

TOLL BROTHERS INC  
Form 10-K/A  
July 16, 2013

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UNITED STATES SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K/A

Amendment No. 1

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

For the fiscal year ended October 31, 2012

or

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. 4.95% Senior Notes due 2014 | 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  No

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  No

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  No

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  No

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

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information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.  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       Accelerated filer       Non-accelerated filer       Smaller reporting  
company

(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  No

As of April 30, 2012, 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 \$3,797,126,000.

As of December 24, 2012, there were approximately 169,041,000 shares of Common Stock outstanding.

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#### EXPLANATORY NOTE

Toll Brothers, Inc. (the "Company") is filing this Amendment No.1 on Form 10-K/A (the "Form 10-K/A") to its Annual Report on Form 10-K for the fiscal year ended October 31, 2012, filed with the Securities and Exchange Commission on December 28, 2012 (the "Original Filing"), for the purpose of revising certain financial statements and footnotes contained in Part II, Item 8 as described below, making related updates to Part II, Item 9A to address the impact of the revised financial statements and footnotes on the Chief Executive Officer and Chief Financial Officer's original conclusions regarding the effectiveness of the Company's disclosure controls and procedures and internal control over financial reporting, and making corresponding revisions to the Interactive Data File included in the Original Filing as Exhibit 101. Part IV of the Original Filing has also been amended to contain currently dated certifications, as required by Rule 12b-15 under the Securities Exchange Act of 1934, as amended, and a currently dated auditor's consent. The Company's Consolidated Statements of Operations for the years ended October 31, 2011 and 2010 ("Statements of Operations") have been revised to present the line entitled "Interest expense" as a separate line below the line entitled "Income (loss) from operations."

Note 1 - Significant Accounting Policies has been revised to include a section entitled "Revisions" to explain the changes made from the Original Filing.

Note 19 - Supplemental Guarantor Information has been revised in order to (i) retrospectively reflect the transfer of the balance sheets, statements of operations and cash flows of certain non-guarantor subsidiaries to guarantor subsidiaries as a result of such entities becoming guarantor subsidiaries as of April 30, 2013 and the reclassification of guarantor and non-guarantor intercompany advances and equity balances with corresponding offsets in the elimination column, (ii) revise the presentation of cash flows from operating activities, financing activities and investing activities in the consolidating statements of cash flows for the years ended October 31, 2012, 2011 and 2010 to reflect intercompany activity, which had previously been included in cash flow from operating activities, as cash flow from investing activities and cash flow from financing activities and (iii) present the line entitled "Interest expense" as a separate line below the line entitled "Income (loss) from operations" and include lines for other comprehensive income (loss) and total comprehensive income (loss) in each of the consolidating statements of operations presented. See Note 19 in the notes to the consolidated financial statements for more detail.

The Company has included Consolidated Statements of Comprehensive Income for the years ended October 31, 2012, 2011 and 2010 as required by the Financial Accounting Standards Board Accounting Standards Update No. 2011-05, "Statement of Comprehensive Income."

This revised presentation of the financial statements and footnotes has no impact or effect on Toll Brothers, Inc.'s consolidated financial statements for any period presented, including the Consolidated Balance Sheets, Statements of Operations, Statements of Changes in Equity or Statements of Cash Flows except as noted above. Except as described above, no other changes have been made to the Original Filing. The Original Filing continues to speak as of the date of the Original Filing, and we have not changed the disclosures contained therein to reflect any events which occurred at a date subsequent to the date of the Original Filing. Other events that have occurred since the Original Filing or other information necessary to reflect subsequent events have been disclosed in the Company's reports filed with the SEC subsequent to the Original Filing.

## PART II

### ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

Reference is made to the financial statements, listed in Item 15(a)(1) which appear at pages F-3 through F-56 of this report and which are incorporated herein by reference.

### ITEM 9A. CONTROLS AND PROCEDURES

#### Conclusion Regarding the Effectiveness of Disclosure Controls and Procedures

Any controls and procedures, no matter how well conceived and operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met. Further, the design of a control system must reflect the fact that there are resource constraints and the benefits of controls must be considered relative to costs. Because of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that all control issues and instances of fraud, if any, within the Company have been detected. Because of the inherent limitations in a cost-effective control system, misstatements due to error or fraud may occur and not be detected. However, our disclosure controls and procedures are designed to provide reasonable assurance of achieving their objectives.

The Company's Consolidated Statements of Operations for the years ended October 31, 2011 and 2010 ("Statements of Operations") are being revised to present the line entitled "Interest expense" as a separate line below the line entitled "Income (loss) from operations." The consolidating financial statements included in Note 19 of the consolidated financial statements ("Guarantor Footnote") have been presented in a format that has been adjusted from prior annual and quarterly reports in order to (i) retrospectively reflect the transfer of the balance sheets, statements of operations and cash flows of certain non-guarantor subsidiaries to guarantor subsidiaries as a result of such entities becoming guarantor subsidiaries as of April 30, 2013 and the reclassification of guarantor and non-guarantor intercompany advances and equity balances with corresponding offsets in the elimination column, (ii) revise the presentation of cash flows from operating activities, financing activities and investing activities in the consolidating statements of cash flows for the years ended October 31, 2012, 2011 and 2010 to reflect intercompany activity, which had previously been included in cash flow from operating activities, as cash flow from investing activities and cash flow from financing activities and (iii) present the line entitled "Interest expense" as a separate line below the line entitled "Income (loss) from operations" and include lines for other comprehensive income (loss) and total comprehensive income (loss) in each of the consolidating statements of operations presented. See Note 19 in the notes to the consolidated financial statements for more detail.

This revised presentation of the Statements of Operations and Guarantor Footnote has no impact or effect on Toll Brothers, Inc.'s consolidated financial statements for any period presented, including the Consolidated Balance Sheets, Statements of Operations, Statements of Changes in Equity or Statements of Cash Flows except as noted above. The revised presentation of the Statements of Operations and Guarantor Footnote has not changed or amended our Chief Executive Officer's and Chief Financial Officer's conclusions regarding the effectiveness of our disclosure controls and procedures.

Our Chief Executive Officer and Chief Financial Officer, with the assistance of management, evaluated the effectiveness of our disclosure controls and procedures, as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended, ("Exchange Act") as of the end of the period covered by this report ("Evaluation Date"). Based on that evaluation, our Chief Executive Officer and Chief Financial Officer concluded that, as of the Evaluation Date, our disclosure controls and procedures were effective to provide reasonable assurance that information required to be disclosed in our reports under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission's rules and forms, and that such information is accumulated and communicated to management, including our Chief Executive Officer and Chief Financial Officer, as appropriate to allow timely decisions regarding required disclosure.

Management's Annual Report on Internal Control Over Financial Reporting

Management's Annual Report on Internal Control Over Financial Reporting on internal control over financial reporting on page F-1 is incorporated herein.

Changes in Internal Control Over Financial Reporting

There has not been any change in our internal control over financial reporting (as that term is defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) during our quarter ended October 31, 2012 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

PART IV

ITEM 15. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES

(a) Financial Statements and Financial Statement Schedules

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| 1. Financial Statements                                                        |            |
| <u>Management's Annual Report on Internal Control Over Financial Reporting</u> | <u>F-1</u> |
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2. Financial Statement Schedules

None

Financial statement schedules have been omitted because they are either not applicable or the required information is included in the financial statements or notes hereto.

(b) Exhibits

The following exhibits are filed as part of this Form 10-K/A:

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| Exhibit Number | Description                                                                                         |
|----------------|-----------------------------------------------------------------------------------------------------|
| 23             | Consent of Ernst & Young LLP, Independent Registered Public Accountant.                             |
| 31.1           | Certification of Douglas C. Yearley, Jr. pursuant to Section 302 of the Sarbanes-Oxley Act of 2002. |
| 31.2           | Certification of Martin P. Connor pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.        |
| 32.1           | Certification of Douglas C. Yearley, Jr. pursuant to Section 906 of the Sarbanes-Oxley Act of 2002. |
| 32.2           | Certification of Martin P. Connor pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.        |
| 101.INS        | XBRL Instance Document                                                                              |
| 101.SCH        | XBRL Schema Document                                                                                |
| 101.CAL        | XBRL Calculation Linkbase Document                                                                  |
| 101.LAB        | XBRL Labels Linkbase Document                                                                       |
| 101.PRE        | XBRL Presentation Linkbase Document                                                                 |
| 101.DEF        | XBRL Definition Linkbase Document                                                                   |

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized, in the Township of Horsham, Commonwealth of Pennsylvania on July 16, 2013.

TOLL BROTHERS, INC.

By: /s/ Martin P. Connor  
Martin P. Connor  
Senior Vice President and Chief Financial  
Officer (Principal Financial Officer)



#### Management's Annual Report on Internal Control Over Financial Reporting

Our management is responsible for establishing and maintaining adequate internal control over financial reporting, as such term is defined in the Securities Exchange Act Rule 13a-15(f). Internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. Internal control over financial reporting includes those policies and procedures that: (i) pertain to the maintenance of records that in reasonable detail accurately and fairly reflect the transactions and dispositions of the assets of the company; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements. Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

The revised presentation of the Company's Consolidated Statements of Operations for the years ended October 31, 2011 and 2010 ("Statements of Operations") and Note 19 - Revised Supplemental Guarantor Information (the "Guarantor Footnote") contained in Part II, Item 8 of this Form 10-K/A has no impact or effect on Toll Brothers, Inc.'s consolidated financial statements for any period presented, including the Consolidated Balance Sheets, Statements of Operations, Statements of Changes in Equity or Statements of Cash Flows except as noted in the Explanatory Note in this Form 10-K/A. The revised presentation of the Statements of Operations and Guarantor Footnote has not changed or amended our chief executive officer's and chief financial officer's conclusions regarding the effectiveness of our internal control over financial reporting.

Under the supervision and with the participation of our management, including our principal executive officer and our principal financial officer, we conducted an evaluation of the effectiveness of our internal control over financial reporting based on the framework in Internal Control — Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on this evaluation under the framework in Internal Control — Integrated Framework, our management concluded that our internal control over financial reporting was effective as of October 31, 2012.

Our independent registered public accounting firm, Ernst & Young LLP, has issued its report, which is included in the Form 10-K for the year ended October 31, 2012 filed with the Securities and Exchange Commission on December 28, 2012, on the effectiveness of our internal control over financial reporting.

Report of Independent Registered Public Accounting Firm

The Board of Directors and Stockholders of Toll Brothers, Inc.

We have audited the accompanying consolidated balance sheets of Toll Brothers, Inc. as of October 31, 2012 and 2011, and the related consolidated statements of operations, comprehensive income, changes in equity, and cash flows for each of the three years in the period ended October 31, 2012. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Toll Brothers, Inc. at October 31, 2012 and 2011, and the consolidated results of its operations and its cash flows for each of the three years in the period ended October 31, 2012, in conformity with U.S. generally accepted accounting principles.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), Toll Brothers Inc.'s internal control over financial reporting as of October 31, 2012, based on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated December 28, 2012 expressed an unqualified opinion thereon.

