TOLL BROTHERS INC
Form 10-Q
June 07, 2012

UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 10-Q
(Mark One)

þ	QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended April 30, 2012
or

o	TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from to
Commission file number 1-9186
TOLL BROTHERS, INC.
(Exact name of registrant as specified in its charter)

Delaware (State or other jurisdiction of incorporation or organization)	23-2416878 (I.R.S. Employer Identification No.)
250 Gibraltar Road, Horsham, Pennsylvania (Address of principal executive offices)	19044 (Zip Code)

(215) 938-8000
(Registrant's telephone number, including area code)
Not applicable
(Former name, former address and former fiscal year, if changed since last report)
Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes þ No o
Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes þ No o
Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or a smaller reporting company. See definition of "large accelerated filer," "an accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act. Check one):

Large accelerated filer þ	Accelerated filer o	Non-accelerated filer o (Do not check if a smaller reporting company)	Smaller reporting company o

Indicate by check mark whether the Registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act) Yes o No þ
Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date:
At June 1, 2012, there were approximately 167,521,000 shares of Common Stock, $.01 par value, outstanding.

TOLL BROTHERS, INC.
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STATEMENT ON FORWARD-LOOKING INFORMATION

Certain information included in this report or in other materials we have filed or will file with the Securities and Exchange Commission (“SEC”) (as well as information included in oral statements or other written statements made or to be made by us) contains or may contain forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. You can identify these statements by the fact that they do not relate to matters of strictly historical or factual nature and generally discuss or relate to estimates or other expectations regarding future events. They contain words such as “anticipate,” “estimate,” “expect,” “project,” “intend,” “plan,” “believe,” “may,” “can,” “could,” “might,” “should” and other v of similar meaning in connection with any discussion of future operating or financial performance. Such statements may include, but are not limited to, information related to: anticipated operating results; home deliveries; financial resources and condition; changes in revenues; changes in profitability; changes in margins; changes in accounting treatment; cost of revenues; selling, general and administrative expenses; interest expense; inventory write-downs; unrecognized tax benefits; anticipated tax refunds; sales paces and prices; effects of home buyer cancellations; growth and expansion; joint ventures in which we are involved; anticipated results from our investments in unconsolidated entities; the ability to acquire land and pursue real estate opportunities; the ability to gain approvals and to open new communities; the ability to sell homes and properties; the ability to deliver homes from backlog; the ability to secure materials and subcontractors; the ability to produce the liquidity and capital necessary to expand and take advantage of opportunities; and legal proceedings and claims.

Any or all of the forward-looking statements included in this report and in any other reports or public statements made by us are not guarantees of future performance and may turn out to be inaccurate. Consequently, actual results may differ materially from those that might be anticipated from our forward looking statements. Therefore, we caution you not to place undue reliance on our forward-looking statements. The factors that could cause actual results to differ from those expressed or implied by our forward-looking statements include, among others: local, regional, national, and international economic conditions; fluctuating consumer demand and confidence; interest and unemployment rates; changes in sales conditions, including home prices, in the markets where we build homes; conditions in our newly entered markets and newly acquired operations; the competitive environment in which we operate; the availability and cost of land for future growth; conditions that could result in inventory write-downs or write-downs associated with investments in unconsolidated entities; the ability to recover our deferred tax assets; the availability of capital; uncertainties in the capital and securities markets; liquidity in the credit markets; changes in tax laws and their interpretation; effects of governmental legislation and regulation; the outcome of various legal proceedings; the availability of adequate insurance at reasonable cost; the impact of construction defect, product liability and home warranty claims, including the adequacy of self-insurance accruals and the applicability and sufficiency of our insurance coverage; the ability of home buyers to obtain financing for the purchase of homes; the ability of customers to sell their existing homes; the ability of the participants in various joint ventures to honor their commitments; the availability and cost of labor and building and construction materials; the cost of raw materials; construction delays; domestic and international political events; and weather conditions. This statement is provided as permitted by the Private Securities Litigation Reform Act of 1995.

Forward-looking statements speak only as of the date they are made. We undertake no obligation to publicly update any forward-looking statements, whether as a result of new information, future events or otherwise.

For a more detailed discussion of these factors, see the information under the captions “Risk Factors” and “Management's Discussion and Analysis of Financial Condition and Results of Operations” in our most recent annual report on Form 10-K with the Securities and Exchange Commission.

When this report uses the words “we,” “us,” “our,” and the “Company,” they refer to Toll Brothers, Inc. and its subsidiaries, unless the context otherwise requires. References herein to “fiscal 2012,” and to “fiscal 2011,” “fiscal 2010,” “fiscal 2009,” and “fiscal 2008” refer to our fiscal years ending October 31, 2012, October 31, 2011, October 31, 2010, October 31, 2009, and October 31, 2008, respectively.

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PART I — FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS
TOLL BROTHERS, INC.
CONDENSED CONSOLIDATED BALANCE SHEETS
(Amounts in thousands)

	April 30, 2012 (unaudited)	October 31, 2011
ASSETS		
Cash and cash equivalents	$709,038	$906,340
Marketable securities	218,434	233,572
Restricted cash	47,398	19,760
Inventory	3,767,877	3,416,723
Property, construction and office equipment, net	100,724	99,712
Receivables, prepaid expenses and other assets	143,857	105,576
Mortgage loans held for sale	50,527	63,175
Customer deposits held in escrow	31,068	14,859
Investments in and advances to unconsolidated entities	200,292	126,355
Investments in non-performing loan portfolios and foreclosed real estate	95,870	69,174
	$5,365,085	$5,055,246
LIABILITIES AND EQUITY		
Liabilities		
Loans payable	$103,880	$106,556
Senior notes	1,791,942	1,490,972
Mortgage company warehouse loan	45,397	57,409
Customer deposits	128,921	83,824
Accounts payable	106,747	96,817
Accrued expenses	457,274	521,051
Income taxes payable	99,107	106,066
Total liabilities	2,733,268	2,462,695
Equity		
Stockholders' equity		
Preferred stock, none issued		
Common stock, 168,689 and 168,675 shares issued at April 30, 2012 and October 31, 2011, respectively	1,687	1,687
Additional paid-in capital	399,382	400,382
Retained earnings	2,248,337	2,234,251
Treasury stock, at cost — 1,370 and 2,946 shares at April 30, 2012 and October 31, 2011, respectively	(20,395)	(47,065)
Accumulated other comprehensive loss	(3,382)	(2,902)
Total stockholders' equity	2,625,629	2,586,353
Noncontrolling interest	6,188	6,198
Total equity	2,631,817	2,592,551
	$5,365,085	$5,055,246

See accompanying notes

TOLL BROTHERS, INC.
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(Amounts in thousands, except per share data)
(Unaudited)

	Six Months Ended April 30,		Three Months Ended April 30,	
	2012	2011	2012	2011
Revenues	$695,636	$653,791	$373,681	$319,675
Cost of revenues	578,429	558,319	306,821	276,354
Selling, general and administrative	137,893	128,301	68,256	67,050
Interest expense	—	1,504	—	392
	716,322	688,124	375,077	343,796
Loss from operations	(20,686)	(34,333)	(1,396)	(24,121)
Other:				
Income (loss) from unconsolidated entities	13,676	(22,345)	6,989	(11,343)
Other income - net	16,251	8,147	10,056	3,980
Income (loss) before income tax benefit	9,241	(48,531)	15,649	(31,484)
Income tax benefit	(4,845)	(31,175)	(1,223)	(10,711)
Net income (loss)	$14,086	$(17,356)	$16,872	$(20,773)
Income (loss) per share:				
Basic	$0.08	$(0.10)	$0.10	$(0.12)
Diluted	$0.08	$(0.10)	$0.10	$(0.12)
Weighted average number of shares:				
Basic	166,652	166,794	166,994	166,910
Diluted	167,821	166,794	168,535	166,910

See accompanying notes

TOLL BROTHERS, INC.
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(Amounts in thousands)
(Unaudited)

	Six Months Ended April 30, 2012	2011
Cash flow (used in) provided by operating activities:		
Net income (loss)	$14,086	$(17,356)
Adjustments to reconcile net income (loss) to net cash (used in) provided by operating activities:		
Depreciation and amortization	10,698	10,337
Stock-based compensation	8,831	7,717
(Recovery) impairments of investments in unconsolidated entities	(1,621)	39,600
Income from unconsolidated entities	(12,055)	(17,255)
Distributions of earnings from unconsolidated entities	1,550	6,789
Income from non-performing loan portfolios and foreclosed real estate	(10,004)	(473)
Deferred tax benefit	(3,318)	(6,515)
Deferred tax valuation allowances	3,318	6,515
Inventory impairments and write-offs	10,128	18,048
Change in fair value of mortgage loans receivable and derivative instruments	284	818
Gain on marketable securities	(39)	
Changes in operating assets and liabilities		
Increase in inventory	(202,466)	(154,440)
Origination of mortgage loans	(253,866)	(301,778)
Sale of mortgage loans	266,713	365,328
(Increase) decrease in restricted cash	(27,638)	28,781
(Increase) decrease in receivables, prepaid expenses and other assets	(31,550)	7,172
Increase in customer deposits	28,838	17,554
Decrease in accounts payable and accrued expenses	(67,789)	(36,546)
Decrease in income tax refund recoverable		141,590
Decrease in income taxes payable	(6,959)	(18,241)
Net cash (used in) provided by operating activities	(272,859)	97,645
Cash flow used in investing activities:		
Purchase of property and equipment — net	(4,747)	(5,112)
Purchase of marketable securities	(177,833)	(329,105)
Sale and redemption of marketable securities	189,716	227,080
Investment in and advances to unconsolidated entities	(75,008)	
Return of investments in unconsolidated entities	20,568	15,751
Investment in non-performing loan portfolios and foreclosed real estate	(27,490)	(42,141)
Return of investments in non-performing loan portfolios and foreclosed real estate	11,582	
Acquisition of a business	(144,746)	
Net cash used in investing activities	(207,958)	(133,527)
Cash flow provided by (used in) financing activities:		
Net proceeds from issuance of senior notes	296,227	
Proceeds from loans payable	400,092	438,713
Principal payments of loans payable	(429,709)	(498,960)
Proceeds from stock-based benefit plans	17,189	4,676
Receipts related to noncontrolling interest		2,678
Purchase of treasury stock	(284)	(389)

Net cash provided by (used in) financing activities	283,515	(53,282)
Net decrease in cash and cash equivalents	(197,302)	(89,164)
Cash and cash equivalents, beginning of period	906,340	1,039,060
Cash and cash equivalents, end of period	$709,038	$949,896

See accompanying notes

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TOLL BROTHERS, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

1. Significant Accounting Policies

Basis of Presentation

The accompanying condensed consolidated financial statements include the accounts of Toll Brothers, Inc. (the "Company"), a Delaware corporation, and those majority-owned subsidiaries it controls. All significant intercompany accounts and transactions have been eliminated. Investments in 50% or less owned partnerships and affiliates are accounted for using the equity method unless it is determined that the Company has effective control of the entity, in which case the entity would be consolidated.

