TOLL BROTHERS INC
Form 10-K
December 23, 2014

UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 10-K

x ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended October 31, 2014
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	23-2416878
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
250 Gibraltar Road, Horsham, Pennsylvania	19044
(Address of principal executive offices)	(Zip Code)

Registrant's telephone number, including area code
(215) 938-8000
Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Name of each exchange on which registered
Common Stock (par value $.01)*	New York Stock Exchange
Guarantee of Toll Brothers Finance Corp. 5.15% Senior Notes due 2015	New York Stock Exchange

* Includes associated Right to Purchase Series A Junior Participating Preferred Stock

Securities registered pursuant to Section 12(g) of the Act: None

Indicate by check mark if the Registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.Yes x No o
Indicate by check mark if the Registrant is not required to file reports pursuant to Section 13 or 15(d) of the Securities Act.
Yes o No x
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 x 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 x No o
Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§229.405 of this chapter) is not contained herein, and will not be contained, to the best of Registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. 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 the definitions of “large accelerated filer, “accelerated filer” and “smaller reporting company” in Rule 12b-2 of the Exchange Act. (Check one):

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

Indicate by check mark whether the Registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes o No x

As of April 30, 2014, the aggregate market value of the Common Stock held by non-affiliates (all persons other than executive officers and directors of Registrant) of the Registrant was approximately $5,562,615,000.

As of December 19, 2014, there were approximately 175,440,000 shares of Common Stock outstanding.

Documents Incorporated by Reference: Portions of the proxy statement of Toll Brothers, Inc. with respect to the 2015 Annual Meeting of Stockholders, scheduled to be held on March 10, 2015, are incorporated by reference into Part III of this report.

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EX-101 DEFINITION LINKBASE DOCUMENT

PART I

ITEM 1. BUSINESS

General

Toll Brothers, Inc., a corporation incorporated in Delaware in May 1986, began doing business through predecessor entities in 1967. 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 2015,” “fiscal 2014,” “fiscal 2013,” “fiscal 2012,” “fiscal 2011,” “fiscal 2010,” “fiscal 2009,” and “fiscal 2008” refer to our fiscal years ending or ended October 31, 2015 October 31, 2014; October 31, 2013; October 31, 2012; October 31, 2011; October 31, 2010; October 31, 2009; and October 31, 2008, respectively.

We design, build, market, and arrange financing for detached and attached homes in luxury residential communities. We cater to move-up, empty-nester, active-adult, age-qualified, and second-home buyers in the United States (“Traditional Home Building Product”). We also build and sell homes in urban infill markets through Toll Brothers City Living® (“City Living”). At October 31, 2014, we were operating in 19 states. In the five years ended October 31, 2014, we delivered 18,120 homes from 554 communities, including 5,397 homes from 347 communities in fiscal 2014.

We are developing several master planned communities in which we intend to build homes on a portion of the lots and sell the remaining lots to other builders. Two of these master planned communities are being developed 100% by us, and the remaining communities are being developed through joint ventures with other builders or financial partners.

Over the past several years, we have acquired control of a number of land parcels as for-rent apartment projects, including two student housing sites, totaling approximately 4,850 units. These projects, which are located in the metro Boston to metro Washington, D.C. corridor, are being developed or will be developed with partners and marketed under our Toll Brothers Apartment Living and Toll Brothers Campus Living brand names. Through Toll Brothers Realty Trust, we also have interests in approximately 1,450 operating apartment units in the Washington, D.C. area and in Princeton Junction, New Jersey.

In February 2014, we acquired the home building business of Shapell Industries, Inc., a Delaware corporation (“Shapell”), for $1.49 billion in cash, net of cash acquired. Prior to the acquisition, Shapell designed, constructed, and marketed single-family detached and attached homes and developed land in master planned communities and neighborhoods throughout coastal Northern and Southern California. See “Acquisition” below for more information.

In fiscal 2010, we formed Gibraltar Capital and Asset Management, LLC (“Gibraltar”) to invest in distressed real estate opportunities. Gibraltar focuses primarily on residential loans and properties, from unimproved ground to partially and fully improved developments, as well as commercial opportunities.

We operate our own land development, architectural, engineering, mortgage, title, landscaping, security monitoring, lumber distribution, house component assembly, and manufacturing operations. We also develop, own, and operate golf courses and country clubs, which generally are associated with several of our master planned communities.

