TOLL BROTHERS INC
Form 10-Q
August 31, 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 July 31, 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	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)

(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 August 29, 2012, there were approximately 168,202,000 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)

	July 31, 2012 (unaudited)	October 31, 2011
ASSETS		
Cash and cash equivalents	$601,451	$906,340
Marketable securities	275,928	233,572
Restricted cash	47,008	19,760
Inventory	3,784,705	3,416,723
Property, construction and office equipment, net	101,216	99,712
Receivables, prepaid expenses and other assets	132,967	105,576
Mortgage loans held for sale	72,544	63,175
Customer deposits held in escrow	30,731	14,859
Investments in and advances to unconsolidated entities	311,481	126,355
Investments in non-performing loan portfolios and foreclosed real estate	98,241	69,174
	$5,456,272	$5,055,246
LIABILITIES AND EQUITY		
Liabilities		
Loans payable	$106,399	$106,556
Senior notes	1,792,453	1,490,972
Mortgage company warehouse loan	63,128	57,409
Customer deposits	141,523	83,824
Accounts payable	106,517	96,817
Accrued expenses	464,722	521,051
Income taxes payable	79,724	106,066
Total liabilities	2,754,466	2,462,695
Equity		
Stockholders' equity		
Preferred stock, none issued		
Common stock, 168,689 and 168,675 shares issued at July 31, 2012 and October 31, 2011, respectively	1,687	1,687
Additional paid-in capital	397,302	400,382
Retained earnings	2,309,980	2,234,251
Treasury stock, at cost — 707 and 2,946 shares at July 31, 2012 and October 31, 2011, respectively	(10,211)	(47,065)
Accumulated other comprehensive loss	(3,137)	(2,902)
Total stockholders' equity	2,695,621	2,586,353
Noncontrolling interest	6,185	6,198
Total equity	2,701,806	2,592,551
	$5,456,272	$5,055,246

See accompanying notes

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

	Nine Months Ended July 31,		Three Months Ended July 31,	
	2012	2011	2012	2011
Revenues	$1,249,955	$1,048,096	$554,319	$394,305
Cost of revenues	1,026,357	898,266	447,928	339,947
Selling, general and administrative	212,785	192,906	74,892	64,605
Interest expense	—	1,504	—	—
	1,239,142	1,092,676	522,820	404,552
Income (loss) from operations	10,813	(44,580)	31,499	(10,247)
Other:				
Income (loss) from unconsolidated entities	19,348	(11,005)	5,672	11,340
Other income - net	22,032	14,356	5,781	6,209
Expenses related to early retirement of debt	—	(3,414)	—	(3,414)
Income (loss) before income tax benefit	52,193	(44,643)	42,952	3,888
Income tax benefit	(23,536)	(69,395)	(18,691)	(38,220)
Net income	$75,729	$24,752	$61,643	$42,108
Income per share:				
Basic	$0.45	$0.15	$0.37	$0.25
Diluted	$0.45	$0.15	$0.36	$0.25
Weighted average number of shares:				
Basic	166,990	167,221	167,664	168,075
Diluted	168,613	168,666	170,229	169,338

See accompanying notes

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

	Nine Months Ended July 31,	
	2012	2011
Cash flow (used in) provided by operating activities:		
Net income	$75,729	$24,752
Adjustments to reconcile net income to net cash (used in) provided by operating activities:		
Depreciation and amortization	16,523	17,123
Stock-based compensation	12,227	10,147
(Recovery) impairments of investments in unconsolidated entities	(1,621)	39,600
Income from unconsolidated entities	(17,727)	(28,595)
Distributions of earnings from unconsolidated entities	4,028	7,315
Income from non-performing loan portfolios and foreclosed real estate	(12,725)	(1,187)
Deferred tax benefit	1,477	4,329
Deferred tax valuation allowances	(1,477)	(4,329)
Inventory impairments and write-offs	13,249	34,861
Change in fair value of mortgage loans receivable and derivative instruments	(244)	628
Gain on marketable securities	(40)	
Expenses related to early retirement of debt	—	3,414
Changes in operating assets and liabilities		
Increase in inventory	(222,421)	(208,204)
Origination of mortgage loans	(434,780)	(457,383)
Sale of mortgage loans	426,559	504,724
(Increase) decrease in restricted cash	(27,248)	36,681
Increase in receivables, prepaid expenses and other assets	(22,175)	(2,955)
Increase in customer deposits	41,777	18,090
Decrease in accounts payable and accrued expenses	(58,865)	(37,773)
Decrease in income tax refund recoverable		141,590
Decrease in income taxes payable	(26,342)	(56,461)
Net cash (used in) provided by operating activities	(234,096)	46,367
Cash flow used in investing activities:		
Purchase of property and equipment — net	(7,318)	(6,927)
Purchase of marketable securities	(317,569)	(420,087)
Sale and redemption of marketable securities	270,503	318,372
Investments in and advances to unconsolidated entities	(195,813)	
Return of investments in unconsolidated entities	33,231	26,285
Investments in non-performing loan portfolios and foreclosed real estate	(30,090)	(42,141)
Return of investments in non-performing loan portfolios and foreclosed real estate	14,412	101
Acquisition of a business	(144,746)	
Net cash used in investing activities	(377,390)	(124,397)
Cash flow provided by (used in) financing activities:		
Net proceeds from issuance of senior notes	296,227	
Proceeds from loans payable	675,481	666,659
Principal payments of loans payable	(689,242)	(715,131)
Redemption of senior notes		(48,437)
Proceeds from stock-based benefit plans	24,515	23,731