/s/ Ernst & Young LLP

Philadelphia, Pennsylvania

December 28, 2012 except for

Note 1 and Note 19, as to which the

date is July 16, 2013

## CONSOLIDATED STATEMENTS OF OPERATIONS

(Amounts in thousands, except per share data)

|                                              | Year ended October 31, |             |             |
|----------------------------------------------|------------------------|-------------|-------------|
|                                              | 2012                   | 2011        | 2010        |
| Revenues                                     | \$1,882,781            | \$1,475,881 | \$1,494,771 |
| Cost of revenues                             | 1,532,095              | 1,260,770   | 1,376,558   |
| Selling, general and administrative          | 287,257                | 261,355     | 263,224     |
|                                              | 1,819,352              | 1,522,125   | 1,639,782   |
| Income (loss) from operations                | 63,429                 | (46,244     | ) (145,011  |
| Other:                                       |                        |             |             |
| Income (loss) from unconsolidated entities   | 23,592                 | (1,194      | ) 23,470    |
| Other income - net                           | 25,921                 | 23,403      | 28,313      |
| Interest expense                             | —                      | (1,504      | ) (22,751   |
| Expenses related to early retirement of debt |                        | (3,827      | ) (1,208    |
| Income (loss) before income taxes            | 112,942                | (29,366     | ) (117,187  |
| Income tax benefit                           | (374,204               | ) (69,161   | ) (113,813  |
| Net income (loss)                            | \$487,146              | \$39,795    | \$(3,374    |
| Income (loss) per share:                     |                        |             |             |
| Basic                                        | \$2.91                 | \$0.24      | \$(0.02     |
| Diluted                                      | \$2.86                 | \$0.24      | \$(0.02     |
| Weighted-average number of shares:           |                        |             |             |
| Basic                                        | 167,346                | 167,140     | 165,666     |
| Diluted                                      | 170,154                | 168,381     | 165,666     |
| See accompanying notes                       |                        |             |             |

## CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(Amounts in thousands)

|                                                            | Year ended October 31, |          |          |
|------------------------------------------------------------|------------------------|----------|----------|
|                                                            | 2012                   | 2011     | 2010     |
| Net income (loss)                                          | \$487,146              | \$39,795 | \$(3,374 |
| Other comprehensive (loss) income, net of tax:             |                        |          |          |
| Defined benefit retirement plans                           |                        |          |          |
| Net (loss) gain during period                              | (1,985                 | ) (2,628 | ) 867    |
| Prior service cost arising during period                   | (367                   | )        | (202     |
| Amortization of prior service cost and unrecognized losses | 513                    | 694      | 1,321    |
| Defined benefit retirement plans, net                      | (1,839                 | ) (1,934 | ) 1,986  |
| Change in fair value of available-for-sale securities      | 476                    | (192     | ) 74     |
| Unrealized loss on derivative held by equity investee      | (554                   | )        |          |
| Other comprehensive (loss) income                          | (1,917                 | ) (2,126 | ) 2,060  |
| Total comprehensive income (loss)                          | \$485,229              | \$37,669 | \$(1,314 |
| See accompanying notes                                     |                        |          |          |

## CONSOLIDATED BALANCE SHEETS

(Amounts in thousands)

|                                                                                                 | October 31,<br>2012 | 2011               |
|-------------------------------------------------------------------------------------------------|---------------------|--------------------|
| <b>ASSETS</b>                                                                                   |                     |                    |
| Cash and cash equivalents                                                                       | \$778,824           | \$906,340          |
| Marketable securities                                                                           | 439,068             | 233,572            |
| Restricted cash                                                                                 | 47,276              | 19,760             |
| Inventory                                                                                       | 3,761,187           | 3,416,723          |
| Property, construction and office equipment, net                                                | 106,214             | 99,712             |
| Receivables, prepaid expenses and other assets                                                  | 148,315             | 105,576            |
| Mortgage loans receivable                                                                       | 86,386              | 63,175             |
| Customer deposits held in escrow                                                                | 29,579              | 14,859             |
| Investments in and advances to unconsolidated entities                                          | 330,617             | 126,355            |
| Investments in non-performing loan portfolios and foreclosed real estate                        | 95,522              | 69,174             |
| Deferred tax assets, net of valuation allowances                                                | 358,056             |                    |
|                                                                                                 | <b>\$6,181,044</b>  | <b>\$5,055,246</b> |
| <b>LIABILITIES AND EQUITY</b>                                                                   |                     |                    |
| <b>Liabilities</b>                                                                              |                     |                    |
| Loans payable                                                                                   | \$99,817            | \$106,556          |
| Senior notes                                                                                    | 2,080,463           | 1,490,972          |
| Mortgage company warehouse loan                                                                 | 72,664              | 57,409             |
| Customer deposits                                                                               | 142,977             | 83,824             |
| Accounts payable                                                                                | 99,911              | 96,817             |
| Accrued expenses                                                                                | 476,350             | 521,051            |
| Income taxes payable                                                                            | 80,991              | 106,066            |
| Total liabilities                                                                               | 3,053,173           | 2,462,695          |
| <b>Equity</b>                                                                                   |                     |                    |
| Stockholders' equity                                                                            |                     |                    |
| Preferred stock, none issued                                                                    | —                   | —                  |
| Common stock, 168,690 and 168,675 shares issued at October 31, 2012 and 2011, respectively      | 1,687               | 1,687              |
| Additional paid-in capital                                                                      | 404,418             | 400,382            |
| Retained earnings                                                                               | 2,721,397           | 2,234,251          |
| Treasury stock, at cost - 53 shares and 2,946 shares at October 31, 2012 and 2011, respectively | (983                | ) (47,065          |
| Accumulated other comprehensive loss                                                            | (4,819              | ) (2,902           |
| Total stockholders' equity                                                                      | 3,121,700           | 2,586,353          |
| Noncontrolling interest                                                                         | 6,171               | 6,198              |
| Total equity                                                                                    | 3,127,871           | 2,592,551          |
|                                                                                                 | <b>\$6,181,044</b>  | <b>\$5,055,246</b> |
| See accompanying notes                                                                          |                     |                    |

## CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

(Amounts in thousands)

|                                               | Common Stock |       | Additional Paid-In Capital | Retained Earnings | Treasury Stock | Accumulated Other Comprehensive Loss | Non-Controlling Interest | Total Equity |
|-----------------------------------------------|--------------|-------|----------------------------|-------------------|----------------|--------------------------------------|--------------------------|--------------|
|                                               | Shares       | \$    | \$                         | \$                | \$             | \$                                   | \$                       | \$           |
| Balance, November 1, 2009                     | 164,732      | 1,647 | 316,518                    | 2,197,830         | (159 )         | (2,637 )                             | 3,283                    | 2,516,482    |
| Net loss                                      |              |       |                            | (3,374 )          |                |                                      |                          | (3,374 )     |
| Purchase of treasury stock                    | (31 )        |       |                            |                   | (588 )         |                                      |                          | (588 )       |
| Exercise of stock options                     | 1,684        | 17    | 33,638                     |                   | 620            |                                      |                          | 34,275       |
| Employee benefit plan issuances               | 24           |       | 435                        |                   |                |                                      |                          | 435          |
| Conversion of restricted stock units to stock | 3            |       | 61                         |                   | 31             |                                      |                          | 92           |
| Stock-based compensation                      |              |       | 9,332                      |                   |                |                                      |                          | 9,332        |
| Issuance of restricted stock                  | 1            |       | 22                         |                   |                |                                      |                          | 22           |
| Other comprehensive income                    |              |       |                            |                   |                | 2,060                                |                          | 2,060        |
| Capital contribution                          |              |       |                            |                   |                |                                      | 277                      | 277          |
| Balance, October 31, 2010                     | 166,413      | 1,664 | 360,006                    | 2,194,456         | (96 )          | (577 )                               | 3,560                    | 2,559,013    |
| Net income                                    |              |       |                            | 39,795            |                |                                      |                          | 39,795       |
| Purchase of treasury stock                    |              |       | (1 )                       |                   | (49,102 )      |                                      |                          | (49,103 )    |
| Exercise of stock options                     | 2,236        | 23    | 23,156                     |                   | 1,940          |                                      |                          | 25,119       |
| Employee benefit plan issuances               | 15           |       | 285                        |                   | 126            |                                      |                          | 411          |
| Conversion of restricted stock units to stock | 10           |       | 208                        |                   | 67             |                                      |                          | 275          |
| Stock-based compensation                      |              |       | 8,626                      |                   |                |                                      |                          | 8,626        |
| Issuance of restricted stock and stock units  | 1            |       | 8,102                      |                   |                |                                      |                          | 8,102        |
| Other comprehensive loss                      |              |       |                            |                   |                | (2,325 )                             |                          | (2,325 )     |
| Capital contribution                          |              |       |                            |                   |                |                                      | 2,638                    | 2,638        |
| Balance, October 31, 2011                     | 168,675      | 1,687 | 400,382                    | 2,234,251         | (47,065 )      | (2,902 )                             | 6,198                    | 2,592,551    |

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|                                               |         |       |          |           |        |          |       |           |
|-----------------------------------------------|---------|-------|----------|-----------|--------|----------|-------|-----------|
| Net income                                    |         |       |          | 487,146   |        |          |       | 487,146   |
| Purchase of treasury stock                    |         |       |          | (505 )    |        |          |       | (505 )    |
| Exercise of stock options                     | 13      |       | (9,831 ) |           | 44,472 |          |       | 34,641    |
| Employee benefit plan issuances               |         |       | 174      |           | 301    |          |       | 475       |
| Conversion of restricted stock units to stock |         |       | (1,814 ) |           | 1,814  |          |       | —         |
| Stock-based compensation                      |         |       | 7,411    |           |        |          |       | 7,411     |
| Issuance of restricted stock and stock units  | 2       |       | 8,096    |           |        |          |       | 8,096     |
| Other comprehensive loss                      |         |       |          |           |        | (1,917 ) |       | (1,917 )  |
| Loss attributable to non-controlling interest |         |       |          |           |        |          | (27 ) | (27 )     |
| Balance, October 31, 2012                     | 168,690 | 1,687 | 404,418  | 2,721,397 | (983 ) | (4,819 ) | 6,171 | 3,127,871 |
| See accompanying notes                        |         |       |          |           |        |          |       |           |

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## CONSOLIDATED STATEMENTS OF CASH FLOWS

(Amounts in thousands)

|                                                                                                    | Year ended October 31, |            |              |
|----------------------------------------------------------------------------------------------------|------------------------|------------|--------------|
|                                                                                                    | 2012                   | 2011       | 2010         |
| Cash flow (used in) provided by operating activities:                                              |                        |            |              |
| Net income (loss)                                                                                  | \$487,146              | \$39,795   | \$(3,374 )   |
| Adjustments to reconcile net income (loss) to net cash (used in) provided by operating activities: |                        |            |              |
| Depreciation and amortization                                                                      | 22,586                 | 23,142     | 20,044       |
| Stock-based compensation                                                                           | 15,575                 | 12,494     | 11,677       |
| (Recovery) impairment of investments in unconsolidated entities                                    | (2,311 )               | 40,870     | —            |
| Excess tax benefits from stock-based compensation                                                  | (5,776 )               | )          | (4,954 )     |
| Income from unconsolidated entities                                                                | (21,281 )              | (39,676 )  | (23,470 )    |
| Distributions of earnings from unconsolidated entities                                             | 5,258                  | 12,081     | 10,297       |
| Income from non-performing loan portfolios and foreclosed real estate                              | (12,444 )              | (5,113 )   | )            |
| Deferred tax benefit                                                                               | 41,810                 | (18,188 )  | 60,697       |
| Deferred tax valuation allowances                                                                  | (394,718 )             | 18,188     | (60,697 )    |
| Inventory impairments and write-offs                                                               | 14,739                 | 51,837     | 115,258      |
| Change in fair value of mortgage loans receivable and derivative instruments                       | (670 )                 | 475        | (970 )       |
| Gain on sale of marketable securities                                                              | (40 )                  | )          | )            |
| Expenses related to early retirement of debt                                                       |                        | 3,827      | 1,208        |
| Changes in operating assets and liabilities                                                        |                        |            |              |
| Increase in inventory                                                                              | (195,948 )             | (215,738 ) | (140,344 )   |
| Origination of mortgage loans                                                                      | (651,618 )             | (630,294 ) | (628,154 )   |
| Sale of mortgage loans                                                                             | 629,397                | 659,610    | 579,221      |
| (Increase) decrease in restricted cash                                                             | (27,516 )              | 41,146     | (60,906 )    |
| Increase in receivables, prepaid expenses and other assets                                         | (33,922 )              | (11,522 )  | (3,115 )     |
| Increase (decrease) in customer deposits                                                           | 44,383                 | 13,175     | (15,182 )    |
| Decrease in accounts payable and accrued expenses                                                  | (58,537 )              | (28,624 )  | (38,598 )    |
| Decrease in income tax refund recoverable                                                          | —                      | 141,590    | 20,250       |
| (Decrease) increase in income taxes payable                                                        | (25,075 )              | (56,225 )  | 14,828       |
| Net cash (used in) provided by operating activities                                                | (168,962 )             | 52,850     | (146,284 )   |
| Cash flow used in investing activities:                                                            |                        |            |              |
| Purchase of property and equipment — net                                                           | (14,495 )              | (9,553 )   | (4,830 )     |
| Purchase of marketable securities                                                                  | (579,958 )             | (452,864 ) | (157,962 )   |
| Sale and redemption of marketable securities                                                       | 368,253                | 408,831    | 60,000       |
| Investment in and advances to unconsolidated entities                                              | (217,160 )             | (132 )     | (58,286 )    |
| Return of investments in unconsolidated entities                                                   | 38,368                 | 43,309     | 9,696        |
| Investment in non-performing loan portfolios and foreclosed real estate                            | (30,090 )              | (66,867 )  | )            |
| Return of investments in non-performing loan portfolios and foreclosed real estate                 | 16,707                 | 2,806      | )            |
| Acquisition of a business                                                                          | (144,746 )             | )          | )            |
| Net cash used in investing activities                                                              | (563,121 )             | (74,470 )  | (151,382 )   |
| Cash flow provided by (used in) financing activities:                                              |                        |            |              |
| Net proceeds from issuance of senior notes                                                         | 578,696                |            |              |
| Proceeds from loans payable                                                                        | 1,002,934              | 921,251    | 927,233      |
| Principal payments of loans payable                                                                | (1,016,081 )           | (952,621 ) | (1,316,514 ) |
| Redemption of senior subordinated notes                                                            |                        |            | (47,872 )    |