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with the rules and regulations of the Securities and Exchange Commission ("SEC") for interim financial information. The October 31, 2011 balance sheet amounts and disclosures included herein have been derived from the Company's October 31, 2011 audited financial statements. Since the accompanying condensed consolidated financial statements do not include all the information and footnotes required by U.S. generally accepted accounting principles ("GAAP") for complete financial statements, the Company suggests that they be read in conjunction with the consolidated financial statements and notes thereto included in its Annual Report on Form 10-K for the fiscal year ended October 31, 2011. In the opinion of management, the accompanying unaudited condensed consolidated financial statements include all adjustments, which are of a normal recurring nature, necessary to present fairly the Company's financial position as of April 30, 2012, the results of its operations for the six-month and three-month periods ended April 30, 2012 and 2011, and its cash flows for the six-month periods ended April 30, 2012 and 2011. The results of operations for such interim periods are not necessarily indicative of the results to be expected for the full year.

Inventory

Inventory is stated at cost unless an impairment exists, in which case it is written down to fair value in accordance with the Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("ASC") 360, "Property, Plant and Equipment" ("ASC 360"). In addition to direct land acquisition costs, land development costs and home construction costs, costs also include interest, real estate taxes and direct overhead related to development and construction, which are capitalized to inventory during the period beginning with the commencement of development and ending with the completion of construction. For those communities that have been temporarily closed, no additional capitalized interest is allocated to a community's inventory until it re-opens. While the community remains closed, carrying costs such as real estate taxes are expensed as incurred.

The Company capitalizes certain interest costs to qualified inventory during the development and construction period of its communities in accordance with ASC 835-20, "Capitalization of Interest" ("ASC 835-20"). Capitalized interest is charged to cost of revenues when the related inventory is delivered. Interest incurred on homebuilding indebtedness in excess of qualified inventory, as defined in ASC 835-20, is charged directly to operations in the period incurred.

Once a parcel of land has been approved for development and the Company opens one of its typical communities, it may take four or more years to fully develop, sell and deliver all the homes in such community. Longer or shorter time periods are possible depending on the number of home sites in a community and the sales and delivery pace of the homes in a community. The Company's master planned communities, consisting of several smaller communities, may take up to ten years or more to complete. Because the Company's inventory is considered a long-lived asset under GAAP, the Company is required, under ASC 360, to regularly review the carrying value of each community and write down the value of those communities for which it believes the values have been impaired.

Current Communities: When the profitability of a current community deteriorates, the sales pace declines significantly, or some other factor indicates a possible impairment in the recoverability of the asset, the asset is reviewed for impairment by comparing the estimated future undiscounted cash flow for the community to its carrying value. If the estimated future undiscounted cash flow is less than the community's carrying value, the carrying value is written down to its estimated fair value. Estimated fair value is primarily determined by discounting the estimated future cash flow of each community. The impairment is charged to cost of revenues in the period in which the impairment is determined. In estimating the future undiscounted cash flow of a community, the Company uses various

estimates such as: (a) the expected sales pace in a community, based upon general economic conditions that will have a short-term or long-term impact on the market in which the community is located and on competition within the market, including the number of home sites available and pricing and incentives being offered in other communities owned by the Company or by other builders; (b) the expected sales prices and

sales incentives to be offered in a community; (c) costs expended to date and expected to be incurred in the future, including, but not limited to, land and land development, home construction, interest and overhead costs; (d) alternative product offerings that may be offered in a community that will have an impact on sales pace, sales price, building cost or the number of homes that can be built on a particular site; and (e) alternative uses for the property such as the possibility of a sale of the entire community to another builder or the sale of individual home sites.

Future Communities: The Company evaluates all land held for future communities or future sections of current communities, whether owned or under contract, to determine whether or not it expects to proceed with the development of the land as originally contemplated. This evaluation encompasses the same types of estimates used for current communities described above, as well as an evaluation of the regulatory environment applicable to the land and the estimated probability of obtaining the necessary approvals, the estimated time and cost it will take to obtain the approvals and the possible concessions that will be required to be given in order to obtain them. Concessions may include cash payments to fund improvements to public places such as parks and streets, dedication of a portion of the property for use by the public or as open space or a reduction in the density or size of the homes to be built. Based upon this review, the Company decides (a) as to land under contract to be purchased, whether the contract will likely be terminated or renegotiated, and (b) as to land owned, whether the land will likely be developed as contemplated or in an alternative manner, or should be sold. The Company then further determines whether costs that have been capitalized to the community are recoverable or should be written off. The write-off is charged to cost of revenues in the period in which the need for the write-off is determined.

The estimates used in the determination of the estimated cash flows and fair value of both current and future communities are based on factors known to the Company at the time such estimates are made and its expectations of future operations and economic conditions. Should the estimates or expectations used in determining estimated fair value deteriorate in the future, the Company may be required to recognize additional impairment charges and write-offs related to current and future communities.

Variable Interest Entities: The Company has a significant number of land purchase contracts and several investments in unconsolidated entities which it evaluates in accordance with ASC 810, “Consolidation” (“ASC 810”). The Company analyzes its land purchase contracts and the unconsolidated entities in which it has an investment to determine whether the land sellers and unconsolidated entities are variable interest entities (“VIEs”) and, if so, whether the Company is the primary beneficiary. If the Company is determined to be the primary beneficiary of a VIE, it must consolidate the VIE. A VIE is an entity with insufficient equity investment or in which the equity investors lack some of the characteristics of a controlling financial interest. In determining whether it is the primary beneficiary, the Company considers, among other things, whether it has the power to direct the activities of the VIE that most significantly impact the entity’s economic performance, including, but not limited to, determining or limiting the scope or purpose of the VIE, selling or transferring property owned or controlled by the VIE, or arranging financing for the VIE. The Company also considers whether it has the obligation to absorb losses of or the right to receive benefits from the VIE.

Fair Value Disclosures

The Company uses ASC 820, “Fair Value Measurements and Disclosures” (“ASC 820”), to measure the fair value of certain assets and liabilities. ASC 820 provides a framework for measuring fair value in accordance with GAAP, establishes a fair value hierarchy which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value and requires certain disclosures about fair value measurements. The fair value hierarchy is summarized below:

Level 1:	Fair value determined based on quoted prices in active markets for identical assets or liabilities.
Level 2:	Fair value determined using significant observable inputs, generally either quoted prices in active markets for similar assets or liabilities or quoted prices in markets that are not active.
Level 3:	Fair value determined using significant unobservable inputs, such as pricing models, discounted cash flows, or similar techniques.

2. Acquisition

In November 2011, the Company acquired substantially all of the assets of CamWest Development LLC ("CamWest") for approximately $144.7 million in cash. The assets acquired were primarily inventory. As part of the acquisition, the Company assumed contracts to deliver approximately 29 homes with an aggregate value of $13.7 million. The average price of the homes in backlog was approximately $471,000. The assets the Company acquired included approximately 1,245 home sites owned and 254 home sites controlled through land purchase agreements. The Company's selling community count increased by 15 communities at the acquisition date. The acquisition of the assets of CamWest was not material to the Company's results of operations or its financial condition.

3. Inventory

Inventory at April 30, 2012 and October 31, 2011 consisted of the following (amounts in thousands):

	April 30, 2012	October 31, 2011
Land controlled for future communities	$41,442	$46,581
Land owned for future communities	1,046,240	979,145
Operating communities	2,680,195	2,390,997
	$3,767,877	$3,416,723

Operating communities include communities offering homes for sale, communities that have sold all available home sites but have not completed delivery of the homes, communities that were previously offering homes for sale but are temporarily closed due to business conditions or non-availability of improved home sites and that are expected to reopen within twelve months of the end of the fiscal period being reported on, and communities preparing to open for sale. The carrying value attributable to operating communities includes the cost of homes under construction, land and land development costs, the carrying cost of home sites in current and future phases of these communities and the carrying cost of model homes, less impairment charges recognized against the communities.

Communities that were previously offering homes for sale but are temporarily closed due to business conditions that do not have any remaining backlog and are not expected to reopen within twelve months of the end of the fiscal period being reported on have been classified as land owned for future communities.

Information regarding the classification, number and carrying value of these temporarily closed communities, as of the date indicated, is provided in the table below.

	April 30, 2012	October 31, 2011
Land owned for future communities:		
Number of communities	33	43
Carrying value (in thousands)	$194,678	$256,468
Operating communities:		
Number of communities	13	2
Carrying value (in thousands)	$67,222	$11,076

During the three-month period ended January 31, 2011, the Company reclassified $20.0 million of inventory related to commercial retail space located in one of its high-rise projects to property, construction and office equipment. The $20.0 million was reclassified due to the completion of construction of the facilities and the substantial completion of the high-rise project of which the facilities are a part.

The Company provided for inventory impairment charges and the expensing of costs that it believed not to be recoverable, for the periods indicated; these are shown in the table below (amounts in thousands).

	Six months ended April 30,		Three months ended April 30,	
	2012	2011	2012	2011
Charge (recovery):				
Land controlled for future communities	$225	$1,848	$(552)	$2,197
Land owned for future communities	918	—	—	—
Operating communities	8,985	16,200	2,560	10,725
	$10,128	$18,048	$2,008	$12,922

The table below provides, for the periods indicated, the number of operating communities that the Company tested for potential impairment, the number of operating communities in which it recognized impairment charges, the amount of impairment charges recognized, and, as of the end of the period indicated, the fair value of those communities, net of impairment charges ($ amounts in thousands).

Three months ended:	Number of communities tested	Impaired operating communities: Number of communities	Fair value of communities, net of impairment charges	Impairment charges
Fiscal 2012:				
January 31	113	8	$49,758	$6,425
April 30	115	2	$22,962	2,560
				$8,985
Fiscal 2011:				
January 31	143	6	$56,105	$5,475
April 30	142	9	$40,765	10,725
July 31	129	2	$867	175
October 31	114	3	$3,367	710
				$17,085

At April 30, 2012, the Company evaluated its land purchase contracts to determine if any of the selling entities were VIEs and, if they were, whether the Company was the primary beneficiary of any of them. Under these land purchase contracts, the Company does not possess legal title to the land and its risk is generally limited to deposits paid to the sellers and the creditors of the sellers generally have no recourse against the Company. At April 30, 2012, the Company determined that 56 land purchase contracts, with an aggregate purchase price of $484.4 million, on which it had made aggregate deposits totaling $24.2 million, were VIEs, but that it was not the primary beneficiary of any VIE related to its land purchase contracts.