We also operate through a number of joint ventures. These joint ventures (i) develop land for the joint venture participants and for sale to outside builders (“Land Development Joint Ventures”); (ii) develop for-sale homes (“Home Building Joint Ventures”); (iii) develop luxury for-rent residential apartments, commercial space and a hotel (“Rental Property Joint Ventures”); (iv) invest in commercial real estate opportunities; and (v) invest in a portfolio of distressed loans and real estate (“Structured Asset Joint Venture”). We earn construction and management fee income from many of these joint ventures.

Our communities are generally located on land we have either acquired and developed or acquired fully approved and, in some cases, improved. At October 31, 2014, we were operating in the following major suburban and urban residential markets:

- Philadelphia, Pennsylvania, metropolitan area
- Lehigh Valley area of Pennsylvania
- Central and northern New Jersey
- Virginia and Maryland suburbs of Washington, D.C.
- District of Columbia
- Boston, Massachusetts, metropolitan area
- Fairfield, Hartford, and New Haven Counties, Connecticut

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- Westchester, Dutchess, and Ulster Counties, New York
- Boroughs of Manhattan and Brooklyn in New York City
- Los Angeles, California, metropolitan area
- San Francisco Bay, Sacramento, and San Jose areas of northern California
- San Diego and Palm Springs, California, areas
- Phoenix, Arizona, metropolitan area
- Raleigh and Charlotte, North Carolina, metropolitan areas
- Dallas, San Antonio, Houston, and Austin, Texas, metropolitan areas
- Southeast and southwest coasts and the Jacksonville and Orlando areas of Florida
- Las Vegas and Reno, Nevada, metropolitan areas
- Detroit, Michigan, metropolitan area
- Chicago, Illinois, metropolitan area
- Denver, Colorado, metropolitan area and Fort Collins, Colorado
- Minneapolis/St. Paul, Minnesota, metropolitan area, and
- Seattle, Washington, metropolitan area

In recognition of our achievements, we have received numerous awards from national, state, and local home builder publications and associations. In 2014, we were named Builder of the Year by Builder Magazine and in 2012, we were named Builder of the Year by Professional Builder magazine.

We believe that, in fiscal 2012, the housing market began to recover from the significant slowdown that started in the fourth quarter of our fiscal year ended October 31, 2005. During fiscal 2012 and the first nine months of fiscal 2013, we saw a strong recovery in the number and value of new sales contracts signed. The number of net contracts signed in fiscal 2012 and 2013, as compared to fiscal 2011, increased approximately 50% and 90%, respectively, and the value of net contracts signed over the same period increased 59% and 126%, respectively. Although the number and value of fiscal 2012 and 2013 net contracts signed increased over fiscal 2011, they were still significantly below what we recorded in fiscal 2005.

In fiscal 2014, we signed 5,271 contracts with an aggregate value of $3.90 billion, compared to 5,294 contracts with an aggregate value of $3.63 billion in fiscal 2013. Beginning in the fourth quarter of fiscal 2013, we experienced a leveling in demand that continued through the second quarter of fiscal 2014, and was followed by a decline in demand in the third quarter of fiscal 2014. More recently we have seen a strengthening in customer demand. In fiscal 2014's fourth-quarter, net signed contracts of $970.8 million and 1,282 units increased 16% in dollars and 10% in units, compared to fiscal 2013's fourth-quarter net signed contracts of $839.0 million and 1,163 units. The strength in demand that we saw in the fourth quarter of fiscal 2014 has continued into the first quarter of fiscal 2015. We are optimistic that the recent strengthening in customer demand will continue for the foreseeable future, with customer demand ultimately growing at more normalized levels. We believe that, as the national unemployment rate continues to decline and consumer confidence improves, pent-up demand for homes will begin to be released.

For information and analysis of recent trends in our operations and financial condition, see "Management's Discussion and Analysis of Financial Condition and Results of Operations" in Item 7 of this Annual Report on Form 10-K ("Form 10-K"), and for financial information about our results of operations, assets, liabilities, stockholders' equity, and cash flows, see the accompanying Consolidated Financial Statements and Notes thereto in Item 15(a)1 of this Form 10-K.