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|                                                     |           |           |          |             |          |   |
|-----------------------------------------------------|-----------|-----------|----------|-------------|----------|---|
| Redemption of senior notes                          |           | (58,837   | )        | (46,114     | )        |   |
| Proceeds from stock-based benefit plans             | 33,747    | 25,531    |          | 7,589       |          |   |
| Excess tax benefits from stock-based compensation   | 5,776     |           |          | 4,954       |          |   |
| Purchase of treasury stock                          | (505      | )         | (49,102  | )           | (588     | ) |
| Change in noncontrolling interest                   |           | 2,678     |          | 320         |          |   |
| Net cash provided by (used in) financing activities | 604,567   | (111,100  | )        | (470,992    | )        |   |
| Net decrease in cash and cash equivalents           | (127,516  | )         | (132,720 | )           | (768,658 | ) |
| Cash and cash equivalents, beginning of year        | 906,340   | 1,039,060 |          | 1,807,718   |          |   |
| Cash and cash equivalents, end of year              | \$778,824 | \$906,340 |          | \$1,039,060 |          |   |
| See accompanying notes                              |           |           |          |             |          |   |

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## Notes to Consolidated Financial Statements

### 1. Significant Accounting Policies

#### Basis of Presentation

The accompanying consolidated financial statements include the accounts of Toll Brothers, Inc. (the “Company”), a Delaware corporation, and its majority-owned subsidiaries. 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.

#### Use of Estimates

The preparation of financial statements in conformity with U.S. generally accepted accounting principles (“GAAP”) requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

#### Cash and Cash Equivalents

Liquid investments or investments with original maturities of three months or less are classified as cash equivalents. The carrying value of these investments approximates their fair value.

#### Marketable Securities

Marketable securities are classified as available-for-sale, and accordingly, are stated at fair value, which is based on quoted market prices. Changes in unrealized gains and losses are excluded from earnings and are reported as other comprehensive income, net of income tax effects, if any.

#### Restricted Cash

Restricted cash primarily represents cash deposits collateralizing certain deductibles under insurance policies, outstanding letters of credit outside of our bank revolving credit facility and cash deposited into a voluntary employee benefit association to fund certain future employee benefits.

#### 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 reopens. 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 home building indebtedness in excess of qualified inventory, as defined in ASC 835-20, is charged to the Consolidated Statement of 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 are not recoverable.

**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: (i) 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; (ii) the expected sales prices and sales incentives to be offered in a community; (iii) 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; (iv) 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 (v) 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 (i) as to land under contract to be purchased, whether the contract will likely be terminated or renegotiated, and (ii) 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 is required to consolidate variable interest entities ("VIEs") in which it has a controlling financial interest in accordance with ASC 810, "Consolidation" ("ASC 810"). A controlling financial interest will have both of the following characteristics: (i) the power to direct the activities of a VIE that most significantly impact the VIE's economic performance and (ii) the obligation to absorb losses of the VIE that could potentially be significant to the VIE or the right to receive benefits from the VIE that could potentially be significant to the VIE.

The Company's variable interest in VIEs may be in the form of equity ownership, contracts to purchase assets, management services and development agreements between the Company and a VIE, loans provided by the Company to a VIE or other member and/or guarantees provided by members to banks and other third parties.

The Company has a significant number of land purchase contracts and several investments in unconsolidated entities which it evaluates in accordance with 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 VIEs and, if so, whether the Company is the primary beneficiary. The Company examines specific criteria and uses its judgment when determining if it is the primary beneficiary of a VIE. Factors considered in determining whether the Company is the primary beneficiary include risk and reward sharing, experience and financial condition

of other member(s), voting rights, involvement in day-to-day capital and operating decisions, representation on a VIE's executive committee, existence of unilateral kick-out rights or voting rights, level of economic disproportionality between the Company and the other member(s) and contracts to purchase assets from VIEs. The determination whether an entity is a VIE and, if so, whether the Company is primary beneficiary may require significant judgment.

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#### Property, Construction and Office Equipment

Property, construction and office equipment are recorded at cost and are stated net of accumulated depreciation of \$157.5 million and \$153.3 million at October 31, 2012 and 2011, respectively. Depreciation is recorded using the straight-line method over the estimated useful lives of the assets. In fiscal 2012, 2011 and 2010, the Company recognized \$8.1 million, \$9.8 million and \$14.1 million of depreciation expense, respectively.

#### Mortgage Loans Receivable

Residential mortgage loans held for sale are measured at fair value in accordance with the provisions of ASC 825, "Financial Instruments" ("ASC 825"). The Company believes the use of ASC 825 improves consistency of mortgage loan valuations between the date the borrower locks in the interest rate on the pending mortgage loan and the date of the mortgage loan sale. 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. Interest income on mortgage loans held for sale is calculated based upon the stated interest rate of each loan. In addition, the recognition of net origination costs and fees associated with residential mortgage loans originated are expensed as incurred. These gains and losses, interest income and origination costs and fees are recognized in other income - net in the accompanying Consolidated Statements of Operations.

#### Investments in and Advances to Unconsolidated Entities

The trends, uncertainties or other factors that have negatively impacted our business and the industry in general have also impacted the unconsolidated entities in which the Company has investments. In accordance with ASC 323, "Investments—Equity Method and Joint Ventures", the Company reviews each of its investments on a quarterly basis for indicators of impairment. A series of operating losses of an investee, the inability to recover the Company's invested capital, or other factors may indicate that a loss in value of the Company's investment in the unconsolidated entity has occurred. If a loss exists, the Company further reviews to determine if the loss is other than temporary, in which case, it writes down the investment to its fair value. The evaluation of the Company's investment in unconsolidated entities entails a detailed cash flow analysis using many estimates including but not limited to expected sales pace, expected sales prices, expected incentives, costs incurred and anticipated, sufficiency of financing and capital, competition, market conditions and anticipated cash receipts, in order to determine projected future distributions.

Each of the unconsolidated entities evaluates its inventory in a similar manner as the Company. See "Inventory" above for more detailed disclosure on the Company's evaluation of inventory. If a valuation adjustment is recorded by an unconsolidated entity related to its assets, the Company's proportionate share is reflected in the Company's income (loss) from unconsolidated entities with a corresponding decrease to its investment in unconsolidated entities.

The Company is a party to several joint ventures with independent third parties to develop and sell land that is owned by its joint venture partners. The Company recognizes its proportionate share of the earnings from the sale of home sites to other builders. The Company does not recognize earnings from the home sites it purchases from these ventures, but reduces its cost basis in the home sites by its share of the earnings from those home sites.

The Company is also a party to several other joint ventures. The Company recognizes its proportionate share of the earnings and losses of its unconsolidated entities.

#### Investments in Non-performing Loan Portfolios and Foreclosed Real Estate

The Company's investments in non-performing loan portfolios were initially recorded at cost which the Company believes was fair value. The fair value was determined by discounting the cash flows expected to be collected from the portfolios using a discount rate that management believes a market participant would use in determining fair value. Management estimated cash flows expected to be collected on a loan-by-loan basis considering the contractual terms of the loan, current and expected loan performance, the manner and timing of disposition, the nature and estimated fair value of real estate or other collateral, and other factors it deemed appropriate. The estimated fair value of the loans at acquisition was significantly less than the contractual amounts due under the terms of the loan agreements.

Since, at the acquisition date, the Company expected to collect less than the contractual amounts due under the terms of the loans based, at least in part, on the assessment of the credit quality of the borrowers, the loans are accounted for in accordance

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with ASC Topic 310-30, "Loans and Debt Securities Acquired with Deteriorated Credit Quality" (ASC 310-30). Under ASC 310-30, the accretable yield, or the amount by which the cash flows expected to be collected at the acquisition date exceeds the estimated fair value of the loan, is recognized in other income - net over the estimated remaining life of the loan using a level yield methodology provided the Company does not presently have the intention to utilize real estate secured by the loans for use in its operations or significantly improving the collateral for resale. The difference between the contractually required payments of the loan as of the acquisition date and the total cash flows expected to be collected, or non-accretable difference, is not recognized.

Pursuant to ASC 310-30, the Company aggregated loans with common risk characteristics into pools for purposes of recognizing interest income and evaluating changes in estimated cash flows. Loan pools are evaluated as a single loan for purposes of placing the pool on non-accrual status or evaluating loan impairment. Generally, a loan pool is classified as non-accrual when management is unable to reasonably estimate the timing or amount of cash flows expected to be collected from the loan pool or has serious doubts about further collectability of principal or interest. Proceeds received on non-accrual loan pools generally are either applied against principal or reported as other income - net, depending on management's judgment as to the collectability of principal. For the year ended October 31, 2012, none of the Company's loan pools were on non-accrual status.

A loan is removed from a loan pool only when the Company sells, forecloses or otherwise receives assets in satisfaction of the loan, or the loan is written off. Loans removed from a pool are removed at their amortized cost (unpaid principal balance less unamortized discount and provision for loan loss) as of the date of resolution.

The Company periodically re-evaluates cash flows expected to be collected for each loan pool based upon all available information as of the measurement date. Subsequent increases in cash flows expected to be collected are recognized prospectively through an adjustment to the loan pool's yield over its remaining life, which may result in a reclassification from non-accretable difference to accretable yield. Subsequent decreases in cash flows expected to be collected are evaluated to determine whether a provision for loan loss should be established. If decreases in expected cash flows result in a decrease in the estimated fair value of the loan pool below its amortized cost, the loan pool is deemed to be impaired and the Company will record a provision for loan losses to write the loan pool down to its estimated fair value. For the year ended October 31, 2012, the Company recorded a provision for loan losses of \$2.3 million. There were no loan losses recorded during the year ended October 31, 2011.

The Company's investments in non-performing loans are classified as held for investment because the Company has the intent and ability to hold them for the foreseeable future.

#### Real Estate Owned ("REO")

REO assets, either directly owned or owned through a participation arrangement, acquired through subsequent foreclosure or deed in lieu actions on non-performing loans are initially recorded at fair value based upon third-party appraisals, broker opinions of value, or internal valuation methodologies (which may include discounted cash flows, capitalization rate analysis or comparable transactional analysis). Unobservable inputs used in estimating the fair value of REO assets are based upon the best information available under the circumstances and take into consideration the financial condition and operating results of the asset, local market conditions, the availability of capital, interest and inflation rates and other factors deemed appropriate by management. REO assets acquired are reviewed to determine if they should be classified as "held and used" or "held for sale". REO classified as "held and used" is stated at carrying cost unless an impairment exists, in which case it is written down to fair value in accordance with ASC 360-10-35. REO classified as "held for sale" is carried at the lower of carrying amount or fair value less cost to sell. An impairment charge is recognized for any decreases in estimated fair value subsequent to the acquisition date. For both classifications, carrying costs incurred after the acquisition, including property taxes and insurance, are expensed.