Interest incurred, capitalized and expensed, for the periods indicated, was as follows (amounts in thousands):

	Six months ended April 30, 2012	Six months ended April 30, 2011	Three months ended April 30, 2012	Three months ended April 30, 2011
Interest capitalized, beginning of period	$298,757	$267,278	$311,335	$274,730
Interest incurred	60,467	58,434	31,568	28,718
Interest expensed to cost of revenues	(33,989)	(35,382)	(17,668)	(17,300)
Interest directly expensed to operations	—	(1,504)	—	(392)
Write-off against other income	(1,582)	(318)	(1,582)	(248)
Interest reclassified to property, construction and office equipment	—	(3,000)	—	—
Interest capitalized on investments in unconsolidated entities	(1,137)	—	(1,137)	—
Interest capitalized, end of period	$322,516	$285,508	$322,516	$285,508

Inventory impairment charges are recognized against all inventory costs of a community, such as land, land improvements, cost of home construction and capitalized interest. The amounts included in the table directly above reflect the gross amount of capitalized interest without allocation of any impairment charges recognized. The Company estimates that, had inventory impairment charges been allocated on a pro-rata basis to the individual components of inventory, capitalized interest at April 30, 2012 and 2011 would have been reduced by approximately $52.8 million and $54.5 million, respectively.

4. Investments in and Advances to Unconsolidated Entities

The Company has investments in and advances to various unconsolidated entities.

Development Joint Ventures

The Company has investments in and advances to a number of joint ventures with unrelated parties to develop land ("Development Joint Ventures"). Some of these Development Joint Ventures develop land for the sole use of the venture participants, including the Company, and others develop land for sale to the joint venture participants and to unrelated

builders. The Company recognizes its share of earnings from the sale of home sites by the Development Joint Ventures to other builders. With regard to home sites the Company purchases from the Development Joint Ventures, the Company reduces its cost basis in those home sites by its share of the earnings on the home sites it purchases. At April 30, 2012, the Company had approximately

$8.5 million, net of impairment charges, invested in or advanced to the Development Joint Ventures. In addition, the Company has a funding commitment of $3.5 million to one Development Joint Venture should an additional investment in that venture be required.

Some of the impairments related to Development Joint Ventures since 2008 were attributable to the Company's investment in South Edge LLC ("South Edge"), a Development Joint Venture organized to develop a master planned community in the City of Henderson, Nevada. In 2008 and 2009, based on the deterioration of the real estate market in Nevada and the filing of lawsuits against the Company and the other parent companies of the members of South Edge by lenders to South Edge to collect on completion guaranties executed in favor of the lenders, the Company recognized impairments which totaled $70.3 million.

During fiscal 2010, the members of South Edge engaged in negotiations with the lenders to settle the lenders' claims. Based on the status of the lawsuits and the ongoing negotiations, the Company believed that it had adequately provided for a settlement of these claims at that time.

In December 2010, some of the lenders filed an involuntary bankruptcy petition against South Edge, claiming that the involuntary bankruptcy filing triggered obligations on payment guarantees executed by the Company and the other parent companies of the members of South Edge in favor of the lenders. In February 2011, the Bankruptcy Court upheld the involuntary petition and appointed a trustee to take over the operations of South Edge. Based on this court decision, the potential liability under the payment guaranty and the further erosion in the value of the real property owned by South Edge, the Company recorded additional impairments of $20.0 million in the first quarter of fiscal 2011 and $9.6 million in the second quarter of fiscal 2011 related to its accrued exposure under the completion guarantee. The Company reduced its accrual by $3.9 million in the fourth quarter of fiscal 2011 based on its evaluation of its expected potential liability at that time. In the second quarter of fiscal 2012, the Company recovered $1.6 million of costs it previously accrued. The total cumulative impairment recognized for South Edge through April 30, 2012 was $94.4 million.

During the third quarter of fiscal 2011, the Company and a majority of the members of South Edge reached an agreement with the lenders and the bankruptcy trustee to settle the disputes involving South Edge. The settlement provided, among other things, for payments by the members of South Edge to the lenders and the conveyance of the real estate free of the prior debt owned by South Edge to a new joint venture, Inspirada Builders, LLC ("Inspirada"), organized by four of the members of South Edge.

The Company believes it has made adequate provision at April 30, 2012 for any remaining liabilities with respect to South Edge. The Company's investment in Inspirada is carried at a nominal value.

The Company did not recognize any impairment charges in connection with the Development Joint Ventures in the six-month and three-month periods ended April 30, 2012. In the six-month and three-month periods ended April 30, 2012, the Company recovered $1.6 million of costs it previously accrued.

In the second quarter of fiscal 2012, the Company entered into an agreement to acquire a 50% interest in a joint venture for approximately $110 million. The Company made an initial deposit of $10 million against the acquisition price. This deposit is included in "Receivables, prepaid expenses and other assets" on its condensed consolidated balance sheet at April 30, 2012. The Company intends to acquire a substantial number of lots from the joint venture. This transaction is expected to be completed in the third quarter of fiscal 2012.

Planned Community Joint Venture

The Company entered into a joint venture in October 2008 for the development and sale of homes in a master planned community. During both fiscal 2009 and 2010, the joint venture's performance was as expected and the Company estimated that the fair value of its investment exceeded its carrying value at the end of each of the reporting periods. In the early part of fiscal 2011, the Company saw signs of increased sales activity consistent with the seasonality of that market and it continued to believe the investment was not impaired. In the late spring of 2011, demand for homes in this community unexpectedly weakened. When the Company evaluates the carrying value of its investment, it considers the current and long-term outlook for the operations of the community and the anticipated period of time it would take for the fair value of the investment to recover above the carrying value of the investment. Applying that standard, the Company's review of the joint venture's expected future performance based on its historical performance

and market conditions at that time, as well as expected sales paces and prices and the joint venture's expected cash flows led the Company to determine that the value of its investment was impaired and that this impairment was other than temporary. As a result, in the second quarter of fiscal 2011, the Company recognized an impairment charge of $10.0 million. That market continued to worsen and, in the fourth quarter of fiscal 2011, the Company determined that the value of its investment was further impaired and that this impairment was other than temporary and the Company recognized an additional impairment charge of $5.2 million.

At April 30, 2012, the Company had an investment of $30.4 million, net of the $15.2 million of impairments previously recognized, in this joint venture. At April 30, 2012, the participants had agreed to contribute additional funds of up to $8.3 million each, if required. If a participant fails to make a required capital contribution, the other participant may make the additional contribution and diminish the non-contributing participant’s ownership interest.

Condominium Joint Ventures

At April 30, 2012, the Company had an aggregate of $121.5 million of investments in and advances, net of $63.9 million of impairment charges recognized, to five joint ventures with unrelated parties to develop luxury for-sale and rental residential units and commercial space.

In December 2011, the Company entered into a joint venture to develop a high-rise luxury for-sale/rental project in the metro-New York market. The Company has invested $79.0 million and is committed to make additional investments of $37.5 million. Under the terms of the agreement, upon completion of the construction of the building, the Company will acquire ownership of the top eighteen floors of the building to sell, for its own account, luxury condominium units and its partner will receive ownership of the lower floors containing residential, for lease units and retail space.

The Company did not recognize any impairment charges in connection with its Condominium Joint Ventures in the six-month and three-month periods ended April 30, 2012 and 2011.

Toll Brothers Realty Trust and Trust II

In fiscal 2005, the Company, together with the Pennsylvania State Employees Retirement System (“PASERS”), formed Toll Brothers Realty Trust II (“Trust II”) to be in a position to invest in commercial real estate opportunities. Trust II is owned 50% by the Company and 50% by an affiliate of PASERS. At April 30, 2012, the Company had an investment of $3.6 million in Trust II. Prior to the formation of Trust II, the Company formed Toll Brothers Realty Trust (the “Trust”) in 1998 to invest in commercial real estate opportunities. The Trust is effectively owned one-third by the Company; one-third by Robert I. Toll, Bruce E. Toll (and members of his family), Douglas C. Yearley, Jr. and former members of the Company’s senior management; and one-third by an affiliate of PASERS (collectively, the “Shareholders”). As of April 30, 2012, the Company had a net investment in the Trust of $0.5 million. The Company provides development, finance and management services to the Trust and recognized fees under the terms of various agreements in the amounts of $1.1 million in each of the six-month periods ended April 30, 2012 and 2011 and $0.6 million in each of the three-month periods ended April 30, 2012 and 2011.The Company believes that the transactions between itself and the Trust were on terms no less favorable than it would have agreed to with unrelated parties.

Structured Asset Joint Venture

In July 2010, the Company, through Gibraltar Capital and Asset Management LLC (“Gibraltar”), invested $29.1 million in a joint venture in which it is a 20% participant with two unrelated parties to purchase a 40% interest in an entity that owns and controls a portfolio of loans and real estate (“Structured Asset Joint Venture”). At April 30, 2012, the Company had an investment of $35.7 million in this Structured Asset Joint Venture. At April 30, 2012, the Company did not have any commitments to make additional contributions to the joint venture and has not guaranteed any of the joint venture’s liabilities. If the joint venture needs additional capital and a participant fails to make a requested capital contribution, the other participants may make a contribution in consideration for a preferred return or may make the additional capital contribution and diminish the non-contributing participant’s ownership interest.

General

At April 30, 2012, the Company had accrued $2.1 million of aggregate exposure with respect to its estimated obligations to unconsolidated entities in which it has an investment. The Company’s investments in these entities are accounted for using the equity method. The Company recognized $39.6 million and $19.6 million of impairment charges related to its investments in and advances to unconsolidated entities in the six-month and three-month periods ended April 30, 2011, respectively. The Company recognized a $1.6 million recovery of previous impairment charges recognized in the second quarter of fiscal 2012. The fiscal 2012 reversal and fiscal 2011 impairment charges recognized are included in “Income (loss) from unconsolidated entities” in the Company’s condensed consolidated statements of operations for the six-month and three-month periods ended April 30, 2012 and 2011.

The condensed consolidated balance sheets, as of the dates indicated and the condensed consolidated statements of operations, for the periods indicated, for the Company's unconsolidated entities in which it has an investment, aggregated by type of business, are included below (in thousands). The column titled "Home Building Joint Ventures" includes the planned community and condominium joint ventures described above.

Condensed Balance Sheets:

	April 30, 2012				
	Development Joint Ventures	Home Building Joint Ventures	Trust and Trust II	Structured Asset Joint Venture	Total
Cash and cash equivalents	$21,958	$20,999	$11,311	$44,803	$99,071
Inventory	175,277	280,886	5,580		461,743
Non-performing loan portfolio				259,545	259,545
Rental properties			175,971		175,971
Real estate owned ("REO")			516	271,055	271,571
Other assets (1)	18,499	64,799	9,183	165,913	258,394
Total assets	$215,734	$366,684	$202,561	$741,316	$1,526,295
Debt (1)	$71,444	$34,804	$197,172	$310,855	$614,275
Other liabilities	20,533	5,288	3,479	414	29,714
Members' equity	123,757	326,592	1,910	172,031	624,290
Non-controlling interest				258,016	258,016
Total liabilities and equity	$215,734	$366,684	$202,561	$741,316	$1,526,295
Company's net investment in unconsolidated entities (2)	$8,538	$151,883	$4,167	$35,704	$200,292

	October 31, 2011				
	Development Joint Ventures	Home Building Joint Ventures	Trust and Trust II	Structured Asset Joint Venture	Total
Cash and cash equivalents	$14,190	$10,663	$11,726	$48,780	$85,359
Inventory	218,339	170,239	5,501		394,079
Non-performing loan portfolio				295,044	295,044
Rental properties			178,339		178,339
Real estate owned			1,087	230,872	231,959
Other assets (1)	150,316	20,080	9,675	159,143	339,214
Total assets	$382,845	$200,982	$206,328	$733,839	$1,523,994
Debt (1)	$327,856	$50,515	$198,927	$310,847	$888,145
Other liabilities	5,352	9,745	3,427	382	18,906
Members' equity	49,637	140,722	3,974	172,944	367,277
Non-controlling interest				249,666	249,666
Total liabilities and equity	$382,845	$200,982	$206,328	$733,839	$1,523,994
Company's net investment in unconsolidated entities (2)	$17,098	$72,734	$1,872	$34,651	$126,355

(1) Included in other assets at April 30, 2012 and October 31, 2011 of the Structured Asset Joint Venture is $165.9 million and $152.6 million, respectively, of restricted cash held in a defeasance account which will be used to repay debt of the Structured Asset Joint Venture.

