts for a cash inflow of $1.5 billion. There were also 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.

Investing Cash Flow Activities

Cash provided by investing activities was $18.8 million and $295.9 million, respectively, representing a 94% decrease year over year. The decline was driven by an approximately 42% reduction in proceeds from the sales of REO, as the volume of properties owned has declined and the pipeline of properties from foreclosures on loans has also declined. This is commensurate with the decline in the number of loans outstanding year over year, which is the result of our loan work-out efforts. Cash from investing has also decreased as distributions from investments have declined year over year, while capital has been called for the ramp up in Fund II, the Mezzanine Fund and the CMBS Fund. Additionally, we originated $78.7 million of loans held-to-maturity and we made an $18.0 million investment in a private commercial real estate services company during 2015.

Financing Cash Flow Activities

Cash provided by and used in financing activities was $59.3 million and $94.2 million, respectively, representing a 163% decrease year over year. Cash provided by financing activities consisted of distributions to the FDIC joint ventures of $90.9 million (compared to $112.3 million in the prior year period) and the paydown of the Notes payable of $58.9 million, predominantly the Bank Portfolio Note and the Structured Notes. These amounts were offset by net borrowings under the warehouse repurchase facilities of $0.2 million in 2015, compared to net repayments of $0.1 million in 2014. The net increase in cash provided by financing was largely due to increased borrowings under warehouse repurchase facilities.

Off-Balance Sheet Arrangements

Investments in Unconsolidated Entities

Financial information on a consolidated basis regarding unconsolidated entities in which we have investments that are accounted for by the equity method is as follows as of November 30, 2015 and 2014, and for each of the years ended November 30, 2015, 2014 and 2013 (in thousands):

Balance Sheets

	2015	2014
Assets:		
Cash and cash equivalents	$ 188,147	$ 141,609
Loans receivable	473,997	512,034
Real estate owned	506,609	378,702
Investment securities	1,092,476	795,306
Investments in partnerships	429,979	311,037
Other assets	30,340	45,451
	$ 2,721,548	$ 2,184,139
Liabilities and equity:		
Accounts payable and other liabilities	$ 29,462	$ 20,573
Notes payable	374,498	395,654
Equity	2,317,588	1,767,912
	$ 2,721,548	$ 2,184,139

Statements of Operations

	2015	2014	2013
Revenues	$ 170,921	$ 150,452	$ 251,533
Costs and expenses	97,162	95,629	252,563
Other income, net [1]	144,941	479,929	187,446
Net earnings of unconsolidated entities	$ 218,700	$ 534,752	$ 186,416
Equity in earnings from unconsolidated entities	$ 22,293	$ 59,277	$ 22,353

[1] Other income, net, for the years ended November 30, 2015, 2014 and 2013 included realized and unrealized gains (losses) on investments.

Contractual Obligations and Commercial Commitments

The following table summarizes certain of our contractual obligations at November 30, 2015 (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, net [1]	$ 418,324	$ 37,735	$ 380,589	$ -	$ -
Warehouse repurchase facilities [2]	353,404	353,404	-	-	-
Investment commitments [3]	100,000	100,000	-	-	-
Interest commitments under interest bearing debt [4]	88,884	27,329	49,305	12,250	-
Operating leases	11,915	2,119	2,865	2,696	4,235
Total contractual obligations	$ 972,527	$ 520,587	$ 432,759	$ 14,946	$ 4,235

[1] Amount includes $31.3 million related to the Structured Notes with an assumed final payment date of April 2017.

[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] Amount includes the Company's capital commitments to Fund III.
[4] Interest commitments on variable interest-bearing debt are determined based on the interest rate as of November 30, 2015.

(3) New Accounting Pronouncements

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

(4) Critical Accounting Policies and Estimates

Our accounting policies are more fully described in Note 1 of the notes to our consolidated financial statements included in Item 3 of this document. As discussed in Note 1, the 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 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 use of significant judgment in their application.

Management Fees Revenue

We provide investment management services to a variety of legal entities and investment vehicles such as funds, joint ventures, co-investment vehicles and other private equity structures to manage their respective investments. 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 (i) a percentage of committed or called capital during the commitment period and called capital after the commitment period ends, and (ii) 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. Special servicing fees are accrued as earned based on contractual terms for services performed for CMBS trusts.

In certain situations, we may earn additional sums when the return on assets managed exceeds contractual thresholds ("Carried Interest"), which is generally estimated to be approximately six years after inception. Such revenue is only booked when 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 clawbacks is limited. We may also receive advance distributions to cover income tax obligations resulting from allocations of taxable income due to our Carried Interest in the funds. These distributions are not subject to clawbacks even if we do not become entitled to payments with regard to our Carried Interests and therefore, are recorded as revenue when received.

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 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 securitizations 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 on these loans during the period from when the Company has originated the loan until the time when the loan is sold. These derivatives, which are carried at fair value, are used for risk management purposes to minimize our exposure to fluctuations in mortgage-related interest rates as well as to lessen our credit risk. The Company hedges its interest rate exposure through entering into interest rate swaps and swap futures. Credit exposure is managed at a portfolio level through entering into credit default swaps consisting of 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 when the loans are originated and the time the loans are sold.

Loans Receivable - Revenue Recognition and Impairment

During the fourth quarter of 2014, in an effort to better reflect the performance of the FDIC Portfolios and Bank Portfolios, the Company changed from recording accretable yield income, under Accounting Standards Codification ("ASC") 310-30, *Loans and Debt Securities Acquired with Deteriorated Credit Quality* ("ASC 310-30"), on a loan pool basis to recording income on a cost recovery basis per loan as the timing and amount of expected cash flows on the remaining loan portfolios could no longer be reasonably estimated. Therefore, all of the loans receivable, net, in the FDIC Portfolios and Bank Portfolios were classified and accounted for as nonaccrual loans in accordance with ASC 310-10, *Receivables* ("ASC 310-10") at November 30, 2015 and 2014, respectively. In 2014, the Company began originating floating rate commercial loans, which are accounted for as accrual loans.

A provision for loan losses for accruing loans is calculated based on a review of individual loans considered impaired. The analysis of impaired losses may be based on the present value of expected future cash flows discounted at the effective loan rate, an observable market price or the fair value of the underlying collateral on collateral dependent loans. In determining the collectability of certain loans, management also considers the fair value of any underlying collateral.

Nonaccrual Loans - Revenue Recognition and Impairment

At November 30, 2015 and 2014, there were loans receivable with a carrying value of $88.7 million and $130.1 million, respectively, for which interest income was not being recognized as these loans were classified as nonacrrual. 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, *Receivable*, ("ASC 310-10"). When a loan is classified as nonaccrual, any subsequent cash received 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 not all amounts due according to the contractual terms of the loan agreement will 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. 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.

We believe that the accounting for nonaccrual loans is a critical accounting policy because of the significant judgment involved.

Real Estate Owned

REO represents real estate of which the Company has taken control or has effective control resulting in partial or full satisfaction of loans receivable. At the time of acquisition of a property through foreclosure of a loan, the resulting 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 anticipated 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. These methods use unobservable inputs to develop fair value for the Company's REO which are described more fully in the consolidated financial statements. Due to the volume and variance of unobservable inputs, resulting from the uniqueness of each of the Company's REO, the Company does not use a standard range of unobservable inputs with respect to its evaluation of REO. However, for operating properties within REO, the Company may also use estimated cash flows multiplied by a capitalization rate to determine the fair value of the property. Generally, the capitalization rates used to estimate fair value have ranged from 8% to 12% and varied based on the location of the asset, asset type, and occupancy rates for the operating properties.

Changes in economic factors, consumer demand, and market conditions, among other things, could materially impact estimates used in the third-party appraisals and/or internally prepared 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 a loan is less than the REO's value (net of estimated cost to sell if held-for-sale), is recorded as an unrealized gain upon 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 recorded as a provision for loan losses for nonaccrual loans in the accompanying consolidated statements of operations.

Additionally, REO includes real estate which the Company has purchased from financial institutions. These REO's are recorded at cost or allocated cost if purchased in a bulk transaction.

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 their carrying value may not be recoverable, and impairment losses are recorded for any amount by which the carrying value of a REO 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 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 values of REOs.

Consolidations of 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, which owned 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. At November 30, 2015, these consolidated LLCs had total combined assets and liabilities of $355.2 million and $11.3 million, respectively. At November 30, 2014, these consolidated LLCs had total combined assets and liabilities of $508.4 million and $21.6 million, respectively.

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 (i.e., REO) and no voting rights with regard to 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 or the right to receive benefits from 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 consolidate 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.

Income Tax

Rialto is included in the consolidated federal income tax returns of Lennar. However, because Rialto has a tax sharing arrangement with Lennar that requires Rialto to pay Lennar sums equal to the income taxes Rialto would pay if it were a separate taxpayer, 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. 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 the valuation of deferred tax liabilities or deferred tax assets over time. Our accounting for deferred tax consequences represents our best estimate of future events.