#### Loan Sales

As part of its disposition strategy for the loan portfolios, the Company may sell certain loans to third-party purchasers. The Company recognizes gains or losses on the sale of mortgage loans when the loans have been legally isolated from the Company and it no longer maintains effective control over the transferred assets.

#### 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

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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. In January 2010, the FASB issued Accounting Standards Update ("ASU") No. 2010-06, "Improving Disclosure about Fair Value Measurements" ("ASU 2010-06"), which amended ASC 820 to increase disclosure requirements regarding recurring and non-recurring fair value measurements. The Company adopted ASU 2010-06 as of February 1, 2010, except for the disclosures about Level 3 fair value disclosures which were effective for the Company on November 1, 2011. The adoption of ASU 2010-06 did not have a material impact on the Company's consolidated financial position, results of operations or cash flows.

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.

#### Treasury Stock

Treasury stock is recorded at cost. Issuance of treasury stock is accounted for on a first-in, first-out basis. Differences between the cost of treasury stock and the re-issuance proceeds are charged to additional paid-in capital.

#### Revenue and Cost Recognition

The construction time of the Company's homes is generally less than one year, although some homes may take more than one year to complete. Revenues and cost of revenues from these home sales are recorded at the time each home is delivered and title and possession are transferred to the buyer. For single family detached homes, closing normally occurs shortly after construction is substantially completed. In addition, the Company has several high-rise/mid-rise projects that do not qualify for percentage of completion accounting in accordance with ASC 360, which are included in this category of revenues and costs. Based upon the current accounting rules and interpretations, the Company does not believe that any of its current or future communities currently qualify or will qualify in the future for percentage of completion accounting.

For the Company's standard attached and detached homes, land, land development and related costs, both incurred and estimated to be incurred in the future, are amortized to the cost of homes closed based upon the total number of homes to be constructed in each community. Any changes resulting from a change in the estimated number of homes to be constructed or in the estimated costs subsequent to the commencement of delivery of homes are allocated to the remaining undelivered homes in the community. Home construction and related costs are charged to the cost of homes closed under the specific identification method. The estimated land, common area development and related costs of master planned communities, including the cost of golf courses, net of their estimated residual value, are allocated to individual communities within a master planned community on a relative sales value basis. Any changes resulting from a change in the estimated number of homes to be constructed or in the estimated costs are allocated to the remaining home sites in each of the communities of the master planned community.

For high-rise/mid-rise projects that do not qualify for percentage of completion accounting, land, land development, construction and related costs, both incurred and estimated to be incurred in the future, are generally amortized to the cost of units closed based upon an estimated relative sales value of the units closed to the total estimated sales value. Any changes resulting from a change in the estimated total costs or revenues of the project are allocated to the remaining units to be delivered.

Forfeited customer deposits: Forfeited customer deposits are recognized in other income - net in the period in which the Company determines that the customer will not complete the purchase of the home and it has the right to retain the deposit.

Sales Incentives: In order to promote sales of its homes, the Company grants its home buyers sales incentives from time to time. These incentives will vary by type of incentive and by amount on a community-by-community and home-by-home basis. Incentives that impact the value of the home or the sales price paid, such as special or additional options, are generally reflected as a reduction in sales revenues. Incentives that the Company pays to an outside party, such as paying some or all of a home buyer's closing costs, are recorded as an additional cost of revenues. Incentives



are recognized at the time the home is delivered to the home buyer and the Company receives the sales proceeds.

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#### Advertising Costs

The Company expenses advertising costs as incurred. Advertising costs were \$11.4 million, \$11.1 million and \$9.2 million for the years ended October 31, 2012, 2011 and 2010, respectively.

#### Warranty Costs

The Company provides all of its home buyers with a limited warranty as to workmanship and mechanical equipment. The Company also provides many of its home buyers with a limited ten-year warranty as to structural integrity. The Company accrues for expected warranty costs at the time each home is closed and title and possession have been transferred to the buyer. Costs are accrued based upon historical experience.

#### Insurance Costs

The Company accrues for the expected costs associated with the deductibles and self-insured amounts under its various insurance policies.

#### Stock-Based Compensation

The Company accounts for its stock-based compensation in accordance with ASC 718, "Compensation — Stock Compensation" ("ASC 718"). The Company used a lattice model for the valuation for its stock option grants. The option pricing models used are designed to estimate the value of options that, unlike employee stock options and restricted stock units, can be traded at any time and are transferable. In addition to restrictions on trading, employee stock options and restricted stock units may include other restrictions such as vesting periods. Further, such models require the input of highly subjective assumptions, including the expected volatility of the stock price.

#### Income Taxes

The Company accounts for income taxes in accordance with ASC 740, "Income Taxes" ("ASC 740"). Deferred tax assets and liabilities are recorded based on temporary differences between the amounts reported for financial reporting purposes and the amounts reported for income tax purposes. In accordance with the provisions of ASC 740, the Company assesses the realizability of its deferred tax assets. A valuation allowance must be established when, based upon available evidence, it is more likely than not that all or a portion of the deferred tax assets will not be realized. See "Income Taxes — Valuation Allowance" below.

Federal and state income taxes are calculated on reported pre-tax earnings (losses) based on current tax law and also include, in the applicable period, the cumulative effect of any changes in tax rates from those used previously in determining deferred tax assets and liabilities. Such provisions (benefits) differ from the amounts currently receivable or payable because certain items of income and expense are recognized for financial reporting purposes in different periods than for income tax purposes. Significant judgment is required in determining income tax provisions (benefits) and evaluating tax positions. The Company establishes reserves for income taxes when, despite the belief that its tax positions are fully supportable, it believes that its positions may be challenged and disallowed by various tax authorities. The consolidated tax provisions (benefits) and related accruals include the impact of such reasonably estimable disallowances as deemed appropriate. To the extent that the probable tax outcome of these matters changes, such changes in estimates will impact the income tax provision (benefit) in the period in which such determination is made.

ASC 740 clarifies the accounting for uncertainty in income taxes recognized and prescribes a recognition threshold and measurement attributes for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. ASC 740 also provides guidance on de-recognition, classification, interest and penalties, accounting in interim periods, disclosure and transition. ASC 740 requires a company to recognize the financial statement effect of a tax position when it is "more-likely-than-not" (defined as a substantiated likelihood of more than 50%), based on the technical merits of the position, that the position will be sustained upon examination. A tax position that meets the "more-likely-than-not" recognition threshold is measured to determine the amount of benefit to be recognized in the financial statements based upon the largest amount of benefit that is greater than 50% likely of being realized upon ultimate settlement with a taxing authority that has full knowledge of all relevant information. The inability of the Company to determine that a tax position meets the "more-likely-than-not" recognition threshold does not mean that the Internal Revenue Service ("IRS") or any other taxing authority will disagree with the position that the Company has taken.

If a tax position does not meet the “more-likely-than-not” recognition threshold, despite the Company’s belief that its filing position is supportable, the benefit of that tax position is not recognized in the Consolidated Statements of Operations and the Company is required to accrue potential interest and penalties until the uncertainty is resolved. Potential interest and penalties

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are recognized as a component of the provision for income taxes which is consistent with the Company's historical accounting policy. Differences between amounts taken in a tax return and amounts recognized in the financial statements are considered unrecognized tax benefits. The Company believes that it has a reasonable basis for each of its filing positions and intends to defend those positions if challenged by the IRS or other taxing jurisdiction. If the IRS or other taxing authorities do not disagree with the Company's position, and after the statute of limitations expires, the Company will recognize the unrecognized tax benefit in the period that the uncertainty of the tax position is eliminated.

#### Income Taxes — Valuation Allowance

Significant judgment is applied in assessing the realizability of deferred tax assets. In accordance with GAAP, a valuation allowance is established against a deferred tax asset if, based on the available evidence, it is more-likely-than-not that such asset will not be realized. The realization of a deferred tax asset ultimately depends on the existence of sufficient taxable income in either the carryback or carryforward periods under tax law. The Company assesses the need for valuation allowances for deferred tax assets based on GAAP's "more-likely-than-not" realization threshold criteria. In the Company's assessment, appropriate consideration is given to all positive and negative evidence related to the realization of the deferred tax assets. Forming a conclusion that a valuation allowance is not needed is difficult when there is negative evidence such as cumulative losses in recent years. This assessment considers, among other matters, the nature, consistency and magnitude of current and cumulative income and losses, forecasts of future profitability, the duration of statutory carryback or carryforward periods, the Company's experience with operating loss and tax credit carryforwards being used before expiration, and tax planning alternatives.

The Company's assessment of the need for a valuation allowance on its deferred tax assets includes assessing the likely future tax consequences of events that have been recognized in its consolidated financial statements or tax returns. Changes in existing tax laws or rates could affect the Company's actual tax results and its future business results may affect the amount of its deferred tax liabilities or the valuation of its deferred tax assets over time. The Company's accounting for deferred tax assets represents its best estimate of future events.

Due to uncertainties in the estimation process, particularly with respect to changes in facts and circumstances in future reporting periods (carryforward period assumptions), actual results could differ from the estimates used in the Company's analysis. The Company's assumptions require significant judgment because the residential home building industry is cyclical and is highly sensitive to changes in economic conditions. If the Company's results of operations are less than projected and there is insufficient objectively verifiable positive evidence to support the "more-likely-than-not" realization of its deferred tax assets, a valuation allowance would be required to reduce or eliminate its deferred tax assets.

#### Noncontrolling Interest

The Company has a 67% interest in an entity that is developing land. The financial statements of this entity are consolidated in the Company's consolidated financial statements. The amounts shown in the Company's Consolidated Balance Sheets under "Noncontrolling interest" represent the noncontrolling interest attributable to the 33% minority interest not owned by the Company.

#### Geographic Segment Reporting

The Company has determined that its home building operations operate in four geographic segments: North, Mid-Atlantic, South and West. The states comprising each geographic segment are as follows:

North: Connecticut, Illinois, Massachusetts, Michigan, Minnesota, New Jersey and New York

Mid-Atlantic: Delaware, Maryland, Pennsylvania and Virginia

South: Florida, North Carolina and Texas

West: Arizona, California, Colorado, Nevada and Washington

In fiscal 2011, the Company discontinued the sale of homes in South Carolina. In fiscal 2010, the Company discontinued the sale of homes in West Virginia and Georgia. The operations in South Carolina, West Virginia and Georgia were immaterial to the South and Mid-Atlantic geographic segments.



### Related Party Transactions

See Note 4 “Investments and Advances to Unconsolidated Entities” for information regarding Toll Brothers Realty Trust.

### Reclassification

Certain prior period amounts have been reclassified to conform to the fiscal 2012 presentation.

### Revisions

The Company's Consolidated Statements of Operations have been revised to present the line entitled “Interest expense” as a separate line below the line entitled “Income (loss) from operations.”

In June 2011, the FASB issued ASU No. 2011-05, “Statement of Comprehensive Income” (“ASU 2011-05”), which requires entities to present net income and other comprehensive income in either a single continuous statement or in two separate, but consecutive, statements of net income and other comprehensive income. The Company has included Consolidated Statements of Comprehensive Income for the years ended October 31, 2012, 2011 and 2010 as required by ASU 2011-05 in two separate, but consecutive, statements of net income and comprehensive income. The adoption of this guidance, which relates to presentation only, did not have a material impact on the Company’s consolidated financial position, results of operations or cash flows.