(2) Differences between the Company's net investment in unconsolidated entities and its underlying equity in the net assets of the entities is primarily a result of impairments related to the Company's investments in unconsolidated entities, a loan made to one of the entities by the Company, and distributions from entities in excess of the carrying amount of the Company's net investment.

Condensed Statements of Operations:

	For the six months ended April 30, 2012				
	Develop-ment Joint Ventures	Home Building Joint Ventures	Trust and Trust II	Structured Asset Joint Venture	Total
Revenues	$33,584	$47,466	$18,698	$12,362	$112,110
Cost of revenues	31,771	34,754	6,736	17,227	90,488
Other expenses	430	2,110	11,427	4,898	18,865
Gain on disposition of loans and REO				(22,826)	(22,826)
Total expenses—net	32,201	36,864	18,163	(701)	86,527
Income from operations	1,383	10,602	535	13,063	25,583
Other income	2,653	79		275	3,007
Net income before noncontrolling interest	4,036	10,681	535	13,338	28,590
Less: Net income attributable to noncontrolling interest				(8,004)	(8,004)
Net income	$4,036	10,681	$535	$5,334	$20,586
Company’s equity in earnings of unconsolidated entities (3)	$3,532	$8,010	$1,081	$1,053	$13,676

	For the three months ended April 30, 2012				
	Develop-ment Joint Ventures	Home Building Joint Ventures	Trust and Trust II	Structured Asset Joint Venture	Total
Revenues		$24,036	$9,222	$7,654	$40,912
Cost of revenues		16,961	3,393	5,701	26,055
Other expenses	$205	1,165	4,642	2,013	8,025
Gain on disposition of loans and REO				(7,517)	(7,517)
Total expenses—net	205	18,126	8,035	197	26,563
Income (loss) from operations	(205)	5,910	1,187	7,457	14,349
Other income	1	74		138	213
Net income (loss) before noncontrolling interest	(204)	5,984	1,187	7,595	14,562
Less: Net income attributable to noncontrolling interest				(4,557)	(4,557)
Net income (loss)	$(204)	$5,984	$1,187	3,038	$10,005
Company’s equity in (losses) earnings of unconsolidated entities (3)	$1,536	$3,490	$458	$1,505	$6,989

	For the six months ended April 30, 2011				
	Develop-ment Joint Ventures	Home Building Joint Ventures	Trust and Trust II	Structured Asset Joint Venture	Total
Revenues	$1,118	$140,346	$19,866	$25,152	$186,482
Cost of revenues	1,159	111,492	7,983	16,658	137,292
Other expenses	556	5,441	10,550	6,250	22,797
Gain on disposition of loans and REO				(10,886)	(10,886)
Total expenses—net	1,715	116,933	18,533	12,022	149,203
Income (loss) from operations	(597)	23,413	1,333	13,130	37,279
Other income	5,791	154		158	6,103
Net income before noncontrolling interest	5,194	23,567	1,333	13,288	43,382
Less: Net income attributable to noncontrolling interest				(7,975)	(7,975)
Net income	$5,194	$23,567	$1,333	5,313	$35,407
Company's equity in (losses) earnings of unconsolidated entities (3)	$(29,649)	$3,432	$2,667	$1,205	$(22,345)

	For the three months ended April 30, 2011				
	Develop-ment Joint Ventures	Home Building Joint Ventures	Trust and Trust II	Structured Asset Joint Venture	Total
Revenues	$33	$52,331	$10,715	$13,150	$76,229
Cost of revenues		42,323	4,494	7,100	53,917
Other expenses	399	2,431	4,548	2,979	10,357
Loss on disposition of loans and REO				488	488
Total expenses—net	399	44,754	9,042	10,567	64,762
Income (loss) from operations	(366)	7,577	1,673	2,583	11,467
Other income	3,412	118		69	3,599
Net income before noncontrolling interest	3,046	7,695	1,673	2,652	15,066
Less: Net income attributable to noncontrolling interest				(1,591)	(1,591)
Net income	$3,046	$7,695	$1,673	1,061	$13,475
Company's equity in (losses) earnings of unconsolidated entities (3)	$(9,649)	$(4,502)	$2,203	$605	$(11,343)

(3) Differences between the Company's equity in earnings (losses) of unconsolidated entities and the underlying net income (loss) of the entities is primarily a result of impairments related to the Company's investment in unconsolidated entities, distributions from entities in excess of the carrying amount of the Company's net investment, and the Company's share of the entities' profits related to home sites purchased by the Company which reduces the Company's cost basis of the home sites.

5. Investments in Non-Performing Loan Portfolios and Foreclosed Real Estate

Investments in Non-Performing Loan Portfolios

In December 2011, Gibraltar acquired a portfolio of non-performing loans consisting of 11 loans with an unpaid principal balance of approximately $51.4 million. The portfolio includes non-performing loans secured primarily by commercial land and buildings in various stages of completion.

The following table summarizes for the portfolio acquired in fiscal 2012, the accretable yield and the nonaccretable difference on our investment in the non-performing loan portfolio as of its acquisition date (amounts in thousands).

Contractually required payments, including interest	$52,524
Nonaccretable difference	(5,125)
Cash flows expected to be collected	47,399
Accretable difference	(20,514)
Non-performing loans carrying amount	$26,885

The Company's investment in non-performing loan portfolios consisted of the following as of the dates indicated (amounts in thousands):

	April 30, 2012	October 31, 2011
Unpaid principal balance	$186,031	$171,559
Discount on acquired loans	(108,269)	(108,325)
Carrying value	$77,762	$63,234

The activity in the accretable yield for the Company's investment in the non-performing loan portfolios for the six-month and three-month periods ended April 30, 2012 and 2011 was as follows (amounts in thousands):

	Six months ended April 30,		Three months ended April 30,	
	2012	2011	2012	2011
Balance, beginning of period	$42,326		$57,844	
Additions	20,514	$33,212		$33,212
Accretion	(6,559)	(500)	(3,331)	(500)
Reductions from foreclosures and other dispositions	(9,949)		(8,300)	
Transfer from nonaccretable yield to accretable yield	2,826		3,010	
Other	98		33	
Balance, end of period	$49,256	$32,712	$49,256	$32,712

The additions to accretable yield and the accretion of interest income are based on various estimates regarding loan performance and the value of the underlying real estate securing the loans. As the Company continues to obtain updated information regarding the loans and the underlying collateral, the accretable yield may change. Therefore, the amount of accretable income recorded in the six and three months ended April 30, 2012 is not necessarily indicative of expected future results.

Real Estate Owned (REO)

The following table presents the activity in REO for the six and three months ended April 30, 2012 (amounts in thousands):

	Six months ended April 30, 2012	Three months ended April 30, 2012
Balance, beginning of period	$5,939	$6,488
Additions	12,802	11,638
Sales	(615)	
Depreciation	(18)	(18)
Balance, end of period	$18,108	$18,108

As of April 30, 2012, approximately $1.2 million and $16.9 million of REO was classified as held-for-sale and held-and-used, respectively.

General

The Company's earnings from Gibraltar's operations are included in other income - net in its condensed consolidated statements of operations. In the six-month and three-month periods ended April 30, 2012, the Company recognized $5.9 million and $3.7 million of earnings, respectively, from Gibraltar's operations. In the six-month and three-month periods ended April 30, 2011, Gibraltar incurred a loss of $0.1 million and earnings of $0.3 million, respectively.

6. Senior Notes Payable

On February 7, 2012, the Company, through Toll Brothers Finance Corp., issued $300 million principal amount of 5.875% Senior Notes due 2022 (the "5.875% Senior Notes"). The Company received $296.2 million of net proceeds from the issuance of the 5.875% Senior Notes.

On March 5, 2012, the Company, through Toll Brothers Finance Corp., issued an additional $119.9 million principal amount of its 5.875% Senior Notes in exchange for $80.7 million principal amount of its 6.875% Senior Notes due 2012 and $36.9 million principal amount of its 5.95% Senior Notes due 2013. The Company recognized a charge of $1.0 million in the quarter ended April 30, 2012 representing the aggregate costs associated with the exchange of both series of notes; these expenses are included in selling, general and administrative expenses on the condensed consolidated statement of operations.

7. Accrued Expenses

Accrued expenses at April 30, 2012 and October 31, 2011 consisted of the following (amounts in thousands):

	April 30, 2012	October 31, 2011
Land, land development and construction	$103,501	$109,574
Compensation and employee benefit	97,596	96,037
Insurance and litigation	120,309	130,714
Commitments to unconsolidated entities	2,077	60,205
Warranty	42,997	42,474
Interest	28,976	25,968
Other	61,818	56,079
	$457,274	$521,051

The Company accrues for expected warranty costs at the time each home is closed and title and possession are transferred to the home buyer. Warranty costs are accrued based upon historical experience. The table below provides, for the periods indicated, a reconciliation of the changes in the Company's warranty accrual (amounts in thousands):

	Six Months Ended April 30,		Three Months Ended April 30,	
	2012	2011	2012	2011
Balance, beginning of period	$42,474	$45,835	$43,109	$45,928
Additions – homes closed during the period	3,944	3,899	2,073	1,970
Addition – liabilities acquired	731			
Increase (decrease) in accruals for homes closed in prior periods	1,765	647	(18)	713
Charges incurred	(5,917)	(4,060)	(2,167)	(2,290)
Balance, end of period	$42,997	$46,321	$42,997	$46,321

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8. Income Taxes

The tables below provide, for the periods indicated, reconciliations of the Company's effective tax rate from the federal statutory tax rate (amounts in thousands).

	Six months ended April 30,			
	2012		2011	
	$	%*	$	%*
Federal tax provision (benefit) at statutory rate	3,234	35.0	(16,986)	(35.0)
State taxes (benefit), net of federal benefit	391	4.2	(1,577)	(3.3)
Reversal of state tax provisions – finalization of audits			(2,340)	(4.8)
Increase in unrecognized tax benefits	277	3.0		
Reversal of accrual for uncertain tax positions	(5,279)	(57.1)	(17,954)	(37.0)
Increase in deferred tax assets – net	(2,100)	(22.7)		
Valuation allowance – recognized			19,577	40.3
Valuation allowance – reversed	(3,318)	(35.9)	(13,062)	(26.9)
Accrued interest on anticipated tax assessments	1,950	21.1	1,625	3.4
Other			(458)	(0.9)
Tax benefit	(4,845)	(52.4)	(31,175)	(64.2)

* Due to rounding, amounts may not add.