At October 31, 2014, we had 556 communities containing approximately 47,167 home sites that we owned or controlled through options. Of the 47,167 home sites, approximately 14,947 were substantially improved. Of the 556 communities, 307 were residential communities under development ("operating communities") containing 21,359 home sites and 249 were future communities, containing 25,808 home sites. Of our 307 operating communities at October 31, 2014, a total of 263 communities were offering homes for sale; 30 communities were sold out but not all homes had been completed and delivered; 6 communities had backlog to deliver but had been temporarily shut down and are expected to reopen in fiscal 2015; and 8 communities were preparing to reopen. Of the 21,359 home sites in operating communities, 17,680 were available for sale and 3,679 were under agreement of sale but not yet delivered ("backlog"). We expect to be selling from 270 to 310 communities by

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October 31, 2015. Of the approximately 47,167 total home sites that we owned or controlled through options at October 31, 2014, we owned approximately 36,224 home sites and controlled approximately 10,943 home sites through options. Included in the 249 future communities are 20 communities containing 2,506 home sites that had previously been open but were shut down due to the slowdown in the housing market.

At October 31, 2014, we were offering homes in 263 communities at prices, for our Traditional Home Building Product, excluding customized options, lot premiums, and sales incentives, generally ranging from approximately $200,000 to $2,000,000 with some homes offered at prices substantially higher than $2,000,000. During fiscal 2014, we delivered 5,397 homes at an average base price of approximately $625,000. On average, our home buyers added approximately 19.9%, or $124,000 per home, in customized options and lot premiums to the base price of homes we delivered in fiscal 2014, as compared to 20.7% or $115,000 per home in fiscal 2013 and 18.6% or $96,000 in fiscal 2012.

We had a backlog of $2.72 billion (3,679 homes) at October 31, 2014; $2.63 billion (3,679 homes) at October 31, 2013; and$1.67 billion (2,569 homes) at October 31, 2012. Of the 3,679 homes in backlog at October 31, 2014, approximately 98% are scheduled to be delivered by October 31, 2015.

Our business is subject to many risks associated with obtaining the necessary approvals on a property and completing the land improvements on it. We attempt, where possible, to reduce certain risks by controlling land for future development through options (also referred to herein as “land purchase contracts” or “option and purchase agreements”). These options enable us to obtain the necessary governmental approvals before we acquire title to the land. We also reduce certain risks by generally commencing construction of a detached home only after executing an agreement of sale and receiving a substantial down payment from the buyer, and by using subcontractors to perform home construction and land development work on a fixed-price basis.

Investments in Unconsolidated Entities

We have investments in and advances to various unconsolidated entities. These entities include land development joint ventures, home building joint ventures, rental property joint ventures, Toll Brothers Realty Trust (“Trust”) and Toll Brothers Realty Trust II (“Trust II”), and a structured asset joint venture. At October 31, 2014, we had investments in and advances to these unconsolidated entities of $447.1 million and were committed to invest or advance up to an additional $84.5 million to these entities if they require additional funding.

In fiscal 2014, 2013, and 2012, we recognized income from the unconsolidated entities in which we had an investment of $41.1 million, $14.4 million, and $23.6 million, respectively. In addition we earned construction and management fee income from these unconsolidated entities of $7.3 million in fiscal 2014, $2.9 million in fiscal 2013, and $2.2 million in fiscal 2012.

Land Development Joint Ventures

We have investments in and advances to a number of Land Development Joint Ventures to develop land. Some of these Land Development Joint Ventures develop land for the sole use of the venture participants, including us, and others develop land for sale to the joint venture participants and to unrelated builders. At October 31, 2014, we had approximately $140.2 million invested in or advanced to our Land Development Joint Ventures and funding commitments of $32.8 million to four of the Land Development Joint Ventures which would be funded if additional investments in the ventures are required. At October 31, 2014, three of these joint ventures had aggregate loan commitments of $175.0 million and outstanding borrowings against these commitments of $96.1 million.

At October 31, 2014, we had purchase commitments or understandings to acquire 573 home sites from three of these Land Development Joint Ventures for an estimated aggregate purchase price of $184.3 million. In addition, we expect to purchase approximately 3,300 additional lots from several Land Development Joint Ventures in which we have interests; the purchase price of the lots will be determined at a future date.

Home Building Joint Ventures

At October 31, 2014, we had an aggregate of $189.5 million of investments in and advances to various Home Building Joint Ventures to develop approximately 560 luxury for-sale homes. At October 31, 2014, we had $33.2 million of funding commitments to two of these joint ventures.