Note 19 - Supplemental Guarantor Information has been revised in order to (i) retrospectively reflect the transfer of the balance sheets, statements of operations and cash flows of certain non-guarantor subsidiaries to guarantor subsidiaries as a result of such entities becoming guarantor subsidiaries as of April 30, 2013 and the reclassification of guarantor and non-guarantor intercompany advances and equity balances with corresponding offsets in the elimination column, (ii) revise the presentation of cash flows from operating activities, financing activities and investing activities in the consolidating statements of cash flows for the years ended October 31, 2012, 2011 and 2010 to reflect intercompany activity, which had previously been included in cash flow from operating activities, as cash flow from investing activities and cash flow from financing activities and (iii) present the line entitled “Interest expense” as a separate line below the line entitled “Income (loss) from operations” and include lines for other comprehensive income (loss) and total comprehensive income (loss) in each of the consolidating statements of operations presented. See Note 19 in the notes to the consolidated financial statements for more detail.

### 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 at the date of acquisition 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. In fiscal 2012, the Company delivered 201 homes and generated revenues of \$99.7 million through its CamWest operations.

### 3. Inventory

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

|                                        | 2012        | 2011        |
|----------------------------------------|-------------|-------------|
| Land controlled for future communities | \$56,300    | \$46,581    |
| Land owned for future communities      | 1,040,373   | 979,145     |
| Operating communities                  | 2,664,514   | 2,390,997   |
|                                        | \$3,761,187 | \$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 year 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.

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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 at October 31, 2012, 2011 and 2010 is provided in the table below (\$ amounts in thousands).

|                                    | 2012      | 2011      | 2010      |
|------------------------------------|-----------|-----------|-----------|
| Land owned for future communities: |           |           |           |
| Number of communities              | 40        | 43        | 36        |
| Carrying value (in thousands)      | \$240,307 | \$256,468 | \$212,882 |
| Operating communities:             |           |           |           |
| Number of communities              | 5         | 2         | 13        |
| Carrying value (in thousands)      | \$34,685  | \$11,076  | \$78,100  |

The Company provided for inventory impairment charges and the expensing of costs that it believed not to be recoverable in each of the three fiscal years ended October 31, 2012, 2011 and 2010 as shown in the table below (amounts in thousands).

| Charge:                                | 2012     | 2011     | 2010      |
|----------------------------------------|----------|----------|-----------|
| Land controlled for future communities | \$451    | \$17,752 | \$6,069   |
| Land owned for future communities      | 1,218    | 17,000   | 55,700    |
| Operating communities                  | 13,070   | 17,085   | 53,489    |
|                                        | \$14,739 | \$51,837 | \$115,258 |

For information related to the number of operating communities that the Company reviewed for potential impairment, the number of operating communities in which the Company recognized impairment charges, the amount of impairment charges recognized and the fair value of the communities for which an impairment charge was recorded, net of the charge, see Note 12, "Fair Value Disclosures".

At October 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 October 31, 2012, the Company determined that 64 land purchase contracts, with an aggregate purchase price of \$540.8 million, on which it had made aggregate deposits totaling \$25.5 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 in each of the three fiscal years ended October 31, 2012, 2011 and 2010 was as follows (amounts in thousands):

|                                                                           | 2012      | 2011      | 2010      |
|---------------------------------------------------------------------------|-----------|-----------|-----------|
| Interest capitalized, beginning of year                                   | \$298,757 | \$267,278 | \$259,818 |
| Interest incurred                                                         | 125,783   | 114,761   | 114,975   |
| Interest expensed to cost of revenues                                     | (87,117)  | (77,623)  | (75,876)  |
| Interest directly expensed in the consolidated statements of operations   | —         | (1,504)   | (22,751)  |
| Write-off against other income                                            | (3,404)   | (1,155)   | (8,369)   |
| Interest reclassified to property, construction and office equipment      |           | (3,000)   | (519)     |
| Capitalized interest applicable to investments in unconsolidated entities | (3,438)   |           |           |
| Interest capitalized, end of year                                         | \$330,581 | \$298,757 | \$267,278 |

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 October 31, 2012, 2011 and 2010 would have been reduced by



approximately \$47.9 million, \$54.0 million and \$53.3 million, respectively.

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During fiscal 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.

#### 4. Investments in and Advances to Unconsolidated Entities

The Company has investments in and advances to various unconsolidated entities. At October 31, 2012, the Company's aggregate investments in and advances to these unconsolidated entities amounted to \$330.6 million, it had \$97.0 million of funding commitments to them and had guaranteed \$9.8 million of payments related to these 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. At October 31, 2012, the Company had approximately \$116.5 million 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.

As of October 31, 2012, the Company had recognized cumulative impairment charges in connection with its current Development Joint Ventures of \$95.2 million. These impairment charges are attributable to investments in certain Development Joint Ventures where the Company determined there were losses in value in the investments that were other than temporary. In fiscal 2011, the Company recognized impairment charges in connection with its Development Joint Ventures of \$25.7 million. The Company did not recognize any impairment charges in connection with the Development Joint Ventures in fiscal 2012 or 2010. In fiscal 2012, the Company recovered \$2.3 million of costs it previously incurred.

The impairment and recoveries related to Development Joint Ventures 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 October 31, 2012 for any remaining liabilities with respect to Inspirada.

The Company's investment in Inspirada is carried at a nominal value.

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. In November 2012, we entered into an Amended and Restated Operating Agreement with our partner in this joint venture which, among other things, provided for our purchase of approximately 800 lots in the project, and the commitment by each partner to contribute an additional \$10.0 million to the joint venture, if needed.

##### Planned Community Joint Venture

The Company is a participant in a joint venture with an unrelated party to develop a single master planned community (the "Planned Community Joint Venture"). At October 31, 2012, the Company had an investment of \$31.3 million in this Planned Community Joint Venture. At October 31, 2012, each participant had agreed to contribute additional funds up to \$8.3 million, if required. At October 31, 2012, this joint venture did not have any indebtedness. The Company recognized impairment charges in connection with the Planned Community Joint Venture of \$15.2 million in fiscal 2011. The Company did not recognize any impairment charges in connection with the Planned Community Joint Venture in fiscal 2012 or fiscal 2010.

#### Other Joint Ventures

At October 31, 2012, the Company had an aggregate of \$142.2 million of investments in a number of joint ventures with unrelated parties to develop luxury for-sale and rental residential units, commercial space and a hotel ("Other Joint Ventures"). At October 31, 2011, the Company had commitments to make \$85.2 million of additional contributions to these joint ventures and had also guaranteed approximately \$9.8 million of payments related to these joint ventures. As of October 31, 2012, the Company had recognized cumulative impairment charges against its investments in these joint ventures and its pro rata share of impairment charges recognized by these joint ventures in the amount of \$63.9 million. The Company did not recognize any impairment charges in connection with these joint ventures in fiscal 2012, 2011 or 2010.

In December 2011, the Company entered into a joint venture in which it has a 50% interest to develop a high-rise luxury for-sale/rental project in the metro-New York market. At October 31, 2012, the Company had an investment of \$87.3 million and was committed to make additional investments of \$37.5 million in this joint venture. Under the terms of the agreement, upon completion of the construction of the building, the Company will acquire ownership of the top 18 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 the third quarter of fiscal 2012, the Company invested in a joint venture in which it has a 50% interest that will develop a high-rise luxury condominium/hotel project in the metro-New York market. At October 31, 2012, the Company had invested \$5.4 million in this joint venture. The Company expects to make additional investments of approximately \$47.7 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.

In the fourth quarter of fiscal 2012, the Company invested in a joint venture in which it has a 50% interest that will develop a multi-family residential apartment project containing approximately 398 units. At October 31, 2012, the Company had an investment of \$15.4 million in this joint venture. The joint venture expects to borrow funds to complete the construction of this project. The Company does not have any additional commitment to fund this joint venture.

#### Structured Asset Joint Venture

In July 2010, the Company, through Gibraltar, invested 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 October 31, 2012, the Company had an investment of \$37.3 million in this Structured Asset Joint Venture. At October 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.

#### 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 October 31, 2012, the Company had an investment of \$3.2 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 October 31, 2012, the Company had a net investment in the Trust of \$0.1 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 \$2.7 million, \$2.9 million and \$3.1 million in fiscal 2012, 2011 and 2010, respectively.

#### General

At October 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 \$40.9 million of impairment charges related to its investments in and advances to unconsolidated entities in fiscal 2011. The Company did not recognize any impairment charges related to its investments in and advances to unconsolidated entities in fiscal 2012 or 2010. In fiscal 2012, the Company recovered \$2.3 million of costs it previously incurred. Impairment charges and recoveries related to these entities are included in "Income (loss) from unconsolidated entities" in the Company's Consolidated Statements of Operations.

At October 31, 2012, the Company determined that two of its joint ventures were VIEs under the guidance within ASC810. However, the Company concluded that it was not the primary beneficiary of the VIEs because the power to direct the activities of these VIEs that most significantly impact their performance was shared by the Company and VIEs' other members. Business plans, budgets and other major decisions are required to be unanimously approved by all members. Management and other fees earned by the Company are nominal and believed to be at market rates and there is no significant economic disproportionality between the Company and other members.

The condensed balance sheets, as of the dates indicated, and the condensed 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:

|                                                            | October 31, 2012                   |                                       |                                              |                                         |           |
|------------------------------------------------------------|------------------------------------|---------------------------------------|----------------------------------------------|-----------------------------------------|-----------|
|                                                            | Develop-<br>ment joint<br>ventures | Home<br>building<br>joint<br>ventures | Toll<br>Brothers<br>Realty Trust<br>I and II | Structured<br>asset<br>joint<br>venture | Total     |
| Cash and cash equivalents                                  | 17,189                             | 40,126                                | 11,005                                       | 44,176                                  | 112,496   |
| Inventory                                                  | 255,561                            | 294,724                               | 5,643                                        |                                         | 555,928   |
| Non-performing loan portfolio                              |                                    |                                       |                                              | 226,315                                 | 226,315   |
| Rental properties                                          |                                    |                                       | 173,767                                      |                                         | 173,767   |
| Real estate owned                                          |                                    |                                       |                                              | 254,250                                 | 254,250   |
| Other assets (1)                                           | 12,427                             | 72,301                                | 9,182                                        | 237,476                                 | 331,386   |
| Total assets                                               | 285,177                            | 407,151                               | 199,597                                      | 762,217                                 | 1,654,142 |
| Debt (1)                                                   | 96,862                             | 34,184                                | 195,359                                      | 311,801                                 | 638,206   |
| Other liabilities                                          | 13,890                             | 5,707                                 | 5,202                                        | 561                                     | 25,360    |
| Members' equity                                            | 174,425                            | 367,260                               | (964                                         | ) 179,942                               | 720,663   |
| Noncontrolling interest                                    |                                    |                                       |                                              | 269,913                                 | 269,913   |
| Total liabilities and equity                               | 285,177                            | 407,151                               | 199,597                                      | 762,217                                 | 1,654,142 |
| Company's net investment in<br>unconsolidated entities (2) | 116,452                            | 173,465                               | 3,357                                        | 37,343                                  | 330,617   |
|                                                            | October 31, 2011                   |                                       |                                              |                                         |           |
|                                                            | Develop-<br>ment joint<br>ventures | Home<br>building<br>joint<br>ventures | Toll<br>Brothers<br>Realty Trust<br>I and II | Structured<br>asset<br>joint<br>venture | Total     |
| Cash and cash equivalents                                  | 14,190                             | 10,663                                | 11,726                                       | 48,780                                  | 85,359    |
| Inventory                                                  | 37,340                             | 170,239                               | 5,501                                        |                                         | 213,080   |
| 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)                                           | 331,315                            | 20,080                                | 9,675                                        | 159,143                                 | 520,213   |
| 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<br>unconsolidated entities (2) | 17,098                             | 72,734                                | 1,872                                        | 34,651                                  | 126,355   |

Included in other assets at October 31, 2012 and 2011 of the Structured Asset Joint Venture is \$237.5 million and (1)\$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.

Differences between the Company's net investment in unconsolidated entities and its underlying equity in the net assets of the entities are primarily a result of the difference in the purchase price of a joint venture interest and its (2) underlying equity, impairments related to the Company's investments in unconsolidated entities, a loan made to one of the entities by the Company, interest capitalized on the Company's investment and distributions from entities in excess of the carrying amount of the Company's net investment.