	Three months ended April 30,			
	2012		2011	
	$	%*	$	%*
Federal tax provision (benefit) at statutory rate	5,477	35.0	(11,019)	(35.0)
State taxes, net of federal benefit	662	4.2	(1,023)	(3.3)
Reversal of state tax provisions – finalization of audits				
Decrease in unrecognized tax benefits	(1,223)	(7.8)		
Reversal of accrual for uncertain tax positions				
Increase in deferred tax assets – net	(1,575)	(10.0)		
Valuation allowance – recognized			12,549	39.9
Valuation allowance – reversed	(4,564)	(29.2)	(11,802)	(37.5)
Accrued interest on anticipated tax assessments			813	2.6
Other			(229)	(0.7)
Tax benefit	(1,223)	(7.8)	(10,711)	(34.0)

* Due to rounding, amounts may not add.

The Company currently operates in 20 states and is subject to various state tax jurisdictions. The Company estimates its state tax liability based upon the individual taxing authorities' regulations, estimates of income by taxing jurisdiction and the Company's ability to utilize certain tax-saving strategies. Due primarily to a change in the Company's estimate of the allocation of income or loss among the various taxing jurisdictions and changes in tax regulations and their impact on the Company's tax strategies, the Company estimated its rate for state income taxes at 6.5% and 5.0% for fiscal 2012 and 2011, respectively.

The Company recognizes in its tax benefit potential interest and penalties. Information as to the amounts recognized in its tax benefit, before reduction for applicable taxes and reversal of previously accrued interest and penalties, of potential interest and penalties in the six-month periods and three-month periods ended April 30, 2012 and 2011, is set forth in the table below (amounts in thousands).

Recognized in statements of operations:	
Six-month period ended April 30, 2012	$3,000
Six-month period ended April 30, 2011	$2,500
Three-month period ended April 30, 2012	$—
Three-month period ended April 30, 2011	$1,250

The amounts accrued for potential interest and penalties at April 30, 2012 and October 31, 2011 are set forth in the table below (amounts in thousands).

Accrued at:	
April 30, 2012	$29,500
October 31, 2011	$29,200

The table below provides, for the periods indicated, a reconciliation of the change in the unrecognized tax benefits (amounts in thousands).

	Six months ended April 30,		Three months ended April 30,	
	2012	2011	2012	2011
Balance, beginning of period	$104,669	$160,446	$101,047	$140,142
Increase in benefit as a result of tax positions taken in prior years	3,000	2,500		1,250
Increase in benefit as a result of tax positions taken in current year				
Decrease in benefit as a result of resolution of uncertain tax positions	(3,723)	(17,954)	(1,223)	
Decrease in benefit as a result of completion of tax audits	(4,122)	(3,600)		
Balance, end of period	$99,824	$141,392	$99,824	$141,392

The Company's unrecognized tax benefits are included in "Income taxes payable" on the Company's condensed consolidated balance sheets. If these unrecognized tax benefits reverse in the future, they would have a beneficial impact on the Company's effective tax rate at that time. During the next twelve months, it is reasonably possible that the amount of unrecognized tax benefits will change. The anticipated changes will be principally due to expiration of tax statutes, settlements with taxing jurisdictions, increases due to new tax positions taken and the accrual of estimated interest and penalties.

The Company is allowed to carry forward tax losses for 20 years and apply such tax losses to future taxable income to realize federal deferred tax assets. As of April 30, 2012, the Company estimates that it will have approximately $81.8 million of tax loss carryforwards, resulting from losses that it expects to recognize on its fiscal 2011 federal tax return. In addition, the Company expects to be able to reverse previously recognized valuation allowances against future tax provisions during any future period for which it reports book income before income taxes. The Company will continue to review its deferred tax assets for recoverability in accordance with ASC 740.

At April 30, 2012 and October 31, 2011, the Company had recorded cumulative valuation allowances against its entire net deferred federal tax asset of $350.0 million and $353.4 million, respectively.

For state tax purposes, due to past and projected losses in certain jurisdictions where the Company does not have carryback potential and/or cannot sufficiently forecast future taxable income, the Company has recognized net cumulative valuation allowances against its state deferred tax assets of $74.0 million as of April 30, 2012. In 2011, the Company took steps to merge a number of entities to better align financial and tax reporting and to reduce administrative complexity going forward. Some of these mergers occurred in higher state tax jurisdictions creating additional state tax deferred assets of $28.9 million, offset entirely by an increase in the state tax valuation allowance. Future valuation allowances in these jurisdictions may continue to be recognized if the Company believes it will not generate sufficient future taxable income to utilize any future state deferred tax assets.

9. Stock-Based Benefit Plans

The Company grants stock options, restricted stock and various types of restricted stock units to its employees and its non-employee directors. Beginning in fiscal 2012, the Company changed the mix of stock-based compensation to its employees by reducing the number of stock options it grants and, in their place, issued non-performance based restricted stock units as a form of compensation. The Company also has an employee stock purchase plan that allows employees to purchase Company stock at a discount. In the six-month and three-month periods ended ended April 30,

2012, the Company issued 1,601,295 and 660,967 shares under its stock-based benefit plans, respectively.

Information regarding the amount of total stock-based compensation expense recognized by the Company, for the periods indicated, is as follows (amounts in thousands):

	2012	2011
Six months ended April 30,	$8,831	$7,717
Three months ended April 30,	$3,205	$2,345

At April 30, 2012 and October 31, 2011, the aggregate unamortized value of outstanding stock-based compensation awards was approximately $20.3 million and $12.7 million, respectively.
Due to the losses recognized by the Company over the past several years and its inability to forecast future pre-tax profits, the Company has not recognized a tax benefit on its stock-based compensation expense in the fiscal 2012 and 2011 periods.
Information about the Company’s more significant stock-based compensation programs is outlined below.
Stock Options:
The fair value of each option award is estimated on the date of grant using a lattice-based option valuation model that uses assumptions noted in the following table. The lattice-based option valuation model incorporates ranges of assumptions for inputs, which are disclosed in the table below. Expected volatilities were based on implied volatilities from traded options on the Company’s stock, historical volatility of the Company’s stock and other factors. The expected lives of options granted were derived from the historical exercise patterns and anticipated future patterns and represent the period of time that options granted are expected to be outstanding; the range given below results from certain groups of employees exhibiting different behaviors. The risk-free rate for periods within the contractual life of the option is based on the U.S. Treasury yield curve in effect at the time of grant.
The weighted-average assumptions and the fair value used for stock option grants in fiscal 2012 and 2011 were as follows:

	2012	2011
Expected volatility	44.20% – 50.24%	45.38% – 49.46%
Weighted-average volatility	46.99%	47.73%
Risk-free interest rate	0.78% – 1.77%	1.64% – 3.09%
Expected life (years)	4.59 – 9.06	4.29 – 8.75
Dividends	none	none
Weighted-average grant date fair value per share of options granted	$8.70	$7.94

Stock compensation expense, related to stock options, for the periods indicated, was as follows (amounts in thousands):

	2012	2011
Six Months Ended April 30,	$4,745	$5,905
Three Months Ended April 30,	$1,225	$1,317

Performance-Based Restricted Stock Units:
In December 2011, the Executive Compensation Committee of the Company’s Board of Directors approved awards of performance-based restricted stock units (“Performance-Based RSUs”) relating to shares of the Company’s common stock to certain of its senior management. The use of Performance-Based RSUs replaced the use of stock price-based restricted stock units awarded in prior years. The Performance-Based RSUs are based on the attainment of certain performance metrics of the Company in fiscal 2012. The number of shares underlying the Performance-Based RSUs that will be issued to the recipients may range from 90% to 110% of the base award depending on actual performance metrics as compared to the target performance metrics. The Performance-Based RSUs vest over a four-year period provided the recipients continue to be employed by the Company or serve on the board of directors of the Company (as applicable) as specified in the award document.
The value of the Performance-Based RSUs was determined to be equal to the estimated number of shares of the Company’s common stock to be issued multiplied by the closing price of the Company’s common stock on the NYSE on the date the Performance-Based RSUs were awarded. The Company evaluates the performance-based metrics quarterly and estimates the number of shares underlying the RSUs that are probable of being issued. Information

regarding the issuance, valuation assumptions and amortization of the Company’s Performance-Based RSUs issued in fiscal 2012 is provided below.

	2012
Estimated number of shares underlying RSUs to be issued	360,000
Closing price of the Company's common stock on date of issuance	$20.50
Estimated aggregate fair value of Performance-Based RSUs issued (in thousands)	$7,371
Performance-Based RSU expense recognized in the six months ended April 30, 2012 (in thousands):	$1,920
Performance-Based RSU expense recognized in the three months ended April 30, 2012 (in thousands):	$984
Unamortized value of Performance-Based RSUs at April 30, 2012 (in thousands):	$5,452

Stock Price-Based Restricted Stock Units:

In each of December 2010, 2009 and 2008, the Executive Compensation Committee of the Company's Board of Directors approved awards to certain of its executives of market performance-based restricted stock units ("Stock Price-Based RSUs") relating to shares of the Company's common stock. The Stock Price-Based RSUs will vest and the recipients will be entitled to receive the underlying shares if the average closing price of the Company's common stock on the New York Stock Exchange ("NYSE"), measured over any 20 consecutive trading days ending on or prior to five years from date of issuance of the Stock Price-Based RSUs increases 30% or more over the closing price of the Company's common stock on the NYSE on the date of issuance ("Target Price"), provided the recipients continue to be employed by the Company or serve on the board of directors of the Company (as applicable) as specified in the award document. The Company determined the aggregate value of the Stock Price-Based RSUs using a lattice-based option pricing model. In the three-month period ended April 30, 2012, the Target Price of the Stock Price-Based RSUs issued in December 2009 was met.

Information regarding the amortization of the Company's Stock Price-Based RSUs, for the periods indicated, is provided below (amounts in thousands).

	2012	2011
Six months ended April 30,	$1,528	$1,735
Three months ended April 30,	$679	$983

Information regarding the aggregate number of outstanding Stock Price-Based RSUs and aggregate unamortized value of the outstanding Stock Price-Based RSUs, as of the date indicated, is provided below.