Item 2A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

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 $275 million in interest-bearing loans under Revolving Credit Agreements.

We originate 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 condition.

Our hedging strategy is intended to reduce 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 credit 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. Since 2011, investments have been made primarily through investment funds we manage, but we 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 significant discounts (generally 30% - 50% of unpaid principal balance) and are typically acquired at discounts 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 NPLs' monthly payments are based on LIBOR, small increases in LIBOR should increase the investments' 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 in a portfolio or single assets (absent any recovery in the economy or increase in inflation). These large increases in interest rates might 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 to higher interest rates. Furthermore, for most acquisitions, we anticipate higher capitalization rates at sale (in anticipation of higher interest rates).

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 investments' cash flows. Rialto manages this direct interest rate exposure on a case by case basis (via the purchase of LIBOR caps).

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) will be less, and interest on the borrowings we utilize to make the loan will be more, than we had anticipated. The Company generally seeks to close loans as close 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 significant unexpected changes in interest rates.

Additionally, in regards to our CMBS investments, the market value of these investments could fluctuate materially over time as a 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 trusts 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 investment in those funds.

Risks Related to Real Estate

Real estate and real estate-related assets, including loans and commercial real estate-related assets, are subject to volatility and may be affected adversely by a number of factors, including, but not limited to, national, regional and local economic conditions (which may be adversely affected by industry slowdowns and other factors); local real estate conditions; changes or continued weakness in specific industry segments; construction quality, age and design; demographic factors; environmental conditions; competition from comparable property types or properties; changes in tenant mix or performance and retroactive changes to building or similar codes. In addition, decreases in property values reduce the value of the collateral and the potential proceeds available to a borrower to repay the underlying loans, which could also cause the Company to suffer losses.

Covenant Risk

In the normal course of business, the Company enters into warehouse repurchase facilities with certain lenders to finance its loan origination transactions. These agreements contain, among other conditions, events of default and various covenants and representations. If such events are not cured by the Company or waived by the lenders, the lenders may decide to curtail or limit extension of credit, and the Company may be forced to repay its advances. In addition, the Company's 7.00% Senior Notes are subject to covenants, including limitations on the incurrence of additional debt, restricted payments, liens, sales of assets, affiliate transactions and other covenants typical for financings of this type. The Company's failure to comply with these covenants could result in default, which could result in the Company being required to repay these borrowings before their due date. As of November 30, 2015, the Company believes it was in compliance with all covenants.

Item 3. Financial Statements

The consolidated financial statements of Rialto Holdings, LLC and Subsidiaries and the notes related to the foregoing consolidated financial statements are included in this Item 3.

Index to Consolidated Financial Statements

Deloitte.

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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, 2015 and 2014, and the related consolidated statements of operations, equity, and cash flows for each of the three years in the period ended November 30, 2015, 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, 2015 and 2014, and the results of their operations and their cash flows for each of the three years in the period ended November 30, 2015 in accordance with accounting principles generally accepted in the United States of America.

Deloitte & Touche LLP

February 16, 2016

RIALTO HOLDINGS, LLC AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS
AS OF NOVEMBER 30, 2015 AND 2014
(In thousands)

	2015	2014
ASSETS		
Cash	$ 150,219	$ 303,889
Restricted cash	15,061	46,975
Receivables, net	154,948	153,773
Loans receivable, net	164,826	137,124
Loans held-for-sale	316,275	113,596
Real estate owned - held-for-sale	183,052	190,535
Real estate owned - held-and-used, net	153,717	255,795
Investments in unconsolidated entities	224,869	175,700
Investments held-to-maturity	25,625	17,290
Due from Parent	4,446	-
Deferred income tax asset, net	10,518	-
Other assets, net	106,390	57,306
Total assets	$ 1,509,946	$ 1,451,983
LIABILITIES AND EQUITY		
LIABILITIES:		
Accounts payable	$ 3,618	$ 3,068
Accrued expenses and other liabilities	90,866	117,395
Deferred income tax liability, net	-	3,335
Due to Parent	-	1,053
Notes payable and other debts payable, net	771,728	617,077
Total liabilities	866,212	741,928
COMMITMENTS AND CONTINGENT LIABILITIES (Note 13)		
PARENT'S EQUITY	430,254	413,479
NONCONTROLLING INTERESTS	213,480	296,576
Total equity	643,734	710,055
Total liabilities and equity	$ 1,509,946	$ 1,451,983

See notes to consolidated financial statements.

RIALTO HOLDINGS, LLC AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF OPERATIONS
FOR THE YEARS ENDED NOVEMBER 30, 2015, 2014 AND 2013
(In thousands)

	2015	2014	2013
REVENUES:			
Interest income	$ 45,518	$ 70,438	$ 78,907
REO revenue:			
Hospital revenues, net	38,193	26,367	4,737
Rental income	10,367	17,153	20,269
Gains from securitizations and other loan origination revenues	93,698	75,255	27,761
Management fees	82,707	84,828	31,392
Total revenues	270,483	274,041	163,066
EXPENSES:			
General and administrative expense	126,526	117,674	79,761
REO expense, net:			
Hospital expense, net	35,968	26,762	4,665
Other REO expense, net	209	13,741	3,554
Provision for loan losses	10,363	57,113	16,139
Interest expense	39,104	33,490	7,484
Servicing expense	10,970	19,438	32,565
Securitization and loan origination expenses	29,498	16,196	8,181
Amortization of debt issuance costs	5,081	3,041	5,680
Depreciation expense	2,391	2,162	1,262
Total expenses	260,110	289,617	159,291
EQUITY IN EARNINGS FROM UNCONSOLIDATED ENTITIES	22,293	59,277	22,353
(LOSS) GAIN ON SALE OF INVESTMENT SECURITIES	(129)	378	-
NET EARNINGS (INCLUDING NET EARNINGS (LOSS) ATTRIBUTABLE TO NONCONTROLLING INTERESTS)	32,537	44,079	26,128
LESS: NET EARNINGS (LOSS) ATTRIBUTABLE TO NONCONTROLLING INTERESTS	4,765	(22,493)	6,238
NET EARNINGS ATTRIBUTABLE TO RIALTO BEFORE PROVISION FOR INCOME TAXES	27,772	66,572	19,890
PROVISION FOR INCOME TAXES	10,997	25,539	8,028
NET EARNINGS ATTRIBUTABLE TO RIALTO	$ 16,775	$ 41,033	$ 11,862

See notes to consolidated financial statements.

RIALTO HOLDINGS, LLC AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF EQUITY
FOR THE YEARS ENDED NOVEMBER 30, 2015, 2014 AND 2013
(In thousands)

	2015	2014	2013
PARENT'S EQUITY			
Beginning balance	$ 413,479	$ 539,446	$ 53,163
Net earnings attributable to Rialto	16,775	41,033	11,862
Distributions of capital to Parent	-	(167,000)	-
Noncash contribution from Parent	-	-	474,421
Ending balance	$ 430,254	$ 413,479	$ 539,446
NONCONTROLLING INTERESTS			
Beginning balance	$ 296,576	$ 430,413	$ 445,286
Net earnings (loss) attributable to noncontrolling interests	4,765	(22,493)	6,238
Distributions of capital to noncontrolling interests	(90,901)	(112,462)	(28,354)
Amortization of carried interest plan awards	3,040	-	-
Final bargain purchase acquisition adjustment	-	1,118	2,243
Reclassification of noncontrolling interest from due to Parent	-	-	5,000
Ending balance	$ 213,480	$ 296,576	$ 430,413
TOTAL EQUITY	$ 643,734	$ 710,055	$ 969,859

See notes to consolidated financial statements.