Receipts related to noncontrolling interest		2,678
Purchase of treasury stock	(384)	(463)
Net cash provided by (used in) financing activities	306,597	(70,963)
Net decrease in cash and cash equivalents	(304,889)	(148,993)
Cash and cash equivalents, beginning of period	906,340	1,039,060
Cash and cash equivalents, end of period	$601,451	$890,067

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 July 31, 2012, the results of its operations for the nine-month and three-month periods ended July 31, 2012 and 2011, and its cash flows for the nine-month periods ended July 31, 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 and development commences. 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 cash flows and 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 July 31, 2012 and October 31, 2011 consisted of the following (amounts in thousands):

	July 31, 2012	October 31, 2011
Land controlled for future communities	$52,662	$46,581
Land owned for future communities	1,096,396	979,145
Operating communities	2,635,647	2,390,997
	$3,784,705	$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.

	July 31, 2012	October 31, 2011
Land owned for future communities:		
Number of communities	35	43
Carrying value (in thousands)	$206,744	$256,468
Operating communities:		
Number of communities	10	2
Carrying value (in thousands)	$52,135	$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).

	Nine months ended July 31,		Three months ended July 31,	
	2012	2011	2012	2011
Charge:				
Land controlled for future communities	$661	$2,486	$435	$637
Land owned for future communities	918	16,000	—	16,000
Operating communities	11,670	16,375	2,685	175
	$13,249	$34,861	$3,120	$16,812

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).

		Impaired operating communities		
Three months ended:	Number of communities tested	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
July 31	115	4	$6,609	2,685
				$11,670
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 July 31, 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 July 31, 2012, the Company determined that 52 land purchase contracts, with an aggregate purchase price of $437.9 million, on which it had made aggregate deposits totaling $22.7 million, were VIEs, and 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):

	Nine months ended July 31,		Three months ended July 31,	
	2012	2011	2012	2011
Interest capitalized, beginning of period	$298,757	$267,278	$322,516	$285,508
Interest incurred	93,027	86,820	32,560	28,387
Interest expensed to cost of revenues	(59,823)	(56,327)	(25,834)	(20,946)
Interest directly expensed to operations	—	(1,504)	—	—
Write-off against other income	(1,664)	(861)	(82)	(543)
Interest reclassified to property, construction and office equipment	—	(3,000)	—	—
Interest capitalized on investments in unconsolidated entities	(2,260)	—	(1,123)	—
Interest capitalized, end of period	$328,037	$292,406	$328,037	$292,406

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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 July 31, 2012 and 2011 would have been reduced by approximately $50.6 million and $55.3 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 July 31, 2012, the Company had approximately $117.3 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, and its successor entity, Inspirada Builders, LLC (collectively, "Inspirada"). The Company believes it has made adequate provision at July 31, 2012 for any remaining liabilities with respect to Inspirada. 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 nine-month and three-month periods ended July 31, 2012. In the nine-month period ended July 31, 2012, the Company recovered $1.6 million of costs it previously accrued.

In the third quarter of fiscal 2012, the Company acquired a 50% interest in an existing joint venture for approximately $110.0 million. The joint venture intends to develop over 2,000 home sites in Orange County, California on land that it owns. The joint venture expects to borrow additional funds to complete the development of this project. The Company intends to acquire a substantial number of lots from the joint venture. The Company does not have any additional commitment to fund this joint venture.