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Condensed Statements of Operations:

|                                                                    | For the year ended October 31, 2012 |                                       |                                              |                                         |   |          |
|--------------------------------------------------------------------|-------------------------------------|---------------------------------------|----------------------------------------------|-----------------------------------------|---|----------|
|                                                                    | Develop-<br>ment joint<br>ventures  | Home<br>building<br>joint<br>ventures | Toll<br>Brothers<br>Realty Trust<br>I and II | Structured<br>asset<br>joint<br>venture |   | Total    |
| Revenues                                                           | 39,278                              | 89,947                                | 37,035                                       | 31,686                                  |   | 197,946  |
| Cost of revenues                                                   | 36,315                              | 65,068                                | 13,985                                       | 32,828                                  |   | 148,196  |
| Other expenses                                                     | 1,414                               | 4,116                                 | 20,587                                       | 8,646                                   |   | 34,763   |
| Gain on disposition of loans and REO                               |                                     |                                       |                                              | (42,244)                                | ) | (42,244) |
| Total expenses                                                     | 37,729                              | 69,184                                | 34,572                                       | (770)                                   | ) | 140,715  |
| Income from operations                                             | 1,549                               | 20,763                                | 2,463                                        | 32,456                                  |   | 57,231   |
| Other income                                                       | 2,658                               | 157                                   |                                              | 691                                     |   | 3,506    |
| Net income before noncontrolling interest                          | 4,207                               | 20,920                                | 2,463                                        | 33,147                                  |   | 60,737   |
| Less: Net income attributable to noncontrolling interest           |                                     |                                       |                                              | 19,888                                  |   | 19,888   |
| Net income                                                         | 4,207                               | 20,920                                | 2,463                                        | 13,259                                  |   | 40,849   |
| Company's equity in earnings of unconsolidated entities (3)        | 3,996                               | 14,985                                | 1,919                                        | 2,692                                   |   | 23,592   |
|                                                                    | For the year ended October 31, 2011 |                                       |                                              |                                         |   |          |
|                                                                    | Develop-<br>ment joint<br>ventures  | Home<br>building<br>joint<br>ventures | Toll<br>Brothers<br>Realty Trust<br>I and II | Structured<br>asset<br>joint<br>venture |   | Total    |
| Revenues                                                           | 4,624                               | 242,326                               | 37,728                                       | 46,187                                  |   | 330,865  |
| Cost of revenues                                                   | 3,996                               | 191,922                               | 15,365                                       | 30,477                                  |   | 241,760  |
| Other expenses                                                     | 1,527                               | 8,954                                 | 18,808                                       | 10,624                                  |   | 39,913   |
| Gain on disposition of loans and REO                               |                                     |                                       |                                              | (61,406)                                | ) | (61,406) |
| Total expenses                                                     | 5,523                               | 200,876                               | 34,173                                       | (20,305)                                | ) | 220,267  |
| Income (loss) from operations                                      | (899)                               | ) 41,450                              | 3,555                                        | 66,492                                  |   | 110,598  |
| Other income                                                       | 9,498                               | 1,605                                 |                                              | 252                                     |   | 11,355   |
| Net income before noncontrolling interest                          | 8,599                               | 43,055                                | 3,555                                        | 66,744                                  |   | 121,953  |
| Less: Net income attributable to noncontrolling interest           |                                     |                                       |                                              | 40,048                                  |   | 40,048   |
| Net income                                                         | 8,599                               | 43,055                                | 3,555                                        | 26,696                                  |   | 81,905   |
| Company's equity in (loss) earnings of unconsolidated entities (3) | (25,272)                            | ) 15,159                              | 3,580                                        | 5,339                                   |   | (1,194)  |

For the year ended October 31, 2010

|                                                                | Development<br>joint ventures | Home building<br>joint ventures | Toll Brothers<br>Realty Trust I<br>and II | Structured<br>asset<br>joint<br>venture | Total   |
|----------------------------------------------------------------|-------------------------------|---------------------------------|-------------------------------------------|-----------------------------------------|---------|
| Revenues                                                       | 7,370                         | 132,878                         | 34,755                                    | 16,582                                  | 191,585 |
| Cost of revenues                                               | 6,402                         | 106,638                         | 13,375                                    | 6,693                                   | 133,108 |
| Other expenses                                                 | 1,522                         | 8,121                           | 18,693                                    | 2,977                                   | 31,313  |
| Loss on disposition of loans and<br>REO                        |                               |                                 |                                           | 5,272                                   | 5,272   |
| Total expenses                                                 | 7,924                         | 114,759                         | 32,068                                    | 14,942                                  | 169,693 |
| Income (loss) from operations                                  | (554                          | ) 18,119                        | 2,687                                     | 1,640                                   | 21,892  |
| Other income                                                   | 13,616                        | 572                             |                                           | 5                                       | 14,193  |
| Net income before noncontrolling<br>interest                   | 13,062                        | 18,691                          | 2,687                                     | 1,645                                   | 36,085  |
| Less: Net income attributable to<br>noncontrolling interest    |                               |                                 |                                           | 987                                     | 987     |
| Net income                                                     | 13,062                        | 18,691                          | 2,687                                     | 658                                     | 35,098  |
| Company's equity in earnings of<br>unconsolidated entities (3) | 10,664                        | 11,272                          | 1,402                                     | 132                                     | 23,470  |

Differences between the Company's equity in earnings (losses) of unconsolidated entities and the underlying net income of the entities are primarily a result of impairments related to the Company's investments in unconsolidated (3) 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 that reduces the Company's cost basis of the home sites.

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

The Company's investment in non-performing loan portfolios consisted of the following at October 31, 2012 and 2011 (amounts in thousands):

|                            | 2012     | 2011       |
|----------------------------|----------|------------|
| Unpaid principal balance   | \$99,693 | \$171,559  |
| Discount on acquired loans | (62,524  | ) (108,325 |
| Carrying value             | \$37,169 | \$63,234   |

In fiscal 2012, Gibraltar acquired 12 non-performing loans with an unpaid principal balance of approximately \$56.6 million. The purchase included non-performing loans primarily secured by commercial land and buildings in various stages of completion.

In September 2011, Gibraltar acquired 38 non-performing loans with an unpaid principal balance of approximately \$71.4 million. The purchase included residential acquisition, development and construction loans secured by properties at various stages of completion.

In March 2011, the Company, through Gibraltar, acquired a 60% participation in a portfolio of non-performing loans. The portfolio of 83 loans, with an unpaid principal balance of approximately \$200.3 million consisted primarily of residential acquisition, development and construction loans secured by properties at various stages of completion. The Company oversees the day-to-day management of the portfolio in accordance with the business plans that are jointly approved by the Company and the co-participant. The Company receives a management fee for such services. The Company recognizes income from the loan portfolio based upon its participation interest until such time as the portfolio meets certain internal rates of return as stipulated in the participation agreement. Upon reaching the stipulated internal rates of return, the Company will be entitled to receive additional income above its participation percentage from the portfolio.





The following table summarizes, for the portfolios acquired in fiscal 2012 and 2011, the accretable yield and the non-accretable difference on the Company's investment in the non-performing loan portfolios as of their acquisition date (amounts in thousands).

|                                                     | 2012     | 2011      |
|-----------------------------------------------------|----------|-----------|
| Contractually required payments, including interest | \$58,234 | \$200,047 |
| Non-accretable difference                           | (8,235   | ) (81,723 |
| Cash flows expected to be collected                 | 49,999   | 118,324   |
| Accretable difference                               | (20,514  | ) (51,462 |
| Non-performing loans carrying amount                | \$29,485 | \$66,862  |

The activity in the accretable yield for the Company's investments in the non-performing loan portfolios for the years ended October 31, 2012 and 2011 was as follows (amounts in thousands):

|                              | 2012     | 2011     |
|------------------------------|----------|----------|
| Balance, beginning of period | \$42,326 | \$—      |
| Loans acquired               | 20,514   | 51,462   |
| Additions                    | 5,539    |          |
| Deletions                    | (40,227  | ) (4,656 |
| Accretion                    | (10,956  | ) (4,480 |
| Balance, end of period       | \$17,196 | \$42,326 |

Additions primarily represent reclassifications from nonaccretable yield to accretable yield and the impact of impairments. 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 gather additional information regarding the loans and the underlying collateral, the accretable yield may change. Therefore, the amount of accretable income recorded in the years ended October 31, 2012 and 2011 is not necessarily indicative of expected future results. Deletions primarily represent disposal of loans, which includes foreclosure of the underlying collateral and result in the removal of the loans from the accretable yield portfolios.

#### Real Estate Owned

The following table presents the activity in REO at October 31, 2012 and 2011 (amounts in thousands):

|                              | 2012     | 2011    |
|------------------------------|----------|---------|
| Balance, beginning of period | \$5,939  | \$—     |
| Additions                    | 54,174   | 5,939   |
| Sales                        | (1,353   | )       |
| Impairments                  | (126     | )       |
| Depreciation                 | (281     | )       |
| Balance, end of period       | \$58,353 | \$5,939 |

As of October 31, 2012, approximately \$5.9 million and \$52.4 million of REO was classified as held-for-sale and held-and-used, respectively. At October 31, 2011, all REO was classified as held-and-used.

#### General

The Company's earnings from its Gibraltar's operations, excluding its equity earnings from its investment in the Structured Asset Joint Venture, are included in other income - net in its Consolidated Statements of Operations. In the years ended October 31, 2012 and 2011, the Company recognized \$4.5 million and \$1.5 million of earnings, respectively, from Gibraltar's operations.

## 6. Credit Facility, Loans Payable, Senior Notes, Senior Subordinated Notes and Mortgage Company Warehouse Loan Credit Facility

On October 22, 2010, the Company entered into an \$885 million revolving credit facility (“Credit Facility”) with 12 banks, which extends to October 2014. At October 31, 2012, the Company had no outstanding borrowings under the Credit Facility but had outstanding letters of credit of approximately \$70.1 million. At October 31, 2012, interest would have been payable on borrowings under the Credit Facility at 2.75% (subject to adjustment based upon the Company’s debt rating and leverage ratios) above the Eurodollar rate or at other specified variable rates as selected by the Company from time to time. Under the terms of the Credit Facility, the Company is not permitted to allow its maximum leverage ratio (as defined in the Credit Facility agreement) to exceed 1.75 to 1.00 and is required to maintain a minimum tangible net worth (as defined in the Credit Facility agreement) of approximately \$2.16 billion at October 31, 2012. At October 31, 2012, the Company’s leverage ratio was approximately 0.31 to 1.00 and its tangible net worth was approximately \$3.07 billion. Based upon the minimum tangible net worth requirement, the Company’s ability to pay dividends and repurchase its common stock was limited to an aggregate amount of approximately \$1.21 billion at October 31, 2012. At October 31, 2012, the Company is obligated to pay an undrawn commitment fee of 0.63% (subject to adjustment based upon the Company’s debt rating and leverage ratios) based on the average daily unused amount of the facility.