RIALTO HOLDINGS, LLC AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED NOVEMBER 30, 2015, 2014 AND 2013
(In thousands)

	2015	2014	2013
CASH FLOWS FROM OPERATING ACTIVITIES:			
Net earnings attributable to Rialto	$ 16,775	$ 41,033	$ 11,862
Noncontrolling interest earnings (loss)	4,765	(22,493)	6,238
Adjustment to reconcile net earnings attributable to Rialto to net cash used in operating activities:			
Amortization of debt issuance costs and premium/discount	4,818	2,745	5,680
Depreciation expense	6,785	6,393	5,345
Net (gains) losses on loan foreclosure	(1,138)	6,770	427
Gains on sale of real estate owned	(35,242)	(43,671)	(48,785)
Gains on bargain purchase acquisition	-	-	(8,532)
Equity in earnings from unconsolidated entities	(22,293)	(59,277)	(22,353)
Impairment on real estate owned	14,816	19,337	16,090
Deferred income tax benefit	(13,853)	(1,928)	(14,365)
Provision for loan losses	10,363	57,113	16,139
Distributions of earnings from unconsolidated entities	13,319	2,466	648
Accretion of discount on investments held-to-maturity	(1,475)	(1,220)	(1,058)
Loss (gain) on sale of CMBS bond	129	(378)	-
Originations of loans held-for-sale	(2,628,019)	(1,562,748)	(690,266)
Proceeds from sale of loans held-for-sale	2,426,498	1,458,671	536,951
Principal payments on loans held-for-sale	1,000	898	-
Unrealized gains on loans held-for-sale	(2,296)	(8,031)	(2,550)
Gain on retirement of debt	(83)	(4,555)	-
Amortization of carried interest plan awards	3,040	-	-
Changes in operating assets and liabilities:			
Restricted cash	31,914	(27,408)	(2,593)
Loans receivable, net	(3,359)	10,215	(9,050)
Other assets	(27,384)	(15,204)	(2,955)
Accounts payable	550	(661)	(391)
Due from Parent	(5,499)	(11,536)	-
Accrued expenses and other liabilities	(25,942)	54,128	17,056
Net cash used in operating activities	(231,811)	(99,341)	(186,462)
CASH FLOWS FROM INVESTING ACTIVITIES:			
Proceeds from sales of real estate owned	155,295	269,698	239,215
Distributions of capital from unconsolidated entities	22,899	68,914	42,556
Receipts of principal payments on loans receivable - nonaccrual/accreting	18,639	24,019	74,185
Receipts of principal payments on loans receivable - accrual	9,750	-	-
Proceeds from sale of CMBS bond	7,014	9,171	-
Acquisition of loans receivable	(1,480)	-	(5,450)
Acquisition of real estate owned	(1,748)	-	-
Improvements to real estate owned	(8,477)	(14,278)	(9,407)
Purchase of operating equipment, net	(9,382)	(4,361)	(4,053)
Acquisition of CMBS bond	(13,973)	(8,705)	-
Purchase of investment carried at cost	(18,000)	-	-
Investments in unconsolidated entities	(63,016)	(41,523)	(66,953)
Origination of loans receivable	(78,703)	(7,000)	-
Bargain purchase acquisition	-	-	(5,623)
Decrease in defeasance cash to retire notes payable	-	-	223,813
Net cash provided by investing activities	18,818	295,935	488,283

(Continued)

RIALTO HOLDINGS, LLC AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED NOVEMBER 30, 2015, 2014 AND 2013
(In thousands)

	2015	2014	2013
CASH FLOWS FROM FINANCING ACTIVITIES:			
Net borrowings (repayments) under warehouse repurchase facilities	$ 212,133	$ 65,254	$ 76,017
Distributions of capital to noncontrolling interests	(90,901)	(112,462)	(28,354)
Repayment of notes payable and other debts payable	(58,923)	(75,879)	(471,255)
Debt issuance costs	(2,986)	(3,083)	(7,262)
Proceeds from 7.00% Senior Notes	-	104,525	250,000
Proceeds from securitization borrowings	-	94,444	-
Distributions of capital to Parent	-	(167,000)	-
Repayment of indebtedness to Parent	-	-	(235,000)
Increase in due to Parent	-	-	210,219
Net cash provided by (used in) financing activites	59,323	(94,201)	(205,635)
NET (DECREASE) INCREASE IN CASH	(153,670)	102,393	96,186
CASH — Beginning of year	303,889	201,496	105,310
CASH — End of year	$ 150,219	$ 303,889	$ 201,496
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:			
Cash paid for interest on notes payable and other debts payable	$ 44,299	$ 24,537	$ 7,074
SUPPLEMENTAL DISCLOSURES OF NON-CASH INVESTING AND FINANCING ACTIVITIES:			
Real estate owned acquired through loan foreclosure	$ 17,248	$ 57,390	$ 70,237
Non-cash acquisition of Service Provider	$ -	$ 8,317	$ -
Equity contribution from Parent	$ -	$ -	$ 474,421
Real estate owned acquired in bargain purchase acquisition	$ -	$ -	$ 31,818
Transfers of REO assets to Parent	$ -	$ -	$ 9,480
Net liabilities assumed in bargain purchase acquisition	$ -	$ -	$ 6,200
Reductions in loans receivable from deficiency settlements	$ -	$ -	$ 619

(Concluded)

See notes to consolidated financial statements.

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, and investing its own capital in loans, real properties and real estate related securities. Rialto has a vertically-integrated investment and operating platform currently consisting of 436 professionals operating from eleven offices throughout the United States ("U.S.") and three additional offices in Europe. 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., a provider of financial services and a national developer of high-quality multifamily rental properties. Lennar has over 7,700 employees, with homebuilding and development operations in 17 states.

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 focuses on long-term relationships with a global base of institutional investors, which include pension funds, funds-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 have led to a strong performance track record to date. The Company also invests significant capital alongside its investors in each of the Company's fund vehicles.

The Investment and Asset Management business is a sponsor of, and an investor in, the following vehicles that invest in and manage real estate related assets:

Private Equity Vehicle	Inception Year	Commitment
Rialto Real Estate Fund, LP	2010	$700 million (including $75 million by the Company)
Rialto Real Estate Fund II, LP	2012	$1.3 billion (including $100 million by the Company)
Rialto Real Estate Fund III		
Rialto Real Estate Fund III - Debt, LP[1]	2015	$384 million (including $60 million by the Company)
Rialto Real Estate Fund III - Property, LP[1]	2015	$126 million (including $40 million by the Company)
Rialto Mezzanine Partners Fund, LP	2013	$300 million (including $34 million by the Company)
Rialto Capital CMBS Fund, LP	2014	$71 million (including $24 million by the Company)

(1) The targeted investment capital of the funds is $1.75 billion ($1 billion for the Rialto Real Estate Fund III – Debt, LP, and $750 million for the Rialto Real Estate Fund III – Property, LP).

In addition, the Company manages a $400 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.

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 that the Company believes helps to create a competitive advantage for the Company.

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 share of profits from investments the Company makes in its fund vehicles, its recurring fees and carried interest as an incentive for exceeding certain performance levels. As of November 30, 2015, the Company had approximately $3.3 billion of equity under management currently overseen by 273 professionals. Incentive income, or carried interest, generally does not accrue to the Company until investors have received back their investments plus specified returns on their investments.

Over the last few years, Rialto has become an approved or rated special servicer by all the major rating agencies and has grown its platform from zero to over $63 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"), 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 or 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, 2015, the Company originated loans with a total principal balance of $2.6 billion and sold $2.4 billion of originated loans into twelve separate securitization trusts.

To finance its lending activities, the Company has $1.0 billion of committed term credit facilities from three institutional counterparties, $900 million for fixed rate lending activities and $100 million for the floating rate loan activities. The Company seeks to sell its fixed rate loans as quickly as feasible once funded. While the Company holds its fixed rate 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) 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. Interest income on loans is interest revenue earned from loans prior to the time that the Company sells the loans. Lastly, the Company generates fees on certain loans at the time of origination.

Direct Investments
Through the Company's Direct Investments business line, Rialto was at one time an active acquirer of portfolios of distressed real estate loans and assets from banks, government entities and other financial institutions.

In 2015, the Company acquired approximately $23 million face amount of non-investment grade CMBS bond for $14 million, representing a 39% discount from par value, and simultaneously sold $11.7 million of this bond with a cost basis of $7.1 million for $7.0 million.

In 2010, the Company acquired indirectly 40% managing member equity interests in two limited liability companies (“LLCs”), in partnership with the U.S. 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 was paid off during fiscal 2013. 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 years ended November 30, 2015 and 2014, $149.7 million and $184.9 million, respectively, were distributed by the LLCs, of which $89.8 million and $110.9 million, respectively, was distributed to the FDIC and $59.9 million and $74.0 million, respectively, was distributed 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. As of November 30, 2015, these consolidated LLCs had total combined assets and liabilities of $355.2 million and $11.3 million, respectively. At November 30, 2014, these consolidated LLCs had total combined assets and liabilities of $508.4 million and $21.6 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 that was subsequently extended through December 2016.

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, 2015 and 2014, includes a hospital operation.

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 use it 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 generally accepted accounting principles 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.

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, fair value of loans held-for-sale and derivative instruments. Actual results could differ from those estimates.

Changes in Accounting Principles – In November 2015, the Company adopted Accounting Standard Update ("ASU") 2015-03, *Interest – Imputation of Interest (Subtopic 835-30)* ("ASU 2015-03), which requires debt issuance costs to be presented in the balance sheet as a direct deduction from the carrying amount of the related debt liability. As a result, as of November 30, 2015 and 2014, the Company reclassified $3.7 million and $6.2 million, respectively, of debt issuance costs from Other assets, net, to notes payable and other debts payable in the Company's consolidated balance sheets.