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. At July 31, 2012, the Company had an investment of $31.0 million, net of $15.2 million of impairments previously recognized, in this joint venture. At July 31, 2012, the participants 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.

Other Joint Ventures

At July 31, 2012, the Company had an aggregate of $124.3 million of investments in and advances, net of $63.9 million of impairment charges previously recognized, to various joint ventures with unrelated parties to develop luxury for-sale and rental residential units, commercial space and a hotel.

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 $84.0 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 rental units and retail space.

In addition, in the third quarter of fiscal 2012, the Company invested $3.9 million in a joint venture in which it has a 50% interest that will develop a high-rise luxury for-sale condominium/hotel project in the metro-New York market. The Company expects to make additional investments of approximately $49.2 million for the development of this

property. The joint venture expects to borrow additional funds to complete the construction of this project. The Company has also guaranteed approximately $9.8 million of payments related to the ground lease on this project.

The Company did not recognize any impairment charges in connection with these joint ventures in the nine-month and three-month periods ended July 31, 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 July 31, 2012, the Company had an investment of $3.0 million in Trust II. Prior to the formation of Trust II, the Company formed Toll Brothers Realty Trust ("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 July 31, 2012, the Company had a net investment in the Trust of $0.3 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 $1.7 million and $1.6 million in the nine-month periods ended July 31, 2012 and 2011, respectively and $0.6 million and $0.5 million in the three-month periods ended July 31, 2012 and 2011, respectively. 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 July 31, 2012, the Company had an investment of $35.7 million in this Structured Asset Joint Venture. At July 31, 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 July 31, 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 of impairment charges related to its investments in and advances to unconsolidated entities in the nine-months ended July 31, 2011. The Company recorded a $1.6 million recovery of previous impairment charges in the second quarter of fiscal 2012. The fiscal 2012 recovery and fiscal 2011 impairment charge recognized are included in "Income (loss) from unconsolidated entities" in the Company's condensed consolidated statements of operations for the nine-month and three-month periods ended July 31, 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 Other Joint Ventures described above.

Condensed Balance Sheets:

	July 31, 2012				
	Develop-ment Joint Ventures	Home Building Joint Ventures	Trust and Trust II	Structured Asset Joint Venture	Total
Cash and cash equivalents	$17,618	$23,018	$9,995	$40,832	$91,463
Inventory	253,984	274,175	5,621		533,780
Non-performing loan portfolio				240,723	240,723
Rental properties			174,982		174,982
Real estate owned ("REO")				270,215	270,215
Other assets (1)	16,697	70,789	9,625	189,785	286,896
Total assets	$288,299	$367,982	$200,223	$741,555	$1,598,059
Debt (1)	$96,862	$33,658	$196,266	$311,571	$638,357
Other liabilities	16,873	4,582	5,690	304	27,449
Members' equity (deficit)	174,564	329,742	(1,733)	171,872	674,445
Noncontrolling interest				257,808	257,808
Total liabilities and equity	$288,299	$367,982	$200,223	$741,555	$1,598,059
Company's net investment in unconsolidated entities (2)	$117,305	$155,272	$3,230	$35,674	$311,481

	October 31, 2011				
	Develop-ment 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 ("REO")			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
Noncontrolling 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 July 31, 2012 and October 31, 2011 of the Structured Asset Joint Venture is $189.3 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 the acquisition price of an investment in an entity in fiscal 2012 which was in excess of the Company's prorata share of the underlying equity, 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 nine months ended July 31, 2012				
	Develop-ment Joint Ventures	Home Building Joint Ventures	Trust and Trust II	Structured Asset Joint Venture	Total
Revenues	$37,109	$76,325	$27,827	$20,858	$162,119
Cost of revenues	34,696	55,028	10,186	26,048	125,958
Other expenses	1,060	3,166	16,027	6,958	27,211
Gain on disposition of loans and REO				(24,691)	(24,691)
Total expenses—net	35,756	58,194	26,213	8,315	128,478
Income from operations	1,353	18,131	1,614	12,543	33,641
Other income	2,663	118		428	3,209
Net income before noncontrolling interest	4,016	18,249	1,614	12,971	36,850
Less: Net income attributable to noncontrolling interest				(7,784)	(7,784)
Net income	$4,016	$18,249	$1,614	$5,187	$29,066
Company's equity in earnings of unconsolidated entities (3)	$3,451	$13,318	$1,556	$1,023	$19,348