### Loans Payable

The Company’s loans payable represent purchase money mortgages on properties the Company has acquired that the seller has financed and various revenue bonds that were issued by government entities on behalf of the Company to finance community infrastructure and the Company’s manufacturing facilities. Information regarding the Company’s loans payable at October 31, 2012 and 2011 is included in the table below (\$ amounts in thousands).

|                                           |               |   |               |   |
|-------------------------------------------|---------------|---|---------------|---|
|                                           | 2012          |   | 2011          |   |
| Aggregate loans payable at October 31     | \$99,817      |   | \$106,556     |   |
| Weighted-average interest rate            | 3.64          | % | 3.99          | % |
| Interest rate range                       | 0.26% - 7.87% |   | 0.16% - 7.87% |   |
| Loans secured by assets                   |               |   |               |   |
| Carrying value of loans secured by assets | \$98,952      |   | \$105,092     |   |
| Carrying value of assets securing loans   | \$311,104     |   | \$283,169     |   |

### Senior Notes

At October 31, 2012 and 2011, the Company’s senior notes consisted of the following (amounts in thousands):

|                                                       |             |   |             |   |
|-------------------------------------------------------|-------------|---|-------------|---|
|                                                       | 2012        |   | 2011        |   |
| 6.875% Senior Notes due November 15, 2012             | \$59,068    |   | \$139,776   |   |
| 5.95% Senior Notes due September 15, 2013             | 104,785     |   | 141,635     |   |
| 4.95% Senior Notes due March 15, 2014                 | 267,960     |   | 267,960     |   |
| 5.15% Senior Notes due May 15, 2015                   | 300,000     |   | 300,000     |   |
| 8.91% Senior Notes due October 15, 2017               | 400,000     |   | 400,000     |   |
| 6.75% Senior Notes due November 1, 2019               | 250,000     |   | 250,000     |   |
| 5.875% Senior Notes due February 15, 2022             | 419,876     |   |             |   |
| 0.5% Exchangeable Senior Notes due September 15, 2032 | 287,500     |   |             |   |
| Bond discount                                         | (8,726      | ) | (8,399      | ) |
|                                                       | \$2,080,463 |   | \$1,490,972 |   |

The senior notes are the unsecured obligations of Toll Brothers Finance Corp., a 100%-owned subsidiary of the Company. The payment of principal and interest is fully and unconditionally guaranteed, jointly and severally, by the Company and a majority of its home building subsidiaries (together with Toll Brothers Finance Corp., the “Senior Note Parties”). The senior notes rank equally in right of payment with all the Senior Note Parties’ existing and future unsecured senior indebtedness, including the Credit Facility. The senior notes are structurally subordinated to the prior claims of creditors, including trade creditors, of the subsidiaries of the Company that are not guarantors of the senior notes. The senior notes, other than the 0.5% Exchangeable Senior Notes due 2032 (“0.5% Senior Notes”), are redeemable in whole or in part at any time at the option of the Company, at



prices that vary based upon the then-current rates of interest and the remaining original term of the notes. The 0.5% Senior Notes are not redeemable by the Company prior to September 15, 2017.

In February 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. In March 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 \$1.2 million in fiscal 2012 representing the aggregate costs associated with the exchange of both series of notes; these expenses are included in selling, general and administrative expenses in the Consolidated Statement of Operations.

In September 2012, the Company, through Toll Brothers Finance Corp., issued \$287.5 million principal amount of 0.5% Senior Notes. The Company received \$282.5 million of net proceeds from the issuance of the 0.5% Senior Notes. The 0.5% Senior Notes are exchangeable into shares of the Company's common stock at an exchange rate of 20.3749 shares per \$1,000 principal amount of notes, corresponding to an initial exchange price of approximately \$49.08 per share of the Company's common stock. If all of the 0.5% Senior Notes are exchanged, the Company would issue approximately 5.9 million shares of its common stock. Shares issuable upon conversion of the 0.5% Senior Notes are included in the calculation of diluted earnings per share (See Note 11, "Income (Loss) Per Share Information" for more information regarding the number of shares included). Holders of the 0.5% Senior Notes will have the right to require Toll Brothers Finance Corp. to repurchase their notes for cash equal to 100% of their principal amount, plus accrued but unpaid interest, on each of December 15, 2017, September 15, 2022 and September 15, 2027. Toll Brothers Finance Corp. will have the right to redeem the 0.5% Senior Notes on or after September 15, 2017 for cash equal to 100% of their principal amount, plus accrued but unpaid interest.

The Company repurchased \$55.1 million of its 6.875% Senior Notes due 2012 in fiscal 2011 and \$45.5 million (\$13.5 million of its 5.95% Senior notes due 2013 and \$32.0 million of its 4.95% Senior Notes due 2014) of its senior notes in fiscal 2010. In fiscal 2011 and 2010, the Company recognized \$3.8 million and \$1.2 million, respectively, of expenses related to the retirement of these notes. Expenses related to the retirement of notes include, if any, premium paid, write-off of unamortized debt issuance costs and other debt redemption costs.

In November 2012, the Company repaid the \$59.1 million of outstanding 6.875% Senior Notes due November 15, 2012.

#### Senior Subordinated Notes

The senior subordinated notes were the unsecured obligations of Toll Corp., a 100%-owned subsidiary of the Company were guaranteed on a senior subordinated basis by the Company, were subordinated to all existing and future senior indebtedness of the Company and were structurally subordinated to the prior claims of creditors, including trade creditors, of the Company's subsidiaries other than Toll Corp. The indentures governing these notes restricted certain payments by the Company, including cash dividends and repurchases of Company stock.

The Company redeemed \$47.9 million of its 8.25% Senior Subordinated Notes due December 2011 in fiscal 2010 and recognized \$34,000 of expenses related to the retirement of the notes.

#### Mortgage Company Loan Facilities

TBI Mortgage Company ("TBI Mortgage"), the Company's wholly-owned mortgage subsidiary, has a Master Repurchase Agreement (the "Repurchase Agreement") with Comerica Bank. The purpose of the Repurchase Agreement is to finance the origination of mortgage loans by TBI Mortgage and it is accounted for as a secured borrowing under ASC 860. The Repurchase Agreement, as amended, provides for loan purchases up to \$50 million, subject to certain sublimits. In addition, the Repurchase Agreement provides for an accordion feature under which TBI Mortgage may request that the aggregate commitments under the Repurchase Agreement be increased to an amount up to \$75 million for a short period of time. The Repurchase Agreement, as amended, expires on July 23, 2013 and bears interest at LIBOR plus 2.00%, with a minimum rate of 3.00%. Borrowings under this facility are included in the fiscal 2013 maturities.

At October 31, 2012 and 2011, there were \$72.7 million and \$57.4 million, respectively, outstanding under the Repurchase Agreement, which are included in liabilities in the accompanying Consolidated Balance Sheets. At

October 31, 2012 and 2011, amounts outstanding under the Repurchase Agreement were collateralized by \$86.4 million and \$63.2 million, respectively, of mortgage loans held for sale, which are included in assets in the Company's Consolidated Balance Sheets. As of October 31, 2012, there were no aggregate outstanding purchase price limitations reducing the amount available to TBI Mortgage. There are several restrictions on purchased loans under the Repurchase Agreement, including that they cannot be sold to others, they cannot be pledged to anyone other than the agent and they cannot support any other borrowing or repurchase agreement.

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General

As of October 31, 2012, the annual aggregate maturities of the Company's loans and notes during each of the next five fiscal years are as follows (amounts in thousands):

|      | Amount    |
|------|-----------|
| 2013 | \$265,837 |
| 2014 | 278,092   |
| 2015 | 310,103   |
| 2016 | 402,068   |
| 2017 | 1,003,323 |

7. Accrued Expenses

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

|                                         | 2012      | 2011      |
|-----------------------------------------|-----------|-----------|
| Land, land development and construction | \$124,731 | \$109,574 |
| Compensation and employee benefit       | 111,093   | 96,037    |
| Insurance and litigation                | 101,908   | 130,714   |
| Warranty                                | 41,706    | 42,474    |
| Interest                                | 28,204    | 25,968    |
| Commitments to unconsolidated entities  | 2,135     | 60,205    |
| Other                                   | 66,573    | 56,079    |
|                                         | \$476,350 | \$521,051 |

The Company accrues expected warranty costs at the time each home is closed and title and possession have been transferred to the home buyer. Changes in the warranty accrual during fiscal 2012, 2011 and 2010 were as follows (amounts in thousands):

|                                                                    | 2012     | 2011      | 2010      |
|--------------------------------------------------------------------|----------|-----------|-----------|
| Balance, beginning of year                                         | \$42,474 | \$45,835  | \$53,937  |
| Additions for homes closed during the year                         | 10,560   | 8,809     | 9,147     |
| Additions for liabilities acquired                                 | 731      |           |           |
| Additions (reductions) to accruals for homes closed in prior years | 479      | (828      | ) (4,684  |
| Charges incurred                                                   | (12,538  | ) (11,342 | ) (12,565 |
| Balance, end of year                                               | \$41,706 | \$42,474  | \$45,835  |

## 8. Income Taxes

The following table provides a reconciliation of the Company's effective tax rate from the federal statutory tax rate for the fiscal years ended October 31, 2012, 2011 and 2010 (\$ amounts in thousands).

|                                                 | 2012       |          | 2011      |          | 2010       |         |
|-------------------------------------------------|------------|----------|-----------|----------|------------|---------|
|                                                 | \$         | %*       | \$        | %*       | \$         | %*      |
| Federal tax benefit at statutory rate           | 39,530     | 35.0     | (10,278 ) | 35.0     | (41,015 )  | 35.0    |
| State taxes, net of federal benefit             | 4,711      | 4.2      | (954 )    | 3.2      | (3,809 )   | 3.3     |
| Reversal of accrual for uncertain tax positions | (34,167 )  | (30.3 )  | (52,306 ) | 178.1    | (39,485 )  | 33.7    |
| Accrued interest on anticipated tax assessments | 5,000      | 4.4      | 3,055     | (10.4 )  | 9,263      | (7.9 )  |
| Increase in unrecognized tax benefits           | 5,489      | 4.9      |           |          | 35,575     | (30.4 ) |
| Increase in deferred tax assets, net            |            |          | (25,948 ) | 88.4     |            |         |
| Valuation allowance — recognized                |            |          | 43,876    | (149.4 ) | 55,492     | (47.4 ) |
| Valuation allowance — reversed                  | (394,718 ) | (349.5 ) | (25,689 ) | 87.5     | (128,640 ) | 109.8   |
| Other                                           | (49 )      | —        | (917 )    | 3.1      | (1,194 )   | 1.0     |
| Tax benefit                                     | (374,204 ) | (331.3 ) | (69,161 ) | 235.5    | (113,813 ) | 97.1    |

\* Due to rounding, amounts may not add.

The Company currently operates in 19 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, as the case may be, among the various taxing jurisdictions and changes in tax regulations and their impact on the Company's tax strategies, the Company's estimated rate for state income taxes was 6.4% in fiscal 2012 and 5.0% for each of fiscal 2011 and 2010.

The following table provides information regarding the (benefit) provision for income taxes for each of the fiscal years ended October 31, 2012, 2011 and 2010 (amounts in thousands).

|          | 2012         | 2011        | 2010         |
|----------|--------------|-------------|--------------|
| Federal  | \$(329,277 ) | \$(21,517 ) | \$(67,318 )  |
| State    | (44,927 )    | (47,644 )   | (46,495 )    |
|          | \$(374,204 ) | \$(69,161 ) | \$(113,813 ) |
| Current  | \$(21,296 )  | \$(43,212 ) | \$(156,985 ) |
| Deferred | (352,908 )   | (25,949 )   | 43,172       |
|          | \$(374,204 ) | \$(69,161 ) | \$(113,813 ) |

In November 2009, the Worker, Homeownership, and Business Assistance Act of 2009 was enacted into law which allowed the Company to carry back its fiscal 2010 taxable loss against taxable income reported in fiscal 2006 and receive a federal tax refund in its second quarter of fiscal 2011 of \$154.3 million. The tax losses generated in fiscal 2010 were primarily from the recognition for tax purposes of previously recognized book impairments and the recognition of stock option expenses recognized for book purposes in prior years.



The following table provides a reconciliation of the change in the unrecognized tax benefits for the years ended October 31, 2012, 2011 and 2010 (amounts in thousands).

|                                                                        | 2012      | 2011       | 2010       |
|------------------------------------------------------------------------|-----------|------------|------------|
| Balance, beginning of year                                             | \$104,669 | \$160,446  | \$171,366  |
| Increase in benefit as a result of tax positions taken in prior years  | 5,000     | 8,168      | 14,251     |
| Increase in benefit as a result of tax positions taken in current year | 5,489     |            | 15,675     |
| Decrease in benefit as a result of settlements                         | —         | (17,954)   | )          |
| Decrease in benefit as a result of completion of audits                | (1,782)   | ) (33,370) | )          |
| Decrease in benefit as a result of lapse of statute of limitation      | (32,385)  | ) (12,621) | ) (40,846) |
| Balance, end of year                                                   | \$80,991  | \$104,669  | \$160,446  |

The Company has reached final settlement of its federal tax returns for fiscal years through 2009. The federal settlements resulted in a reduction in the Company's unrecognized tax benefits. The state impact of any amended federal return remains subject to examination by various states for a period of up to one year after formal notification of such amendments is made to the states.