In addition, in accordance with ASU 2015-15, *Presentation and Subsequent Measurement of Debt Issuance Costs Associated with Line-of-Credit Arrangements,* the Company determined to continue presenting the debt issuance costs associated with the Company's warehouse repurchase facilities as other assets included within Other assets, net, in the Company's consolidated balance sheets and continue amortizing those deferred costs over the term of the facilities.

Restricted Cash – 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 recognized the income and the cash is no longer restricted. In 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 transacting parties. Restricted cash also includes funds held in separate bank accounts 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.

Receivables, net – Receivables, net, includes originated loans that were sold into a securitization trust but had not yet settled as of November 30, 2015 and 2014. These balances include the values of the loans, realized gains (losses) through pricing date and securitization gains, net of securitization expenses and non-pricing securitization revenues. As of November 30, 2015 and 2014, $151.8 million and $147.2 million, respectively, of originated loans were sold into a securitization trust but had not yet settled, and thus, were included as Receivables, net, in the accompanying consolidated balance sheets.

Loans Receivable - Revenue Recognition and Impairment – During the fourth quarter of 2014, in an effort to better reflect the performance of the FDIC Portfolios and Bank Portfolios, the Company changed from recording accretable yield income, under Accounting Standards Codification ("ASC") 310-30, *Loans and Debt Securities Acquired with Deteriorated Credit Quality* ("ASC 310-30"), on a loan pool basis to recording income on a cost recovery basis per loan as the timing and amount of expected cash flows on the remaining loan portfolios could no longer be reasonably estimated. Therefore, all of the loans receivable, net, in the FDIC Portfolios and Bank Portfolios were classified and accounted for as nonaccrual loans in accordance with ASC 310-10, *Receivables* ("ASC 310-10") at November 30, 2015 and 2014, respectively. In 2014, the Company began originating floating rate commercial loans, which are accounted for as accrual loans. An allowance for loan losses for accruing loans is calculated based on a review of individual loans considered impaired. The analysis of impaired losses may be based on the present value of expected future cash flows discounted at the effective loan rate, an observable market price or the fair value of the underlying collateral on collateral dependent loans. In determining the collectability of certain loans, management also considers the fair value of any underlying collateral.

Nonaccrual Loans - Revenue Recognition and Impairment – At November 30, 2015 and 2014, there were loans receivable with a carrying value of $88.7 million and $130.1 million, respectively, for which interest income was not being recognized as they were classified as nonacrrual. 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 received 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 not all amounts due according to the contractual terms of the loan agreement will 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. 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.

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 securitizations 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 on these loans during the period from when the Company has originated the loan until the time when the loan is sold. These derivatives, which are carried at fair value, are used for risk management purposes to minimize the Company's exposure to fluctuations in mortgage-related interest rates as well to lessen the Company's credit risk. The Company hedges its interest rate exposure through entering into interest rate swaps and swap futures and as of November 30, 2015, had fair values of approximately $0.3 million in an asset position and $1.0 million in a liability position. As of November 30, 2014, the Company had interest rate swaps and swap futures with fair values of approximately $1.4 million in a liability position. Credit exposure is managed at a portfolio level through entering into credit default swaps consisting of single "A", "AAA" and "BBB" rated CMBX swaps as well as CDX swaps, which as of November 30, 2015 and 2014, had a fair value of $6.2 million and $1.7 million, respectively, in contracts in an asset position and $0.7 million and $0.8 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 included 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, 2015, 2014 and 2013, the Company recorded $17.6 million, $28.3 million and $15.8 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, which owned the other 60%. The Company determined that each of the LLCs met the definition of a variable interest entity ("VIE") and 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 the Company 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 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. At November 30, 2015, these consolidated LLCs had total combined assets and liabilities of $355.2 million and $11.3 million, respectively. At November 30, 2014, these consolidated LLCs had total combined assets and liabilities of $508.4 million and $21.6 million, respectively.

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 (i.e., REO) and no voting rights with regard to 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 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.

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 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, the

Company consolidated the LLCs.

Voting Interest Entities – Fund I, Fund II, Fund III, 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, Fund III, 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, Fund III, 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, Fund III, 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, Fund III, 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, Fund III, 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, Fund III, 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, Fund III, the Mezzanine Fund and the CMBS Fund, also provides services to Fund I, Fund II, Fund III, 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, Fund III, 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, Fund III, 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, Fund III, the Mezzanine Fund and the CMBS Fund.
- Finally, the funds do not operate such that substantially all of the activities of Fund I, Fund II, Fund III, 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, Fund III, 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, Fund III, the Mezzanine Fund and the CMBS Fund. The Company determined that it does not control Fund I, Fund II, Fund III, 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, Fund III, the Mezzanine Fund and the CMBS Fund under the voting interest entity model, Fund I, Fund II, Fund III, the Mezzanine Fund and the CMBS Fund are not consolidated in the Company's financial statements.

Real Estate Owned – REO represents real estate of which the Company has taken control of or has effective control resulting in partial or full satisfaction of loans receivable. At the time of acquisition through foreclosure of a loan, the resulting 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. These methods use unobservable inputs to develop fair value for the Company's REO. Due to the volume and variance of unobservable inputs, resulting from the uniqueness of each of the Company's REO, the Company does not use a standard range of unobservable inputs with respect to its evaluation of REO. However, for operating properties within REO, the Company may also use estimated cash flows multiplied by a capitalization rate to determine the fair value of the property. Generally, the capitalization rates used to estimate fair value have ranged from 8% to 12% and varied based on the location of the asset, asset type, and occupancy rates for the operating properties.

Changes in economic factors, consumer demand, and market conditions, among other things, could materially impact estimates used in the third-party appraisals and/or internally prepared 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 a loan is less than the REO's value (net of estimated cost to sell if held-for-sale), is recorded as an unrealized gain upon 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 recorded as a provision for loan losses for nonaccrual loans 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 their carrying value may not be recoverable, and impairment losses are recorded for any amount by which the carrying value of a REO 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 our 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 and reviewed by management on a regular basis. Inherent in the determination of fair value of our reporting units are 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 its operations. To the extent additional information arises as 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) which 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 its goodwill in the fourth quarter of 2015. The Company estimated the fair value of its service provider based on the income approach and concluded that goodwill impairment was not required for 2015. During the year ended November 30, 2015, we did not record goodwill impairment charges. As of November 30, 2015, 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 (i) a percentage of committed or called capital during the commitment period and called capital after the commitment period ends, (ii) 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. Special servicing fees are accrued as earned based on contractual terms for services performed for CMBS trusts.

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. The Company may also receive tax distributions in order to cover income tax obligations resulting from allocations of taxable income due to the Company's carried interest in the funds. These distributions are not subject to clawbacks and therefore are recorded as revenue when received.

Hospital Revenues, net – The Company recognizes revenue 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.

Income Tax – Rialto is included in the consolidated federal income tax returns of Lennar and does not make income tax payments. However, because Rialto has a tax sharing arrangement with Lennar that requires Rialto to pay Lennar sums equal to the income taxes Rialto would pay if it were a separate taxpayer, 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. 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. 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. The following table displays the primary concentration of states of on balance sheet assets held by the Company as of November 30, 2015 and 2014.

	2015	**2014**
Georgia	21.2%	22.0%
Nevada	18.0%	11.7%
Arizona	17.3%	19.3%
Florida	13.4%	13.4%
North Carolina	9.2%	6.2%
California	7.1%	4.7%

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, 2015, 2014 and 2013, 89%, 92% and 94%, respectively, of the Company's management fee revenue was earned from investment funds that the Company sponsored and managed.

The Company purchased a primary loan servicer in January 2014. The loan servicer provides loan servicing and certain asset management services for the Company's 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 $5.6 million and $5.2 million (after elimination of intercompany transactions) were recorded by the loan servicer for the years ended November 30, 2015 and 2014, respectively, which are included in Management fee revenue in the accompanying consolidated statements of operations.

New Accounting Pronouncements – In May 2014, the Financial Accounting Standards Board ("FASB") issued ASU 2014-09, Revenue from Contracts with Customers, ("ASU 2014-09"). ASU2014-09 provides a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers and supersedes most current revenue recognition guidance, including industry-specific guidance. ASU 2014-09 will require an entity to recognize revenue when it transfers promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. This update creates a five-step model that requires entities to exercise judgment when considering the terms of the contract(s) which include (i) identifying the contract(s) with the customer, (ii) identifying the separate performance obligations in the contract, (iii) determining the transaction price, (iv) allocating the transaction price to the separate performance obligations, and (v) recognizing revenue when each performance obligation is satisfied. In July 2015, the FASB deferred the effective date by one year and permitted early adoption of the standard, but not before the original effective date. ASU 2014-09 will be effective for the Company's fiscal year beginning December 1, 2018, and subsequent interim periods. The Company has the option to apply the provisions of ASU 2014-09 either retrospectively to each prior reporting period presented or retrospectively with the cumulative effect of applying this ASU recognized at the date of initial application. The Company is currently evaluating the method and impact the adoption of ASU 2014-09 will have on the Company's consolidated financial statements.