	April 30, 2012	October 31, 2011
Aggregate outstanding Stock Price-Based RSUs	706,000	706,000
Cumulative unamortized value of Stock Price-Based RSUs (in thousands)	$3,401	$4,929

Non-Performance Based Restricted Stock Units:

In December 2011 and 2010, the Company issued restricted stock units ("RSUs") to various officers and employees. These RSUs generally vest in annual installments over a four-year period. The value of the RSUs was determined to be equal to the number of shares of the Company's common stock to be issued pursuant to the RSUs, multiplied by the closing price of the Company's common stock on the NYSE on the date the RSUs were awarded. Information regarding these RSUs is as follows:

	2012	2011
Number of RSUs issued	107,820	15,497
Closing price of the Company's common stock on date of issuance	$20.50	$19.32
Aggregate fair value of RSUs issued (in thousands)	$2,210	$299

Information regarding the amortization of the Company's RSUs, for the periods indicated, is as follows (amounts in thousands):

	2012	2011
Six months ended April 30,	$625	$66
Three months ended April 30,	$311	$39

Information regarding the aggregate number of outstanding RSUs and aggregate unamortized value of the outstanding RSUs, as of the date indicated, is as follows:

	April 30, 2012	October 31, 2011
Aggregate outstanding RSUs	138,814	30,994
Cumulative unamortized value of RSUs (in thousands)	$2,275	$379

10. Employee Retirement Plans

The Company has two unfunded supplemental retirement plans ("SERPs") for certain officers. The table below provides, for the periods indicated, costs recognized and payments made related to its SERPs (amounts in thousands):

	Six Months Ended April 30,		Three Months Ended April 30,	
	2012	2011	2012	2011
Service cost	$194	$153	$97	$76
Interest cost	606	645	303	323
Amortization of prior service obligation	369	347	184	173
Amortization of unrecognized losses	33		17	
Total costs	$1,202	$1,145	$601	$572
Benefits paid	$225	$62	$110	$29

11. Accumulated Other Comprehensive Loss and Total Comprehensive Income (Loss)

Accumulated other comprehensive loss at April 30, 2012 and 2011 was primarily related to employee retirement plans. The table below provides, for the periods indicated, the components of total comprehensive income (loss) (amounts in thousands):

	Six Months Ended April 30,		Three Months Ended April 30,	
	2012	2011	2012	2011
Net income (loss) as reported	$14,086	$(17,356)	$16,872	$(20,773)
Changes in pension liability	92	347	201	173
Change in fair value of available-for-sale securities	156	(5)	(87)	59
Unrealized (loss) gain on derivative held by equity investee	(728)		67	
Total comprehensive income (loss)	$13,606	$(17,014)	$17,053	$(20,541)

12. Stock Repurchase Program

In March 2003, the Company's Board of Directors authorized the repurchase of up to 20 million shares of its common stock, par value $0.01, from time to time, in open market transactions or otherwise, for the purpose of providing shares for its various employee benefit plans. The table below provides, for the periods indicated, information about the Company's share repurchase program.

	Six months ended April 30,		Three months ended April 30,	
	2012	2011	2012	2011
Number of shares purchased	13,000	19,000	10,000	11,000
Average price per share	$22.51	$20.13	$23.13	$20.83
Remaining authorization at April 30 (in thousands):	8,773	11,811	8,773	11,811

13. Income (Loss) per Share Information

The table below provides, for the periods indicated, information pertaining to the calculation of income (loss) per share, common stock equivalents, weighted average number of anti-dilutive option and shares issued (amounts in thousands).

	Six months ended April 30,		Three months ended April 30,	
	2012	2011	2012	2011
Basic weighted-average shares	166,652	166,794	166,994	166,910
Common stock equivalents (a)	1,169		1,541	
Diluted weighted-average shares	167,821	166,794	168,535	166,910
Common stock equivalents excluded from diluted weighted-average shares due to anti-dilutive effect (a)		1,537		1,630
Weighted average number of anti-dilutive options (b)	5,355	7,446	3,983	6,509
Shares issued under stock incentive and employee stock purchase plans	1,603	513	661	100

(a) Common stock equivalents represent the dilutive effect of outstanding in-the-money stock options and Stock Price -Based RSUs whose Target Price criteria has been met. For the six-month and three-month periods ended April 30, 2011, there were no incremental shares attributed to outstanding options to purchase common stock because the Company had a net loss in the periods and any incremental shares would be anti-dilutive.

(b) Based upon the average closing price of the Company’s common stock on the NYSE for the period.

14. Fair Value Disclosures

The table below provides, as of the date indicated, a summary of assets (liabilities) related to the Company’s financial instruments, measured at fair value on a recurring basis (amounts in thousands).

		Fair value	
Financial Instrument	Fair value hierarchy	April 30, 2012	October 31, 2011
Corporate Securities	Level 1	$130,420	$233,572
Certificates of Deposit	Level 1	$58,000	
Short-Term Tax-Exempt Bond Fund	Level 1	$30,014	
Residential Mortgage Loans Held for Sale	Level 2	$50,527	$63,175
Forward Loan Commitments—Residential Mortgage Loans Held for Sale	Level 2	$(185)	$218
Interest Rate Lock Commitments (“IRLCs”)	Level 2	$246	$(147)
Forward Loan Commitments—IRLCs	Level 2	$(246)	$147

At April 30, 2012 and October 31, 2011, the carrying value of cash and cash equivalents and restricted cash approximated fair value.

At the end of the reporting period, the Company determines the fair value of its mortgage loans held for sale and the forward loan commitments it has entered into as a hedge against the interest rate risk of its mortgage loans using the market approach to determine fair value. The evaluation is based on the current market pricing of mortgage loans with similar terms and values as of the reporting date and by applying such pricing to the mortgage loan portfolio. The Company recognizes the difference between the fair value and the unpaid principal balance of mortgage loans held for sale as a gain or loss. In addition, the Company recognizes the fair value of its forward loan commitments as a gain or loss. These gains and losses are included in other income - net. Interest income on mortgage loans held for sale is calculated based upon the stated interest rate of each loan and is included in other income - net.

The table below provides, as of the date indicated, the aggregate unpaid principal and fair value of mortgage loans held for sale as of the date indicated (amounts in thousands).

Aggregate unpaid	Fair value	Excess

	principal balance		
At April 30, 2012	$49,918	$50,527	$609
At October 31, 2011	$62,765	$63,175	$410

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IRLCs represent individual borrower agreements that commit the Company to lend at a specified price for a specified period as long as there is no violation of any condition established in the commitment contract. These commitments have varying degrees of interest rate risk. The Company utilizes best-efforts forward loan commitments ("Forward Commitments") to hedge the interest rate risk of the IRLCs and residential mortgage loans held for sale. Forward Commitments represent contracts with third-party investors for the future delivery of loans whereby the Company agrees to make delivery at a specified future date at a specified price. The IRLCs and Forward Commitments are considered derivative financial instruments under ASC 815, "Derivatives and Hedging", which requires derivative financial instruments to be recorded at fair value. The Company estimates the fair value of such commitments based on the estimated fair value of the underlying mortgage loan and, in the case of IRLCs, the probability that the mortgage loan will fund within the terms of the IRLC. To manage the risk of non-performance of investors regarding the Forward Commitments, the Company assesses the credit worthiness of the investors on a periodic basis.
The table below provides, as of the date indicated, the amortized cost, gross unrealized holding gains, gross unrealized holding losses and fair value of marketable securities (amounts in thousands).

	April 30, 2012	October 31, 2011
Amortized cost	$218,558	$233,852
Gross unrealized holding gains	14	28
Gross unrealized holding losses	(138)	(308)
Fair value	$218,434	$233,572

The remaining contractual maturities of marketable securities as of April 30, 2012 ranged from 2 months to 15 months.
The Company recognizes inventory impairment charges based on the difference in the carrying value of the inventory and its fair value at the time of the evaluation. The fair value of the aforementioned inventory was determined using Level 3 criteria. See Note 1, "Significant Accounting Policies, Inventory" for additional information regarding the Company's methodology on determining fair value. As further discussed in Note 1, determining the fair value of a community's inventory involves a number of variables, many of which are interrelated. If the Company used a different input for any of the various unobservable inputs used in its impairment analysis, the results of the analysis may have been different, absent any other changes. The table below summarizes, for the periods indicated, the ranges of certain quantitative unobservable inputs utilized in determining the fair value of impaired communities.

	Selling price (in thousands)	Sales pace per year (in units)	Discount rate
Three months ended April 30, 2012	$413 - $472	6 - 17	17.5%
Three months ended January 31, 2012	$344 - $2,287	1 - 25	13.0% - 18.8%

The table below provides, for the periods indicated, the fair value of inventory whose carrying value was adjusted and the amount of impairment charges recognized (amounts in thousands).

	Fair value of inventory, net of impairment	Impairment charges recognized
Three months ended:		
Fiscal 2012		
January 31	$49,758	$6,425
April 30	$22,962	2,560
		$8,985
Fiscal 2011		
January 31	$56,105	$5,475
April 30	$40,765	10,725

$16,200

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Gibraltar's portfolio of non-performing loans was recorded at fair value at inception based on the acquisition price as determined by Level 3 inputs. The estimated fair value was determined using Level 3 inputs and was based on the estimated discounted future cash flows to be generated by the loans discounted at the rates used to value the portfolios at the acquisition dates. The table below provides, as of the date indicated, the carrying amount and estimated fair value of the non-performing loan portfolios (amounts in thousands).

	April 30, 2012	October 31, 2011
Carrying amount	$77,762	$63,234
Estimated fair value	$78,371	$64,539

The table below provides, as of the date indicated, the book value and estimated fair value of the Company's debt (amounts in thousands).

		April 30, 2012		October 31, 2011	
	Fair value hierarchy	Book value	Estimated fair value	Book value	Estimated fair value
Loans payable (a)	Level 2	$103,880	$99,460	$106,556	$98,950
Senior notes (b)	Level 1	1,801,688	1,956,747	1,499,371	1,614,010
Mortgage company warehouse loan (c)	Level 2	45,397	45,397	57,409	57,409
		$1,950,965	$2,101,604	$1,663,336	$1,770,369

(a) The estimated fair value of loans payable was based upon their indicated market prices or the interest rates that the Company believed were available to it for loans with similar terms and remaining maturities as of the applicable valuation date.

(b) The estimated fair value of the Company's senior notes is based upon their indicated market prices.

(c) The Company believes that the carrying value of its mortgage company loan borrowings approximates their fair value.

15. Other Income - Net

Other income - net includes the activity of the Company's non-core ancillary businesses which include its mortgage, title, landscaping, security monitoring, golf course and country club operations and Gibraltar. The table below provides, for the periods indicated, revenues and expenses for the Company's non-core ancillary businesses (amounts in thousands).

	Six Months Ended April 30,		Three Months Ended April 30,	
	2012	2011	2012	2011
Revenue	$39,599	$27,542	$22,288	$13,770
Expense	$31,006	$27,503	$16,917	$14,288

16. Commitments and Contingencies

Legal Proceedings

The Company is involved in various claims and litigation arising principally in the ordinary course of business. The Company believes that adequate provision for resolution of all current claims and pending litigation has been made for probable losses and the disposition of these matters will not have a material adverse effect on the Company's results of operations and liquidity or on its financial condition.