Rental Property Joint Ventures

Over the past several years, we acquired control of a number of land parcels as for-rent apartment projects, including two student housing sites. At October 31, 2014, we controlled a number of land parcels as for-rent apartment projects containing approximately 4,850 units. These projects, which are located in the metro Boston to metro Washington, D.C. corridor, are being developed or will be developed with partners under the brand names Toll Brothers Apartment Living and Toll Brothers Campus

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Living. A number of these sites had been acquired by us as part of a larger purchase or were originally acquired to be developed as for-sale homes. Of the 4,850 planned units at October 31, 2014, 1,900 are owned by joint ventures in which we have an interest, and are currently under construction; approximately 1,800 are owned by us; 800 of them are under contract to be purchased; and 350 of them are under letters of intent.

Toll Brothers Realty Trust and Toll Brothers Realty Trust II

Through the Trust, we also have interests in approximately 1,450 operating apartment units in the Washington, D.C. area and in Princeton Junction, New Jersey. In the second quarter of fiscal 2014, the Trust refinanced the mortgage on one of its properties and distributed $36.0 million of the net proceeds from the refinancing to its partners. We received $12.0 million as our share of the proceeds and recognized this distribution as income in the second quarter of fiscal 2014. This income is included in “Income from unconsolidated entities” in our Consolidated Statements of Operations and Comprehensive Income in this Form 10-K.

We have a 50% interest in Trust II, which invests in commercial real estate opportunities. In fiscal 2014, Trust II sold substantially all of its assets to an unrelated party. As a result of this sale, we realized a profit of approximately $24.1 million representing our share of the gain on the sale; this gain is included in “Income from unconsolidated entities” in our Consolidated Statements of Operations and Comprehensive Income in this Form 10-K. In addition, we recognized $2.9 million of previously deferred gains on our initial sales of the properties to Trust II. This gain was included in “Other income - net” in our Consolidated Statements of Operations and Comprehensive Income in this Form 10-K.

Gibraltar

In fiscal 2010, we formed Gibraltar to invest in distressed real estate opportunities. Gibraltar focuses primarily on residential loans and properties, from the raw ground to partially and fully improved developments, as well as commercial opportunities. At October 31, 2014, Gibraltar had investments in distressed loans of approximately $4.0 million, investments in foreclosed real estate of $69.8 million, and $20.0 million invested in a joint venture in which it is a 20% participant with two unrelated parties that purchased a 40% interest in an entity that owns and controls a portfolio of loans and real estate.

Acquisition

On February 4, 2014, we completed our acquisition of Shapell pursuant to the Purchase and Sale Agreement (the “Purchase Agreement”) dated November 6, 2013 with Shapell Investment Properties, Inc. (“SIPI”). We acquired all of the equity interests in Shapell from SIPI on February 4, 2014, for $1.49 billion, net of cash acquired (the “Acquisition”). We acquired the single-family residential real property development business of Shapell, including a portfolio of approximately 4,950 home sites in California, some of which we have sold and may continue to sell to other builders. The Acquisition provided us with a premier California land portfolio including 11 active selling communities, as of the Acquisition date, in affluent, high-growth markets: the San Francisco Bay area, metro Los Angeles, Orange County, and the Carlsbad market. As part of the Acquisition, we assumed contracts to deliver 126 homes with an aggregate value of approximately $105.3 million.

As part of the Acquisition, we did not acquire the apartment and commercial rental properties owned and operated by Shapell (the “Shapell Commercial Properties”) or Shapell’s mortgage lending activities relating to their home building operations. Accordingly, the Purchase Agreement provides that SIPI will indemnify us for any loss arising out of or resulting from, among other things, (i) any liability (other than environmental losses, subject to certain exceptions) related to the Shapell Commercial Properties, and (ii) any liability (other than environmental losses, subject to certain exceptions) to the extent related to Shapell Mortgage, Inc.

We financed the Acquisition with a combination of $370.0 million of borrowings under our $1.035 billion revolving credit facility (“Credit Facility”), $485.0 million from a term loan facility, as well as $815.7 million in net proceeds from debt and equity financings completed in November 2013. See Note 6, “Loans Payable, Senior Notes, and Mortgage Company Loan Facility” and Note 9, “Stockholders’ Equity” of our consolidated financial statements for further details.