In February 2015, the FASB issued ASU 2015-02, *Consolidation (Topic 810): Amendments to the Consolidation Analysis*, ("ASU 2015-02"). ASU 2015-02 amends the consolidation requirements and significantly changes the consolidation analysis required. ASU 2015-02 requires management to reevaluate all legal entities under a revised consolidation model specifically (i) modify the evaluation of whether limited partnership and similar legal entities are VIEs, (ii) eliminate the presumption that a general partner should consolidate a limited partnership, (iii) affect the consolidation analysis of reporting entities that are involved with VIEs particularly those that have fee arrangements and related party relationships, and (iv) provide a scope exception from consolidation guidance for reporting entities with interests in legal entities that are required to comply with or operate in accordance with requirements that are similar in Rule 2a-7 of the Investment Act of 1940 for registered money market funds. ASU 2015-02 will be effective for the Company's fiscal year beginning December 1, 2016 and subsequent interim periods. The Company is currently evaluating the method and impact the adoption of ASU 2015-02 will have on the Company's consolidated financial statements.

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

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

1, 2018, and subsequent interim periods. The adoption of ASU 2016-01 is not expected to have a material effect on the Company's consolidated financial statements.

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

Loans Receivable, net – The loans receivable portfolios consist primarily of loans acquired at 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. As of November 30, 2015 and 2014, management classified all loans receivable with the FDIC Portfolios and Bank Portfolios as nonaccrual loans as forecasted principal and interest cannot be reasonably estimated and accounted for these assets in accordance with ASC 310-10. Prior to the fourth quarter of 2014, the Company accounted for the majority of its loans receivable under ASC 310-30.

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 not all amounts due according to the contractual terms of the loan agreement will 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.

The following table represents loans receivable, net of allowance for loan losses, by type (in thousands):

	November	
	2015	2014
Nonaccrual loans	$ 88,694	$ 130,105
Accrual loans [(1)]	76,132	7,019
Loans receivable, net	$ 164,826	$ 137,124

[(1)] As of November 30, 2015, accrual loans included loans originated of which $17.1 million relates to a commercial land loan maturing in July 2016 and $59.1 million relates to floating rate commercial property loans maturing between May 2016 and July 2018.

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, 2015 and 2014 (in thousands):

	November 30, 2015				
	Unpaid	Recorded Investment		Total	
	Principal	With	Without	Recorded	Related
Collateral Type	Balance	Allowance	Allowance	Investment	Allowance
Land	$ 145,417	$ 59,740	$ 1,165	$ 60,905	$ 31,024
Single family homes	39,659	8,344	3,459	11,803	3,792
Commercial properties	13,458	1,368	1,085	2,453	809
Other	78,279	-	13,533	13,533	-
Total	$ 276,813	$ 69,452	$ 19,242	$ 88,694	$ 35,625

	November 30, 2014				
	Unpaid	Recorded Investment		Total	
	Principal	With	Without	Recorded	Related
Collateral Type	Balance	Allowance	Allowance	Investment	Allowance
Land	$ 228,245	$ 85,912	$ 3,691	$ 89,603	$ 49,522
Single family homes	66,183	18,096	2,306	20,402	6,773
Commercial properties	34,048	3,368	3,918	7,286	2,025
Other	64,284	5	12,809	12,814	6
Total	$ 392,760	$ 107,381	$ 22,724	$ 130,105	$ 58,326

Accretable Yield – With regard to accrual loans that were accounted for under ASC 310-30 prior to the fourth quarter of 2014, the Company estimated the cash flows, at acquisition, it expected to collect on the FDIC Portfolios and Bank Portfolios and the difference between the contractually required payments and the cash flows expected to be collected at acquisition was referred to as the nonaccretable difference. This difference was neither accreted into income nor recorded on the Company's consolidated balance sheets. The excess of cash flows expected to be collected over the cost of the loans acquired was referred to as the accretable yield and was recognized as interest income over the remaining life of the loans using the effective yield method. During the fourth quarter of 2014, in an effort to better reflect the performance of the FDIC Portfolios and Bank Portfolios, the Company changed from recording accretable yield income on a loan pool basis to recording income on a cost recovery basis per loan as the timing and amount of expected cash flows on the remaining loan portfolios could not be reasonably estimated.

For the year ended November 30, 2015, there was no activity in the accretable yield for the FDIC Portfolios and Bank Portfolios as all the remaining accreting loans were classified as nonaccrual loans during the fourth quarter of 2014, as explained above. For the year ended November 30, 2014, the activity in the accretable yield was as follows (in thousands):

	November 30, 2014
Beginning balance	$ 73,144
Additions	8,988
Deletions	(54,482)
Accretions	(27,650)
Ending balance	$ -

Additions primarily represented reclassifications from nonaccretable yield to accretable yield on the portfolios. Deletions represented loan impairments, net of recoveries, and disposal of loans, which included foreclosure of underlying collateral and resulted in the removal of the loans from the accretable yield portfolios. Accretions represented the recognition of interest income.

Accrual Loans – As of November 30, 2015 and 2014, the other accrual loans which generally represent loans with floating rates of interest totaled approximately $76.1 million and $7.0 million, respectively.

Loans Held-For-Sale – During the year ended November 30, 2015, the Company originated commercial loans with a total principal balance of $2.6 billion and sold $2.4 billion of originated loans into twelve separate securitizations. As of November 30, 2015, $151.8 million of the originated loans were sold into a securitization trust but had not yet settled, and thus, were included as Receivables, net, in the accompanying consolidated balance sheets. 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. As of November 30, 2014, $147.2 million of the originated loans were sold into a securitization trust but had not yet settled, and thus, 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, 2015 and 2014 (in thousands):

	2015		
	Accrual	Nonaccrual	Total
Beginning balance	$ -	$ 58,326	$ 58,326
Provision for loan losses	-	10,363	10,363
Charge-offs	-	(33,064)	(33,064)
Ending balance	$ -	$ 35,625	$ 35,625

	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	(53,265)	53,265	-
Charge-offs	(10,264)	(8,688)	(18,952)
Ending balance	$ -	$ 58,326	$ 58,326

Risk categories net of allowance for loan losses at November 30, 2015 and 2014 (in thousands):

	2015		
Collateral Type	**Accrual**	**Nonaccrual**	**Total**
Land	$ 17,051	$ 60,905	$ 77,956
Single family homes	-	11,803	11,803
Commercial properties	59,081	2,453	61,534
Other	-	13,533	13,533
Total	$ 76,132	$ 88,694	$ 164,826

	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

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.

The average recorded investment in impaired loans totaled approximately $109 million and $69 million, respectively, for the years ended November 30, 2015 and 2014.

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 is 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 included 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.

The following tables present the activity in REO for the years ended November 30, 2015 and 2014 (in thousands):

	2015	2014
REO held-for-sale, beginning balance	$ 190,535	$ 197,851
Improvements	5,535	8,176
Sales	(120,053)	(226,027)
Impairments	(12,192)	(9,441)
Transfers from held-and-used, net (1)	119,227	219,976
REO held-for-sale, ending balance	$ 183,052	$ 190,535

	2015	2014
REO held-and-used, net, beginning balance	$ 255,795	$ 428,989
Additions	20,134	55,407
Improvements	2,942	6,102
Impairments	(2,624)	(11,501)
Depreciation	(2,339)	(3,226)
Transfers to held-for-sale (1)	(119,227)	(219,976)
Other	(964)	-
REO held-and-used, net, ending balance	$ 153,717	$ 255,795

(1) During the years ended November 30, 2015 and 2014, 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, 2015, 2014 and 2013, the Company recorded $35.2 million, $43.7 million and $48.8 million, respectively, of net gains from sales of REO. For the years ended November 30, 2015, 2014 and 2013, the Company recorded net unrealized gains (losses) of $1.1 million, $(6.8) million and $(0.4) 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. These net gains (losses) are included 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 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

7. INVESTMENTS

Short-term Investment Securities

During the second quarter of 2014, the Company invested in a non-investment grade 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 consolidated statement of operations.

Investments Held-to-Maturity

Commercial Mortgage-Backed Securities – The Company purchased a BB CMBS security totaling $22.9 million was acquired in 2015 for $14.0 million, representing a 39% discount to par value. These securities bear interest at a coupon rate of 3.356% and have a stated and assumed final distribution date of September 2025 and a stated maturity date of September 2058. Simultaneously, the Company sold $11.7 million of the bond with a cost basis of $7.1 million for $7.0 million, resulting in a loss of $0.1 million, disclosed as Loss on sale of investment securities in the consolidated statement of operations.