Land Purchase Commitments

Generally, the Company's option and purchase agreements to acquire land parcels do not require the Company to purchase those land parcels, although the Company may, in some cases, forfeit any deposit balance outstanding if and when it terminates an option and purchase agreement. If market conditions are weak, approvals needed to develop the land are uncertain or other factors exist that make the purchase undesirable, the Company may not expect to acquire the land. Whether an option and purchase agreement is legally terminated or not, the Company reviews the amount recorded for the land parcel subject to the option and purchase agreement to determine if the amount is recoverable. While the Company may not formally terminate the option and purchase agreements for those land parcels that it does not expect to acquire, it writes off any non-refundable deposits and costs previously capitalized to such land parcels in

the periods that it determines such costs are not recoverable.

Information regarding the Company's purchase commitments, as of the date indicated, is provided in the table below (amounts in thousands).

	April 30, 2012	October 31, 2011
Aggregate purchase commitments:		
Unrelated parties	$516,807	$551,905
Unconsolidated entities that the Company has investments in	7,862	12,471
Total	$524,669	$564,376
Deposits against aggregate purchase commitments	$29,651	$37,987
Additional cash required to acquire land	495,018	526,389
Total	$524,669	$564,376

The Company has additional land parcels under option that have been excluded from the aforementioned aggregate purchase amounts since it does not believe that it will complete the purchase of these land parcels and no additional funds will be required from the Company to terminate these contracts.

Investments in and Advances to Unconsolidated Entities

See Note 4, "Investments in and Advances to Unconsolidated Entities," for more information regarding the Company's commitments to these entities.

Surety Bonds and Letters of Credit

At April 30, 2012, the Company had outstanding surety bonds amounting to $368.7 million, primarily related to its obligations to various governmental entities to construct improvements in the Company's various communities. The Company estimates that $220.5 million of work remains on these improvements. The Company has an additional $60.1 million of surety bonds outstanding that guarantee other obligations of the Company. The Company does not believe it is probable that any outstanding bonds will be drawn upon.

At April 30, 2012, the Company had outstanding letters of credit of $78.7 million, including $65.7 million under its credit facility and $13.0 million collateralized by restricted cash. These letters of credit were issued to secure various financial obligations of the Company including insurance policy deductibles and other claims, land deposits and security to complete improvements in communities which it is operating. The Company believes it is not probable that any outstanding letters of credit will be drawn upon.

Backlog

At April 30, 2012, the Company had agreements of sale outstanding to deliver 2,403 homes with an aggregate sales value of $1.5 billion.

Mortgage Commitments

The Company's mortgage subsidiary provides mortgage financing for a portion of the Company's home closings. For those home buyers to whom the Company's mortgage subsidiary provides mortgages, it determines whether the home buyer qualifies for the mortgage he or she is seeking based upon information provided by the home buyer and other sources. For those home buyers that qualify, the Company's mortgage subsidiary provides the home buyer with a mortgage commitment that specifies the terms and conditions of a proposed mortgage loan based upon then-current market conditions. Prior to the actual closing of the home and funding of the mortgage, the home buyer will lock in an interest rate based upon the terms of the commitment. At the time of rate lock, the Company's mortgage subsidiary agrees to sell the proposed mortgage loan to one of several outside recognized mortgage financing institutions ("investors"), which is willing to honor the terms and conditions, including interest rate, committed to the home buyer. The Company believes that these investors have adequate financial resources to honor their commitments to its mortgage subsidiary.

Information regarding the Company's mortgage commitments, as of the date indicated, is provided in the table below (amounts in thousands).

	April 30, 2012	October 31, 2011
Aggregate mortgage loan commitments:		
IRLCs	$103,779	$129,553
Non-IRLCs	449,989	306,722
Total	$553,768	$436,275
Investor commitments to purchase:		
IRLCs	$103,779	$129,553
Mortgage loans receivable	46,915	60,680
Total	$150,694	$190,233

17. Geographic Segments

Revenue and income (loss) before income taxes for each of the Company's geographic segments, for the periods indicated, were as follows (amounts in thousands):

	Six Months Ended April 30,		Three Months Ended April 30,	
	2012	2011	2012	2011
Revenue:				
North	$186,733	$167,120	$111,153	$84,623
Mid-Atlantic	204,405	203,392	103,606	99,578
South	158,834	128,359	82,368	66,454
West	145,664	154,920	76,554	69,020
Total	$695,636	$653,791	$373,681	$319,675
Income (loss) before income taxes:				
North	$17,731	$14,467	$16,684	$7,398
Mid-Atlantic	18,804	15,099	7,729	6,414
South	4,046	(13,615)	6,271	(12,271)
West	9,043	(27,140)	3,574	(11,897)
Corporate and other	(40,383)	(37,342)	(18,609)	(21,128)
Total	$9,241	$(48,531)	$15,649	$(31,484)

"Corporate and other" is comprised principally of general corporate expenses such as the offices of the Executive Officers of the Company, and the corporate finance, accounting, audit, tax, human resources, risk management, marketing and legal groups, directly expensed interest, interest income and income from the Company's ancillary businesses and income (loss) from a number of its unconsolidated entities.

Total assets for each of the Company's geographic segments, as of the date indicated, are shown in the table below (amounts in thousands).

	April 30, 2012	October 31, 2011
North	$1,232,656	$1,060,215
Mid-Atlantic	1,258,758	1,160,926
South	776,620	760,097
West	803,832	650,844
Corporate and other	1,293,219	1,423,164
Total	$5,365,085	$5,055,246

Corporate and other is comprised principally of cash and cash equivalents, marketable securities, restricted cash, the assets of the Company's manufacturing facilities and mortgage subsidiary, and its Gibraltar investments.

Inventory impairment charges and the expensing of costs that the Company believed not to be recoverable, write-downs of its investments in unconsolidated entities (including its pro-rata share of impairment charges recognized by the unconsolidated entities in which it has an investment) and recoveries of prior charges for the periods indicated, are shown in the table below; the net carrying value of inventory and investments in and advances to unconsolidated entities for each of the Company's geographic segments, as of the dates indicated, are also shown in the table below (amounts in thousands).

	Net Carrying Value					
	At April 30,	At October 31,	Six months ended April 30,		Three months ended April 30,	
	2012	2011	2012	2011	2012	2011
Inventory:						
Land controlled for future communities:						
North	$8,445	$19,390	$(996)	$399	$(1,020)	$241
Mid-Atlantic	24,361	21,592	680	85	482	19
South	1,546	3,812	569	312	13	6
West	7,090	1,787	(28)	1,052	(27)	1,931
	41,442	46,581	225	1,848	(552)	2,197
Land owned for future communities:						
North	281,551	231,085				
Mid-Atlantic	429,116	455,818				
South	130,809	125,461	918			
West	204,764	166,781				
	1,046,240	979,145	918	—	—	—
Operating communities:						
North	784,121	738,473	2,725	2,725	460	1,450
Mid-Atlantic	753,780	659,081	2,100	3,700	2,100	3,700
South	585,456	539,582	4,160	3,800		3,800
West	556,838	453,861		5,975		1,775
	2,680,195	2,390,997	8,985	16,200	2,560	10,725
Total	$3,767,877	$3,416,723	$10,128	$18,048	$2,008	$12,922
Investments in and advances to unconsolidated entities:						
North	$121,490	$40,734				
South	30,393	32,000		$10,000		$10,000
West	8,538	17,098	$(1,621)	29,600	$(1,621)	9,600
Corporate	39,871	36,523				
Total	$200,292	$126,355	$(1,621)	$39,600	$(1,621)	$19,600

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18. Supplemental Disclosure to Statements of Cash Flows

The following are supplemental disclosures to the statements of cash flows for the six months ended April 30, 2012 and 2011 (amounts in thousands):

	2012	2011
Cash flow information:		
Interest paid, net of amount capitalized	$1,771	$8,150
Income tax payment	$2,234	
Income tax refunds		$154,524
Non-cash activity:		
Cost of inventory acquired through seller financing or municipal bonds, net	$15,424	$24,583
Increase in SERP benefits	$310	
Miscellaneous (decreases) increases to inventory	$(75)	$2,025
Reclassification of inventory to property, construction and office equipment		$20,005
Reduction of investments in unconsolidated entities due to increase/reduction in letters of credit or accrued liabilities	$484	$9,506
Transfer of inventory to investment in non-performing loan portfolios and foreclosed real estate	$802	
Transfer of inventory to investment in unconsolidated entities	$5,793	
Reclassification of deferred income from investment in unconsolidated entities to accrued liabilities	$2,943	
Unrealized loss on derivative held by equity investee	$728	
Miscellaneous decreases to investments in unconsolidated entities	$(130)	$(1,433)
Acquisition of a Business:		
Fair value of assets purchased	$149,959	
Liabilities assumed	$5,213	
Cash paid	$144,746	

19. Supplemental Guarantor Information

A 100% owned subsidiary of the Company, Toll Brothers Finance Corp. (the “Subsidiary Issuer”), has issued the following Senior Notes (amounts in thousand):

	Original Amount Issued	Amount outstanding at April 30, 2012
6.875% Senior Notes due 2012	300,000	59,067
5.95% Senior Notes due 2013	250,000	104,785
4.95% Senior Notes due 2014	300,000	267,960
5.15% Senior Notes due 2015	300,000	300,000
8.91% Senior Notes due 2017	400,000	400,000
6.75% Senior Notes due 2019	250,000	250,000
5.875% Senior Notes due 2022	419,876	419,876

The obligations of the Subsidiary Issuer to pay principal, premiums, if any, and interest is guaranteed jointly and severally on a senior basis by the Company and substantially all of the Company’s 100% owned home building subsidiaries (the “Guarantor Subsidiaries”). The guarantees are full and unconditional. The Company’s non-home building subsidiaries and several of its home building subsidiaries (the “Non-Guarantor Subsidiaries”) do not guarantee the debt. Separate financial statements and other disclosures concerning the Guarantor Subsidiaries are not presented because management has determined that such disclosures would not be material to investors. Prior to the above described senior debt issuances, the Subsidiary Issuer did not have any operations.

Supplemental consolidating financial information of Toll Brothers, Inc., the Subsidiary Issuer, the Guarantor Subsidiaries, the Non-Guarantor Subsidiaries and the eliminations to arrive at Toll Brothers, Inc. on a consolidated basis is presented below ($ amounts in thousands).