As a result of the Acquisition, Shapell became our wholly-owned subsidiary. Accordingly, the results of operations of Shapell are included in our consolidated financial statements from the date of the Acquisition. For the period from February 4, 2014 to October 31, 2014, revenues and income before income taxes from the Shapell operations, excluding $5.3 million of acquisition costs, were $300.8 million and $37.2 million, respectively.

Our Communities

Our home building communities are generally located in affluent suburban areas near major highways providing access to major cities. We also currently operate in the affluent urban markets of Hoboken and Jersey City, New Jersey; New York City, New York; and Philadelphia, Pennsylvania. The following table lists the 19 states in which we were operating at October 31, 2014, and the fiscal years in which we or our predecessors commenced operations:

State	Fiscal year of entry	State	Fiscal year of entry
Pennsylvania	1967	Texas	1995
New Jersey	1982	Florida	1995
Delaware	1987	Arizona	1995
Massachusetts	1988	Nevada	1998
Maryland	1988	Illinois	1998
Virginia	1992	Michigan	1999
Connecticut	1992	Colorado	2001
New York	1993	Minnesota	2005
California	1994	Washington	2012
North Carolina	1994		

We develop individual stand-alone communities as well as multi-product, master planned communities. Our master planned communities, many of which include golf courses and other country club-type amenities, enable us to offer multiple home types and sizes to a broad range of move-up, empty-nester, active-adult, and second-home buyers. We seek to realize efficiencies from shared common costs, such as land development and infrastructure, over the several communities within the master planned community.

Each of our detached home communities offers several home plans with the opportunity for home buyers to select various exterior styles. We design each community to fit existing land characteristics. We strive to achieve diversity among architectural styles within a community by offering a variety of house models and several exterior design options for each model, preserving existing trees and foliage whenever practicable, and curving street layouts to allow relatively few homes to be seen from any vantage point. Normally, homes of the same type or color may not be built next to each other. Our communities have attractive entrances with distinctive signage and landscaping. We believe that our added attention to community detail avoids a “development” appearance and gives each community a diversified neighborhood appearance that enhances home values.

Our traditional attached home communities generally offer one- to four-story homes, provide for limited exterior options, and often include commonly owned recreational facilities such as clubhouses, playing fields, swimming pools, and tennis courts.

We market our high quality homes to upscale luxury home buyers, generally comprised of those persons who have previously owned a principal residence and who are seeking to buy a larger or more desirable home — the so-called “move-up” market. We believe our reputation as a developer of homes for this market enhances our competitive position with respect to the sale of our smaller, more moderately priced homes.

We also market to the 50+ year-old “empty-nester” market, which we believe has strong growth potential. We have developed a number of home designs with features such as one-story living and first-floor master bedroom suites, as well as communities with recreational amenities such as golf courses, marinas, pool complexes, country clubs, and recreation centers that we believe appeal to this category of home buyers. We have integrated certain of these designs and features in some of our other home types and communities. We also develop active-adult, “age-qualified” communities for households in which at least one member must be 55+ years of age. As of October 31, 2014, we were selling from 36 active-adult/age-qualified communities and expect to open additional active-adult/age-qualified communities during the next few years. Of the value and number of net contracts signed in fiscal 2014, approximately 12% and 16%, respectively, were in active-adult/age-qualified communities; in fiscal 2013, approximately 9% and 12%, respectively, were in such communities; and in fiscal 2012, approximately 8% and 10%, respectively were in active-adult/age-qualified communities.

In order to serve a growing market of affluent move-up families, empty-nesters, and young professionals seeking to live in or close to major cities, we have developed and are developing a number of high-density, high-, mid- and low-rise urban luxury communities. These communities are currently marketed under our City Living brand. These communities, which we are currently developing or planning to develop on our own or through joint ventures, are located in Bethesda, Maryland; Hoboken and Jersey City, New Jersey; the boroughs of Manhattan and Brooklyn, New York; and Philadelphia, Pennsylvania and its suburbs.

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The table below provides information related to deliveries and revenues and net contracts signed by our City Living group in communities it is developing on its own or through joint ventures in fiscal 2014, 2013, and 2012 and its backlog at October 31, 2014, 2013, and 2012:

2014	2013	2012	2014	2013