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, 2015 and 2014. The carrying value of the investment securities at November 30, 2015 and 2014, was $25.6 million and $17.3 million, respectively. The fair value of the investment securities at November 30, 2015 and 2014, was $25.2 million and $17.2 million, respectively. The Company classified these securities as held-to-maturity based on its intent and ability to hold the securities until maturity.

Investments in Unconsolidated Entities

Investment Funds

As a manager of real estate funds, the Company is entitled to receive additional revenue through a carried interest if it meets certain performance thresholds. The amounts presented in the table below are advance distributions received with regard to the Company’s carried interests in order to cover income tax obligations resulting from allocations of taxable income to these carried interests. These advance distributions are not subject to clawbacks but will reduce future carried interest payments to which the

Company becomes entitled from the applicable funds. Because they are not subject to clawbacks even if the future carried interest payments never become due, the advance distributions have been recorded as revenues. 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.

The following table represents amounts received as advanced tax distributions as of November 30, 2015 and 2014 (in thousands):

	2015		2014	
Rialto Real Estate Fund I, LP	$	9,588	$	34,693
Rialto Real Estate Fund II, LP		9,383		-
Rialto Mezzanine Partners Fund, LP		513		-
Rialto Capital CMBS Fund, LP		516		-
	$	20,000	$	34,693

If the funds the Company sponsors had ceased operations and hypothetically liquidated all their investments for their estimated fair values on November 30, 2015, the Company would have received $148.3 million with regard to its carried interest, which is net of $54.7 million already received as advanced distributions to cover income tax obligations since inception and net of incentive awards granted (refer to paragraph below). The funds did not cease operations and liquidate its investments on November 30, 2015, and the ultimate sum the Company will receive with regard to its carried interest in the funds may be substantially higher or lower than $203 million, net of incentive awards granted including the $54.7 million already received. These advanced distributions are not subject to clawbacks and will reduce future carried interest payments to which the Company becomes entitled from the applicable funds and have been recorded as revenues.

In June 2015, the Company adopted the 2015 Carried Interest Incentive Plan ("Plan") which provides participants in the Plan specified percentages of distributions made to a subsidiary from funds or other investment vehicles managed by the Company (See Note 15).

The following table reflects information regarding the funds sponsored by the Company that invest in real estate related assets and other investments as of November 30, 2015 and 2014 (in thousands):

						Net cash invested by the Company	
	Inception Year	Equity Commitments	Equity Commitments Called	Commitment to fund by the Company	Funds contributed by the Company	2015	2014
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	1,305,000	100,000	100,000	74,053	49,199
Rialto Real Estate Fund III							
Rialto Real Estate Fund III - Debt, LP [(1)]	2015	383,876	-	60,000	-	-	-
Rialto Real Estate Fund III - Property, LP [(1)]	2015	126,357	-	40,000	-	-	-
Rialto Mezzanine Partners Fund, LP	2013	300,000	300,000	33,799	33,799	27,883	17,960
Rialto Capital CMBS Fund, LP	2014	70,660	70,660	23,735	23,735	10,181	4,845
						$ 112,117	$ 72,004

[(1)] In November 2015, the Company completed the first closing of commitments from Rialto Real Estate Fund III – Debt, LP, and Rialto Real Estate Fund III – Property, LP, collectively referred to as Fund III. Fund III's objective is to invest in commercial real estate related debt and preferred equity opportunities of all types, as well as value add real estate acquisitions and real estate property requiring repositioning.

The following table reflects the carrying value of the Company's investments in funds that invest in real estate related assets and other investments as November 30, 2015 and 2014 (in thousands):

	2015	2014
Rialto Real Estate Fund I, LP	$ 68,570	$ 71,831
Rialto Real Estate Fund II, LP	99,947	67,652
Rialto Real Estate Fund III		
Rialto Real Estate Fund III - Debt, LP	-	-
Rialto Real Estate Fund III - Property, LP	-	-
Rialto Mezzanine Partners Fund, LP	32,344	20,226
Rialto Capital CMBS Fund, LP	23,233	15,265
Other Investments	775	726
	$ 224,869	$ 175,700

The Company's share of earnings from unconsolidated entities was as follows for the years ended November 30, 2015, 2014 and 2013 (in thousands):

	2015	2014	2013
Rialto Real Estate Fund I, LP	$ 9,676	$ 30,612	$ 19,391
Rialto Real Estate Fund II, LP	7,440	15,929	2,523
Rialto Real Estate Fund III			
Rialto Real Estate Fund III - Debt, LP [1]	(27)	-	-
Rialto Real Estate Fund III - Property, LP [1]	(51)	-	-
Rialto Mezzanine Partners Fund, LP	2,194	1,913	354
Rialto Capital CMBS Fund, LP	3,013	10,823	-
Other Investments	48	-	85
	$ 22,293	$ 59,277	$ 22,353

[1] Equity in loss from Fund III for the year ended November 30, 2015, relates to formation costs incurred in November 2015.

Summarized Condensed Financial Information

On a consolidated basis, Rialto's investments in unconsolidated entities that are accounted for by the equity method is as follows as of November 30, 2015 and 2014, and for the years ended November 30, 2015, 2014 and 2013 (in thousands):

Balance Sheets

	2015	2014
Assets:		
Cash and cash equivalents	$ 188,147	$ 141,609
Loans receivable	473,997	512,034
Real estate owned	506,609	378,702
Investment securities	1,092,476	795,306
Investments in partnerships	429,979	311,037
Other assets	30,340	45,451
	$ 2,721,548	$ 2,184,139
Liabilities and equity:		
Accounts payable and other liabilities	$ 29,462	$ 20,573
Notes payable	374,498	395,654
Equity	2,317,588	1,767,912
	$ 2,721,548	$ 2,184,139

Statements of Operations

	2015	2014	2013
Revenues	$ 170,921	$ 150,452	$ 251,533
Costs and expenses	97,162	95,629	252,563
Other income, net [1]	144,941	479,929	187,446
Net earnings of unconsolidated entities	$ 218,700	$ 534,752	$ 186,416
Equity in earnings from unconsolidated entities	$ 22,293	$ 59,277	$ 22,353

(1) Other income, net, for years ended November 30, 2015, 2014 and 2013, includes realized and unrealized gains (losses) on investments.

Unconsolidated VIEs

At both November 30, 2015 and 2014, the maximum exposure to loss of the Company’s investments in unconsolidated VIEs was limited to its investments in the unconsolidated entities. At November 30, 2015 and 2014, investments in unconsolidated VIEs and the Company’s maximum exposure to loss included $25.6 million and $17.3 million, respectively, related to its investments held-to-maturity.

8. OTHER ASSETS, NET

The Company’s Other assets, net, consisted of the following at November 30, 2015 and 2014 (in thousands):

	2015	2014
Accounts receivable	$ 23,599	$ 16,442
Investment - at cost [1]	18,000	-
Operating equipment	17,474	12,538
Management fee receivables from sponsored investment funds	17,072	3,573
Deposits and other	12,214	15,060
Margin receivable from brokers	9,788	6,751
Derivative contracts	6,433	1,694
Debt issuance costs - net	1,810	1,248
Total other assets, net	$ 106,390	$ 57,306

(1) In December 2014, the Company made an investment in an equity security of an unaffiliated, private commercial real estate related services company, in which it does not have a controlling interest or significant influence. This equity security is carried at cost.

9. NOTES PAYABLE AND OTHER DEBTS PAYABLE, NET

The Company's Notes payable and other debts payable, net of debt issuance costs, consisted of the following at November 30, 2015 and 2014 (in thousands):

	2015	2014
Senior Notes, net	$ 347,944	$ 347,113
Bank Portfolios	30,311	60,622
Warehouse Repurchase Facilities	353,404	141,272
Structured Notes, net	31,317	56,607
Notes payable - other	8,752	11,463
Total Notes payable and other debts payable, net	$ 771,728	$ 617,077

Senior Notes, net

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 to the 7.00% Senior Notes in an add-on private placement, at a price of 102.25%. Proceeds from the add-on placement, after payment of expenses, were approximately $101.7 million. The Company used the funds to provide additional working capital to its RMF business, fund contributions to its investment funds and for other general corporate purposes. At November 30, 2015 and 2014, the carrying amount net of debt issuance costs of the 7.00% Senior Notes was $347.9 million and $347.1 million, respectively.

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
2016	101.75%
2017	100.00%

The Company must also pay any accrued and unpaid interest on the 7.00% Senior Notes that are redeemable through, but not including, the date of redemption.

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 $124.0 million was financed through a five-year senior unsecured note provided by one of the selling institutions for which the maturity was extended to December 15, 2016. As of November 30, 2015 and 2014, the outstanding balance amount under the five-year senior unsecured note was $30.3 million and $60.6 million, respectively. The Bank Portfolios' notes payable have an interest rate of the higher of 4.5% or 1 month LIBOR plus 3.75%.