Condensed Consolidating Balance Sheet at April 30, 2012:

	Toll Brothers, Inc.	Subsidiary Issuer	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Consolidated
ASSETS						
Cash and cash equivalents	—	—	638,518	70,520	—	709,038
Marketable securities			158,420	60,014		218,434
Restricted cash	28,234		17,951	1,213		47,398
Inventory			3,516,493	251,384		3,767,877
Property, construction and office equipment, net			97,575	3,149		100,724
Receivables, prepaid expenses and other assets	146	10,354	111,970	24,968	(3,581)	143,857
Mortgage loans held for sale				50,527		50,527
Customer deposits held in escrow			29,273	1,795		31,068
Investments in and advances to unconsolidated entities			80,384	119,908		200,292
Investments in non-performing loan portfolios and foreclosed real estate				95,870		95,870
Investments in and advances to consolidated entities	2,698,419	1,809,042	(1,180,603)	(287,821)	(3,039,037)	—
	2,726,799	1,819,396	3,469,981	391,527	(3,042,618)	5,365,085
LIABILITIES AND EQUITY						
Liabilities:						
Loans payable			72,875	31,005		103,880
Senior notes		1,791,942				1,791,942
Mortgage company warehouse loan				45,397		45,397
Customer deposits			124,415	4,506		128,921
Accounts payable			106,509	238		106,747
Accrued expenses	63	27,454	310,077	123,305	(3,625)	457,274
Income taxes payable	101,107			(2,000)		99,107
Total liabilities	101,170	1,819,396	613,876	202,451	(3,625)	2,733,268
Equity:						
Stockholders' equity:						
Common stock	1,687		3,054	2,003	(5,057)	1,687
Additional paid-in capital	399,382		1,366	2,734	(4,100)	399,382
Retained earnings	2,248,337		2,855,029	178,189	(3,033,218)	2,248,337
Treasury stock, at cost	(20,395)					(20,395)
Accumulated other comprehensive loss	(3,382)		(3,344)	(38)	3,382	(3,382)
Total stockholders' equity	2,625,629	—	2,856,105	182,888	(3,038,993)	2,625,629
Noncontrolling interest				6,188		6,188
Total equity	2,625,629	—	2,856,105	189,076	(3,038,993)	2,631,817
	2,726,799	1,819,396	3,469,981	391,527	(3,042,618)	5,365,085

Condensed Consolidating Balance Sheet at October 31, 2011:

	Toll Brothers, Inc.	Subsidiary Issuer	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Consolidated
ASSETS						
Cash and cash equivalents			775,300	131,040		906,340
Marketable securities			233,572			233,572
Restricted cash			19,084	676		19,760
Inventory			2,911,211	505,512		3,416,723
Property, construction and office equipment, net			77,001	22,711		99,712
Receivables, prepaid expenses and other assets		6,768	74,980	26,067	(2,239)	105,576
Mortgage loans held for sale				63,175		63,175
Customer deposits held in escrow			10,682	4,177		14,859
Investments in and advances to unconsolidated entities			86,481	39,874		126,355
Investments in non-performing loan portfolios and foreclosed real estate				69,174		69,174
Investments in and advances to consolidated entities	2,694,419	1,508,550	(727,258)	(477,322)	(2,998,389)	—
	2,694,419	1,515,318	3,461,053	385,084	(3,000,628)	5,055,246
LIABILITIES AND EQUITY						
Liabilities:						
Loans payable			61,994	44,562		106,556
Senior notes		1,490,972				1,490,972
Mortgage company warehouse loan				57,409		57,409
Customer deposits			71,388	12,436		83,824
Accounts payable			96,645	172		96,817
Accrued expenses		24,346	320,021	178,965	(2,281)	521,051
Income taxes payable	108,066			(2,000)		106,066
Total liabilities	108,066	1,515,318	550,048	291,544	(2,281)	2,462,695
Equity:						
Stockholders’ equity:						
Common stock	1,687		3,054	2,003	(5,057)	1,687
Additional paid-in capital	400,382		1,366	2,734	(4,100)	400,382
Retained earnings	2,234,251		2,909,487	82,605	(2,992,092)	2,234,251
Treasury stock, at cost	(47,065)					(47,065)
Accumulated other comprehensive loss	(2,902)		(2,902)		2,902	(2,902)
Total stockholders’ equity	2,586,353	—	2,911,005	87,342	(2,998,347)	2,586,353
Noncontrolling interest				6,198		6,198
Total equity	2,586,353	—	2,911,005	93,540	(2,998,347)	2,592,551
	2,694,419	1,515,318	3,461,053	385,084	(3,000,628)	5,055,246

Condensed Consolidating Statement of Operations for the six months ended April 30, 2012 ($ in thousands):

	Toll Brothers, Inc.	Subsidiary Issuer	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Consolidated
Revenues			711,351	25,622	(41,337)	695,636
Cost of revenues			581,320	1,285	(4,176)	578,429
Selling, general and administrative	27	1,782	148,768	19,634	(32,318)	137,893
Interest expense		56,109			(56,109)	—
	27	57,891	730,088	20,919	(92,603)	716,322
Loss from operations	(27)	(57,891)	(18,737)	4,703	51,266	(20,686)
Other						
(Loss) income from unconsolidated entities			9,186	4,490		13,676
Other income - net	20	57,891	18,799	2,026	(62,485)	16,251
Loss from subsidiaries	9,248				(9,248)	—
Loss before income tax benefit	9,241	—	9,248	11,219	(20,467)	9,241
Income tax benefit	(4,845)		(4,849)	(5,883)	10,732	(4,845)
Net income	14,086	—	14,097	17,102	(31,199)	14,086

Condensed Consolidating Statement of Operations for the three months ended April 30, 2012 ($ in thousands):

	Toll Brothers, Inc.	Subsidiary Issuer	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Consolidated
Revenues			383,659	13,236	(23,214)	373,681
Cost of revenues			308,436	611	(2,226)	306,821
Selling, general and administrative	14	1,304	75,481	10,115	(18,658)	68,256
Interest expense		30,823			(30,823)	—
	14	32,127	383,917	10,726	(51,707)	375,077
Loss from operations	(14)	(32,127)	(258)	2,510	28,493	(1,396)
Other						
Income from unconsolidated entities			3,957	3,032		6,989
Other income - net	13	32,127	11,949	1,793	(35,826)	10,056
Income from subsidiaries	15,650				(15,650)	—
Income before income tax benefit	15,649	—	15,648	7,335	(22,983)	15,649
Income tax benefit	(1,223)		(1,231)	(8,078)	9,309	(1,223)
Net income	16,872	—	16,879	15,413	(32,292)	16,872

Condensed Consolidating Statement of Operations for the six months ended April 30, 2011 ($ in thousands):

	Toll Brothers, Inc.	Subsidiary Issuer	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Consolidated
Revenues			637,407	47,422	(31,038)	653,791
Cost of revenues			536,628	27,505	(5,814)	558,319
Selling, general and administrative	53	670	132,972	18,693	(24,087)	128,301
Interest expense		52,483	1,504		(52,483)	1,504
	53	53,153	671,104	46,198	(82,384)	688,124
Loss from operations	(53)	(53,153)	(33,697)	1,224	51,346	(34,333)
Other						
Income from unconsolidated entities			3,705	(26,050)		(22,345)
Other income - net		53,153	(18,486)	(1,450)	(25,070)	8,147
Loss from subsidiaries	(48,478)				48,478	—
Loss before income tax benefit	(48,531)	—	(48,478)	(26,276)	74,754	(48,531)
Income tax benefit	(31,175)		(31,784)	(16,866)	48,650	(31,175)
Net (loss) income	(17,356)	—	(16,694)	(9,410)	26,104	(17,356)

Condensed Consolidating Statement of Operations for the three months ended April 30, 2011 ($ in thousands):

	Toll Brothers, Inc.	Subsidiary Issuer	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Consolidated
Revenues			312,352	22,272	(14,949)	319,675
Cost of revenues			265,713	13,198	(2,557)	276,354
Selling, general and administrative	25	329	68,960	10,189	(12,453)	67,050
Interest expense		26,638	392		(26,638)	392
	25	26,967	335,065	23,387	(41,648)	343,796
Loss from operations	(25)	(26,967)	(22,713)	(1,115)	26,699	(24,121)
Other						
Income from unconsolidated entities			(2,816)	(8,527)		(11,343)
Other income - net		26,967	(5,930)	88	(17,145)	3,980
Income from subsidiaries	(31,459)				31,459	—
Income (loss) before income tax benefit	(31,484)	—	(31,459)	(9,554)	41,013	(31,484)
Income tax benefit	(10,711)		(9,425)	3,194	6,231	(10,711)
Net income	(20,773)	—	(22,034)	(12,748)	34,782	(20,773)

Condensed Consolidating Statement of Cash Flows for the six months ended April 30, 2012 ($ in thousands):

	Toll Brothers, Inc.	Subsidiary Issuer	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Consolidated
Cash flow from operating activities:						
Net income	14,086	—	14,097	17,102	(31,199)	14,086
Adjustments to reconcile net income to net cash provided by (used in) operating activities:						
Depreciation and amortization	8	1,739	8,883	68		10,698
Stock-based compensation	8,831					8,831
Recovery of investments in unconsolidated entities				(1,621)		(1,621)
Income from unconsolidated entities			(11,687)	(368)		(12,055)
Distributions of earnings from unconsolidated entities			1,550			1,550
Income from non-performing loan portfolios and foreclosed real estate				(10,004)		(10,004)
Deferred tax benefit	(3,318)					(3,318)
Deferred tax valuation allowance	3,318					3,318
Inventory impairments and write-offs			10,128			10,128
Change in fair value of mortgage loans receivable and derivative instruments				284		284
Gain on marketable securities			(39)			(39)
Changes in operating assets and liabilities						
Increase in inventory			(106,801)	(95,665)		(202,466)
Origination of mortgage loans				(253,866)		(253,866)
Sale of mortgage loans				266,713		266,713
Decrease (increase) in restricted cash	(28,234)		1,133	(537)		(27,638)
Decrease (increase) in receivables, prepaid expenses and other assets	(4,727)	(301,074)	(4,979)	247,131	32,099	(31,550)
Increase in customer deposits			34,386	(5,548)		28,838
(Decrease) increase in accounts payable and accrued expenses	90	3,108	(8,109)	(61,978)	(900)	(67,789)
Decrease in income taxes payable	(6,959)					(6,959)
Net cash (used in) provided by operating activities	(16,905)	(296,227)	(61,438)	101,711	—	(272,859)
Cash flow from investing activities:						
Purchase of property and equipment			(3,826)	(921)		(4,747)
Purchase of marketable securities			(117,781)	(60,052)		(177,833)
Sale and redemption of marketable securities			189,716			189,716
Investments in and advances to unconsolidated entities			(1,142)	(73,866)		(75,008)
Return of investments from unconsolidated entities			19,509	1,059		20,568
Investment in non-performing loan portfolios and foreclosed real estate				(27,490)		(27,490)
				11,582		11,582

Return of investments in non-performing loan portfolios and foreclosed real estate						
Acquisition of a business			(144,746)			(144,746)
Net cash used in investing activities	—	—	(58,270)	(149,688)	—	(207,958)
Cash flow from financing activities:						
Net Proceeds from issuance of senior notes		296,227				296,227
Proceeds from loans payable				400,092		400,092
Principal payments of loans payable			(17,074)	(412,635)		(429,709)
Proceeds from stock-based benefit plans	17,189					17,189
Purchase of treasury stock	(284)					(284)
Net cash (used in) provided by financing activities	16,905	296,227	(17,074)	(12,543)	—	283,515
Net (decrease) increase in cash and cash equivalents	—	—	(136,782)	(60,520)	—	(197,302)
Cash and cash equivalents, beginning of period			775,300	131,040		906,340
Cash and cash equivalents, end of period						