Warehouse Repurchase Facilities

At November 30, 2015, warehouse repurchase facilities financing the RMF loan origination and securitization business and warehouse repurchase facility financing floating rate accrual loans were as follows (in thousands):

		Maximum Aggregate Commitment
364-day warehouse repurchase facility that matures March 2016 [1]	$	250,000
364-day warehouse repurchase facility that matures August 2016		250,000
364-day warehouse repurchase facility that matures October 2016 (one year extension)		400,000
Loan Origination and Securitization business total	$	900,000
Warehouse repurchase facility that matures August 2018 (two - one year extensions)		100,000
Total	$	1,000,000

[1] This facility was subsequently extended to March 2017.

RMF uses the three facilities totaling $900 million to finance its loan originations until the loans are sold in a securitization and the proceeds are collected. The facilities are expected to be renewed or replaced with other facilities when they mature. Each of these facilities is secured by a 75% interest in the originated commercial loans financed. The facilities require immediate repayment to the extent loans securing them are sold in securitizations and the proceeds are collected.

On August 31, 2015, the Company entered into a separate $100 million repurchase facility to finance the origination of floating rate loans. This facility has a maturity date of August 31, 2018, with two one-year extension options. The facility bears interest at one-month-LIBOR plus the applicable pricing margin which ranges from 2.00% to 2.50% based on asset type. Loans financed under this new facility will be held as accrual loans within Loans receivable, net.

As of November 30, 2015 and 2014, the Company had $353.4 million and $141.3 million, respectively, outstanding under the four facilities. 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, 2015.

Structured Notes, net

In May 2014, the Company issued $73.8 million principal amount of notes through a securitized structured note offering (the “Structured Notes”) collateralized by certain assets acquired as part of 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, Rialto sold a 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, after payment of expenses, were $20.7 million, including accrued interest. The estimated final payment date of the Structured Notes is April 2017, however, the final retirement of the debt could extend past that date. 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 125%. As of November 30, 2015 and 2014, the outstanding amount of Structured Notes, net of debt issuance costs was $31.3 million and $56.6 million, respectively. The Company is in compliance with all debt covenants as of November 30, 2015.

Revolving Lines of Credit with Lennar

The Company has two revolving credit agreements with Lennar as a supplemental source of operating funds. See Note 14 for a description of such arrangements.

Notes Payable – Other

Notes payable, other includes mortgages on commercial properties obtained in connection with a deficiency judgment in 2011. These notes payable have interest rates ranging from 5.5% to 6.9%. Notes payable, other also includes pre-petition bankruptcy judgments related to the Company's acquisition of a hospital in 2013.

Notes payable and other debts payable, net of debt issuance costs, have interest rates ranging from 0.00% to 7.00%, and mature as follows as of November 30, 2015 (in thousands):

Year	Amount
2016	391,139
2017	31,460
2018	1,185
2019	347,944
Total Notes payable and other debts payable, net	$ 771,728

10. OTHER REO EXPENSE, NET

The Company's Other REO expense, net, consisted of the following for the years ended November 30, 2015, 2014 and 2013 (in thousands):

	2015	2014	2013
Realized gains on the sale of REO	$ (35,242)	$ (43,671)	$ (48,785)
Unrealized (gains) losses on loan foreclosure	(1,138)	6,770	427
Impairment on REO	14,816	19,337	16,090
REO expenses	21,773	31,305	44,354
Gain on bargain purchase acquisition	-	-	(8,532)
Other REO expense, net	$ 209	$ 13,741	$ 3,554

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, 2015 and 2014 (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 from/to Parent, which had fair values approximating their carrying amounts due to the short maturities and liquidity of these instruments.

		2015		2014	
	Fair Value Hierarchy	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Assets					
Loans receivable, net	Level 3	$ 164,826	$ 169,302	$ 137,124	$ 142,900
Investments held-to-maturity	Level 3	$ 25,625	$ 25,227	$ 17,290	$ 17,155
Liabilities					
Notes payable and other debts payable	Level 2	$ 418,324	$ 449,609	$ 481,974	$ 499,064
Warehouse repurchase facilities	Level 2	$ 353,404	$ 353,404	$ 141,272	$ 141,272

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.

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.

During the years ended November 30, 2015, 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:

1) *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).

2) *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.

3) *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, 2015 and 2014, are summarized below (in thousands):

	2015				
	Fair Value Hierarchy		Fair Value		Total Gains (Losses)
Financial Assets					
Loans held-for-sale [1]	Level 3	$	316,275	$	(899)
Interest rate swaps and swap futures	Level 2		280		280
Credit default swaps	Level 2		6,153		477
Financial Liabilities					
Interest rate swaps and swap futures	Level 2	$	978	$	398
Credit default swaps	Level 2		720		(148)

(1) The aggregate fair value of loans held-for-sale of $316.3 million at November 30, 2015, exceeds their aggregate principal balance of $314.3 million by $2.0 million.

	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		(288)
Financial Liabilities					
Interest rate swaps and swap futures	Level 2	$	(1,376)	$	(1,346)
Credit default swaps	Level 2		(766)		349

(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.

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 is based on quoted market prices for similar investments traded in active markets.

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

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):

	2015	2014
Loans held-for-sale, beginning of period	$ 113,596	$ 44,228
Loan originations	2,628,019	1,562,748
Originated loans sold, including those not settled	(2,424,478)	(1,494,075)
Changes in fair value	(899)	1,495
Interest, principal paydowns and deferred fees	37	(800)
Loans held-for-sale, end of period	$ 316,275	$ 113,596

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):

		2015		
	Fair Value Hierarchy	Cost Basis [1]	Fair Value	Total Net Gains (Losses)
Financial Assets				
Impaired loans receivable	Level 3	$ 127,319	$ 116,956	$ (10,363)
Non-Financial Assets				
REO - held-and-used, net [2]	Level 3			
Upon acquisition/transfer		$ 18,996	$ 20,134	$ 1,138
Upon management periodic valuations		8,066	5,442	(2,624)
REO - held-for-sale [3]	Level 3			
Upon transfer		$ 40,833	$ 38,383	$ (2,450)
Upon management periodic valuations		36,730	26,988	(9,742)

	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)

(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, 2015, 2014 and 2013.

(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, 2015, 2014 and 2013.

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 returns of Lennar and does not make income tax payments. 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, because Rialto has a tax sharing arrangement with Lennar that requires Rialto to pay Lennar sums equal to the income taxes Rialto would pay if it were a separate taxpayer, 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. 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, 2015, 2014 and 2013, consists of the following (in thousands):

	2015	2014	2013
Current:			
Federal	$ 21,253	$ 23,785	$ 19,038
State	3,597	3,682	3,355
	24,850	27,467	22,393
Deferred:			
Federal	(11,665)	(1,553)	(12,045)
State	(2,188)	(375)	(2,320)
	(13,853)	(1,928)	(14,365)
Total Provision	$ 10,997	$ 25,539	$ 8,028

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, 2015 and 2014, the tax effects of temporary differences that give rise to deferred tax assets and deferred tax liabilities are as follows (in thousands):

	2015	2014
Deferred tax assets:		
Reserves and accruals	$ 15,208	$ 14,399
Fixed assets	-	189
Loans and REO investments	2,271	2,126
Carried interest incentive awards plan	1,996	-
Net operating losses	2,097	2,213
Total deferred tax assets	21,572	18,927
Deferred tax liabilities:		
Investments in joint ventures	(11,054)	(22,262)
Deferred tax assets (liabilities), net	$ 10,518	$ (3,335)

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, 2015 and 2014, Rialto has a net deferred tax asset totaling $10.5 million and a net deferred tax liability totaling $3.3 million, respectively. As of November 30, 2015 and 2014, the Company concluded that it is 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 a result, no valuation allowance is required.

As of November 30, 2015, the Company has federal and state income tax net operating loss ("NOL") carryforwards of $5.4 million and $5.4 million, respectively. These NOLs will expire at various dates from 2029 through 2033.

A reconciliation of the statutory rate and the effective tax rate for each of the years ended November 30, 2015, 2014 and 2013 is as follows:

	Percentage of Pretax Income		
	2015	**2014**	**2013**
Statutory rate	35.00 %	35.00 %	35.00 %
State income taxes, net of federal income tax benefit	3.28 %	3.23 %	3.15 %
Permanent tax items	0.69 %	0.13 %	0.31 %
Deferred adjustment related to Loan Servicer	0.63 %	0.00 %	0.00 %
Change in rate applied to deferred tax assets and liabilities	0.00 %	0.00 %	1.91 %
Effective rate	39.60 %	38.36 %	40.37 %

The Company records uncertain tax positions in accordance with ASC 740 on the basis of a two-step process whereby (i) the Company determines whether it is more-likely-than-not that the tax positions will be sustained on the basis of the technical merits of the position and (ii) for those positions that meet the more-likely-than-not recognition threshold, the Company recognizes the largest amount of tax benefit that is more than 50 percent likely to be realized upon the ultimate settlement with the related taxing authority. The Company has determined that no uncertain tax benefits were recorded as of November 30, 2015, 2014 and 2013.

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 ended 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.

As of both November 30, 2015 and 2014, the Company had no accruals 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 years 2013 and 2014 and certain state taxing authorities are examining various fiscal years. The final outcome of these examinations is not yet determinable. The statute of limitations for Lennar and the Company's major tax jurisdictions remains open for examination for fiscal year 2005 and subsequent years. 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.

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, 2015 (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, net [1]	$ 418,324	$ 37,735	$ 380,589	$ -	$ -
Warehouse repurchase facilities [2]	353,404	353,404	-	-	-
Investment commitments [3]	100,000	100,000	-	-	-
Interest commitments under interest bearing debt [4]	88,884	27,329	49,305	12,250	-
Operating leases	11,915	2,119	2,865	2,696	4,235
Total contractual obligations	$ 972,527	$ 520,587	$ 432,759	$ 14,946	$ 4,235

(1) Amount includes $31.3 million related to the Structured Notes with an assumed final payment date of April 2017.
(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) Amount includes the Company's capital commitments to Fund III.
(4) Interest commitments on variable interest-bearing debt are determined based on the interest rate as of November 30, 2015.

14. PARENT COMPANY TRANSACTIONS

Lennar/Rialto Revolving Credit Agreement – Under the revolving credit agreement, Lennar, subject to customary lending conditions, makes advances to the Company on a revolving basis of up to a maximum of $75 million. The original maturity date of November 22, 2015, was extended to November 22, 2017. Interest is at LIBOR plus 3.50% for LIBOR loans and at the greater of: (i) the Prime Rate, (ii) the Federal Funds Effective Rate plus 0.5%, or (iii) one-month LIBOR plus 1.00%, plus a 2.50% margin for ABR Loans (as defined). The Company is subject to certain customary covenants, including, but not limited to, limitations on fundamental changes, changes to lines of business and transactions with affiliates. The Company may repay outstanding amounts at any time, without premium or penalty, and may re-borrow sums it repays. As of November 30, 2015, no amounts were outstanding under this agreement.

Lennar/RMF Revolving Credit Agreement – On June 30, 2015, RMF entered into a revolving credit agreement ("Credit Agreement") with Lennar, as lender. Under the Credit Agreement, Lennar will, subject to customary lending conditions, make advances to RMF on a revolving basis of up to $200 million, subject to certain limitations and the achievement of specified financial conditions. The maturity date of the Credit Agreement is June 30, 2018 and amounts borrowed under the Credit Agreement accrue interest at LIBOR plus 3.5% for the applicable interest period. RMF is subject to certain customary covenants, including, but not limited to, limitations on fundamental changes, changes to lines of business and transactions with affiliates. RMF may prepay outstanding amounts at any time, without premium or penalty. This new Credit Agreement is in addition to the $75 million facility extended by Lennar to Rialto. At November 30, 2015, no amounts were outstanding under this agreement.

The following table summarizes the activities from both revolving credit agreements during the year ended November 30, 2015 (in thousands):

	Lennar/Rialto	Lennar/RMF	Total
Aggregate borrowings	$ 75,000	$ 410,000	$ 485,000
Interest expense paid to Lennar	-	1,058	1,058
Repayments, including interest expense	(75,000)	(411,058)	(486,058)
Ending balance	$ -	$ -	$ -

Support Services and Expense Reimbursement Agreement – Prior to the 7.00% Senior Notes offering, Lennar had provided limited management, treasury, information technology, income tax, payroll and administrative services to the Company and its subsidiaries, without charge (although Lennar did require the Company to reimburse it for rent and other operating costs it advanced on the Company's behalf). On November 26, 2013, Lennar and the Company entered into a Support Services and Expense Reimbursement Agreement under which Lennar 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.

Tax Reimbursement Agreement – The Company and those of its subsidiaries that are not corporations are not recognized as taxpayers for federal income tax purposes or for state income tax purposes. Instead, their taxable income is treated as taxable income of Lennar. Further, the taxable income of the Company's subsidiaries that are corporations is included in Lennar's consolidated tax returns. Therefore, Lennar pays most of the taxes on the Company's taxable income. Because of this, Lennar and the Company entered into a Tax Reimbursement Agreement, which was effective September 1, 2013, pursuant to which the Company pays 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. This agreement will terminate if the Company is no longer a subsidiary of Lennar.

The following table summarizes the intercompany activity as part of the Support Services and Expense Reimbursement Agreement and the Tax Reimbursement Agreement during the years ended November 30, 2015 and 2014 (in thousands):

	2015		
	Support Services and Expense Reimbursement Agreement	Tax Reimbursement Agreement	Total
Beginning receivable (payable)	$ 837	$ (1,890)	$ (1,053)
Current tax provision	-	(24,849)	(24,849)
Payments to Lennar	5,266	31,685	36,951
Charges from Lennar	(6,603)	-	(6,603)
Ending (payable) receivable	$ (500)	$ 4,946	$ 4,446

	2014		
	Support Services and Expense Reimbursement Agreement	Tax Reimbursement Agreement	Total
Beginning payable	$ -	$ (12,446)	$ (12,446)
Current tax provision	-	(27,467)	(27,467)
Payments to Lennar	5,103	38,023	43,126
Charges from Lennar	(4,266)	-	(4,266)
Ending receivable (payable)	$ 837	$ (1,890)	$ (1,053)

15. CARRIED INTEREST INCENTIVE PLAN

During fiscal 2015, the Board of Directors of Lennar approved the Rialto Holdings, LLC Carried Interest Incentive Plan ("Plan") which provides participants in the Plan the opportunity to participate in distributions made by a fund or other investment vehicle (a "Fund") managed by a subsidiary of Rialto. Under the Plan, Rialto may assign its right to receive carried interest payments from a fund to a limited liability company (a "Carried Interest Entity") and distribute to its employees or to employees of Lennar who are involved in the management of the Fund, units of the Carried Interest Entity that entitle the holders to specified percentages of distributions made from the Fund to the Carried Interest Entity. Rialto may distribute to some of its employees units entitling them to up to 40% of the distributions received by the Carried Interest Entity and to employees of other Lennar entities units entitling them to up to 10% of the distributions received by the Carried Interest Entity. The Plan is administered by a Committee comprised of two members of Lennar's management and one member of Rialto's management. The units issued to employees are subject to vesting schedules and forfeiture or repurchase provisions in the case of a termination of employment. The Plan requires that each participant enter into a Non-Competition, Non-Solicitation and Confidentiality Agreement. A Carried Interest Entity will make advance tax distributions to participants to enable them to pay taxes to the extent the taxes they are required to pay are more than the total distributions they have received.

A total of 70% of the Plan awards vest in annual increments after the date of the first closing of the related Fund, with 10% vesting during the first year and 15% during each of the next four years. The final 30% vests as the remaining distributions are received by the Carried Interest Entity. During the year ended November 30, 2015, the Company recorded $8.1 million of compensation expense related to the Plan, of which $3.0 million related to the amortization of the share-based compensation expense over the vesting period and is recorded as minority interest on the consolidated balance sheet at November 30, 2015.

16. 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, 2015 through February 12, 2016, the date the consolidated financial statements were available to be issued, and concluded that no events, other than those already described, or described below, have occurred that required recognition or disclosure in the consolidated financial statements.

On December 23, 2015, the Company entered into a $100 million warehouse repurchase facility with another global institution, maturing in December 2017.

On January 27, 2016, the Company extended its $250 million warehouse repurchase facility with an original maturity date of March 2016 for one year.

On February 12, 2016, RMF and Lennar, as lender, entered into an Amended and Restated Revolving Credit Agreement ("Amended Credit Agreement"), amending the revolving credit agreement (the "Credit Agreement") that had been entered into on June 30, 2015. The credit agreement was amended to provide that, in addition to LIBOR loans that accrue interest at LIBOR plus 3.50% for the applicable interest period, amounts borrowed under the Amended Credit Agreement may also be ABR loans that accrue interest at ABR plus 2.50% for the applicable interest period. All amounts borrowed will be ABR loans unless RMF requests that such loans be LIBOR loans and Lennar approves the request.

Under the Amended Credit Agreement, Lennar will, subject to customary lending conditions, make advances to RMF on a revolving basis of up to $200 million, subject to certain limitations and the achievement of specified financial conditions (the "Credit Facility"). The maturity date of the Credit Agreement is June 30, 2018. RMF will be subject to certain customary covenants, including, but not limited to, limitations on fundamental changes, limitations on changes to lines of business and transactions with affiliates. RMF may prepay outstanding amounts at any time, without premium or penalty, on five business days' prior notice.