The Company's unrecognized tax benefits are included in "Income taxes payable" on the Company's 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 but we are not able to provide a range of such change. The anticipated changes will be principally due to the 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 recognizes in its tax benefit, potential interest and penalties. The following table provides information as to the amounts recognized in its tax provision, before reduction for applicable taxes and reversal of previously accrued interest and penalties, of potential interest and penalties in the twelve-month periods ended October 31, 2012, 2011 and 2010, and the amounts accrued for potential interest and penalties at October 31, 2012 and 2011 (amounts in thousands).

Expense recognized in statements of operations

Fiscal year

|      |          |
|------|----------|
| 2012 | \$5,000  |
| 2011 | \$4,700  |
| 2010 | \$14,300 |

Accrued at:

|                  |          |
|------------------|----------|
| October 31, 2012 | \$24,906 |
| October 31, 2011 | \$29,200 |

The amounts accrued for interest and penalties are included in "Income taxes payable" on the Company's consolidated balance sheets.

Since the beginning of fiscal 2007, the Company recorded significant deferred tax assets as a result of the recognition of inventory impairments and impairments of investments in and advances to unconsolidated entities. In accordance with GAAP, the Company assessed whether a valuation allowance should be established based on its determination of whether it is "more likely than not" that some portion or all of the deferred tax assets would not be realized. In fiscal 2009, the Company recorded valuation allowances against its deferred tax assets. The Company believed that the continued downturn in the housing market, the uncertainty as to its length and magnitude, the Company's continued recognition of impairment charges, and its operating losses were significant negative evidence of the need for a valuation allowance against its net deferred tax assets.

At October 31, 2012, the Company considered the need for a valuation allowance against its deferred tax assets considering all available and objectively verifiable positive and negative evidence. That evidence principally consisted of (i) an indication that the events and conditions that gave rise to significant losses in recent years were unlikely to recur in the foreseeable future, (ii) a return to profitability in fiscal 2012 together with expectations of continuing

profitability in fiscal 2013, supported by existing backlog, and beyond, and (iii) the term of the statutory operating loss carry-forward periods provide evidence that it is more likely than not that these deferred tax assets will be realized.

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At October 31, 2012, the Company re-evaluated the evidence related to the need for its deferred tax asset valuation allowances and determined that the valuation allowance on its federal deferred tax assets and certain state valuation allowances were no longer needed. Accordingly, in fiscal 2012, the Company reversed a valuation allowance in the amount of \$394.7 million. This has been reported as a component of income tax benefit in the accompanying Consolidated Statement of Operations. The remaining valuation allowance of \$57.0 million relates to deferred tax assets in states that have not met the “more-likely-than-not” realization threshold criteria. The Company will continue to review its deferred tax assets in accordance with ASC 740.

The components of net deferred tax assets and liabilities at October 31, 2012 and 2011 are set forth below (amounts in thousands).

|                                                     | 2012      | 2011*      |
|-----------------------------------------------------|-----------|------------|
| Deferred tax assets:                                |           |            |
| Accrued expenses                                    | \$57,734  | \$59,411   |
| Impairment charges                                  | 319,818   | 368,459    |
| Inventory valuation differences                     | 29,288    | 30,802     |
| Stock-based compensation expense                    | 44,336    | 38,454     |
| Amounts related to unrecognized tax benefits        | 36,934    | 47,387     |
| State tax, net operating loss carryforward          | 50,006    | 52,323     |
| Federal tax net operating loss carryforward         | 25,170    | 11,232     |
| Other                                               | 20,169    | 11,783     |
| Total assets                                        | 583,455   | 619,851    |
| Deferred tax liabilities:                           |           |            |
| Capitalized interest                                | 102,713   | 84,915     |
| Deferred income                                     | 6,608     | 7,771      |
| Expenses taken for tax purposes not for book        | 36,811    | 58,502     |
| Depreciation                                        | 3,994     | 2,344      |
| Deferred marketing                                  | 18,229    | 14,557     |
| Total liabilities                                   | 168,355   | 168,089    |
| Net deferred tax assets before valuation allowances | 415,100   | 451,762    |
| Cumulative valuation allowance - state              | (57,044   | ) (89,142  |
| Cumulative valuation allowance - federal            |           | ) (362,620 |
| Net deferred tax assets                             | \$358,056 | \$—        |

\* To conform to the current period presentation, the October 31, 2011 amounts reflect adjustments to certain deferred amounts by \$24.4 million with a corresponding adjustment to the related valuation allowances.

For federal income tax purposes, the Company is allowed to carry forward tax losses for 20 years and apply such tax losses to future taxable income to realize its federal deferred tax assets. At October 31, 2012, the Company estimates that it will have federal tax loss carryforwards of approximately \$106.3 million resulting from losses incurred for federal income tax purposes during fiscal years 2011 and 2012.

We file tax returns in the various states in which we do business. Each state has its own statutes regarding the use of tax loss carryforwards. Some of the states in which we do business do not allow for the carryforward of losses while others allow for carryforwards for 5 years to 20 years.

#### 9. Stockholders' Equity

The Company's authorized capital stock consists of 400 million shares of common stock, \$.01 par value per share and 15 million shares of preferred stock, \$.01 par value per share. At October 31, 2012, the Company had 168.6 million shares of common stock issued and outstanding (excluding 0.1 million shares of treasury stock), 11.7 million shares of common stock reserved for outstanding stock options and restricted stock units, 5.5 million shares of common stock reserved for future stock option and award issuances, 5.9 million reserved for the conversion of its 0.5% senior notes and 0.6 million shares of common stock reserved for issuance under the Company's employee stock

purchase plan. As of October 31, 2012, the Company had issued no shares of preferred stock.

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### Issuance of Common Stock

In fiscal 2012, 2011 and 2010, the Company issued 1,350, 1,250 and 1,250 shares of restricted common stock, respectively, pursuant to its stock incentive plans to certain outside directors. The Company is amortizing the fair market value of the awards on the date of grant over the period of time that each award vests. At October 31, 2012, 1,975 shares of the restricted stock awards were unvested.

### 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 from time to time, in open market transactions or otherwise, for the purpose of providing shares for its various benefit plans.

The following table provides information about the Company's share repurchase program for the fiscal years ended October 31, 2012, 2011 and 2010.

|                                                     | 2012    | 2011    | 2010    |
|-----------------------------------------------------|---------|---------|---------|
| Number of shares purchased (in thousands)           | 20      | 3,068   | 31      |
| Average price per share                             | \$25.62 | \$16.00 | \$19.24 |
| Remaining authorization at October 31(in thousands) | 8,766   | 8,786   | 11,855  |

### Stockholder Rights Plan and Transfer Restriction

In June 2007, the Company adopted a shareholder rights plan ("2007 Rights Plan"). The rights issued pursuant to the 2007 Rights Plan will become exercisable upon the earlier of (i) ten days following a public announcement that a person or group of affiliated or associated persons has acquired, or obtained the right to acquire, beneficial ownership of 15% or more of the outstanding shares of the Company's common stock or (ii) ten business days following the commencement of a tender offer or exchange offer that would result in a person or group beneficially owning 15% or more of the outstanding shares of common stock. No rights were exercisable at October 31, 2012.

On March 17, 2010, the Board of Directors of the Company adopted a Certificate of Amendment to the Second Restated Certificate of Incorporation of the Company (the "Certificate of Amendment"). The Certificate of Amendment includes an amendment approved by the Company's stockholders at the 2010 Annual Meeting of Stockholders' that restricts certain transfers of the Company's common stock in order to preserve the tax treatment of the Company's net operating and unrealized tax losses. The Certificate of Amendment's transfer restrictions generally restrict any direct or indirect transfer of the Company's common stock if the effect would be to increase the direct or indirect ownership of any Person (as defined in the Certificate of Amendment) from less than 4.95% to 4.95% or more of the Company's common stock or increase the ownership percentage of a person owning or deemed to own 4.95% or more of the Company's common stock. Any direct or indirect transfer attempted in violation of this restriction would be void as of the date of the prohibited transfer as to the purported transferee.

### 10. Stock-Based Benefit Plans

The Company has two active stock incentive plans, one for employees (including officers) and one for non-employee directors. The Company's active stock incentive plans provide for the granting of incentive stock options (solely to employees) and non-qualified stock options with a term of up to ten years at a price not less than the market price of the stock at the date of grant. The Company's active stock incentive plans also provide for the issuance of stock appreciation rights and restricted and unrestricted stock awards and stock units, which may be performance-based. The Company grants stock options, restricted stock and various types of restricted stock units to its employees and its non-employee directors under its stock incentive plans. 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. At October 31, 2012, 2011 and 2010, the Company had 5,489,000, 6,712,000 and 8,038,000 shares, respectively, available for grant under its stock incentive plans.

The Company has one additional stock incentive plan for employees, officers and directors that is inactive except for outstanding stock option awards at October 31, 2012. No additional options may be granted under this plan. Stock options granted under this plan were made with a term of up to ten years at a price not less than the market price of the stock at the date of grant and generally vested over a four-year period for employees and a two-year period for non-employee directors.



The following table provides information regarding the amount of total stock-based compensation expense recognized by the Company for fiscal 2012, 2011 and 2010 (amounts in thousands):

|                                                   | 2012     | 2011     | 2010    |
|---------------------------------------------------|----------|----------|---------|
| Total stock-based compensation expense recognized | \$15,575 | \$12,548 | \$9,689 |
| Income tax benefit recognized                     | \$5,711  | \$4,793  | \$3,711 |

At October 31, 2012, 2011 and 2010, the aggregate unamortized value of outstanding stock-based compensation awards was approximately \$14.2 million, \$12.7 million and \$11.1 million, respectively.

Information about the Company's more significant stock-based compensation programs is outlined below.

#### Stock Options:

Stock options granted to employees generally vest over a four-year period, although certain grants may vest over a longer or shorter period, and stock options granted to non-employee directors generally vest over a two-year period.

Shares issued upon the exercise of a stock option are either from shares held in treasury or newly issued shares.

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. 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 following table summarizes the weighted-average assumptions and fair value used for stock option grants in each of the fiscal years ended October 31, 2012, 2011 and 2010.

|                                                          | 2012            | 2011            | 2010            |
|----------------------------------------------------------|-----------------|-----------------|-----------------|
| Expected volatility                                      | 44.20% - 50.24% | 45.38% - 49.46% | 46.74% - 51.41% |
| Weighted-average volatility                              | 46.99%          | 47.73%          | 49.51%          |
| Risk-free interest rate                                  | 0.78% - 1.77%   | 1.64% - 3.09%   | 2.15% - 3.47%   |
| Expected life (years)                                    | 4.59 - 9.06     | 4.29 - 8.75     | 4.44 - 8.69     |
| Dividends                                                | none            | none            | none            |
| Weighted-average fair value per share of options granted | \$8.70          | \$7.94          | \$7.63          |

The fair value of stock option grants is recognized evenly over the vesting period of the options or over the period between the grant date and the time the option becomes non-forfeitable by the employee, whichever is shorter. Stock option expense is generally included in the Company's selling, general and administrative expenses in the accompanying Consolidated Statements of Operations. Information regarding the stock compensation expense, related to stock options, for fiscal 2012, 2011 and 2010 was as follows (amounts in thousands):

|                                                 | 2012    | 2011    | 2010    |
|-------------------------------------------------|---------|---------|---------|
| Stock compensation expense recognized - options | \$7,411 | \$8,626 | \$9,332 |

In fiscal 2010, as part of severance plans for certain employees, the Company extended the period in which an option could be exercised on 175,813 options. The Company expensed \$552,000 related to these extensions in fiscal 2010. This amount is included in the stock-based compensation expense recognized in the table above.

At October 31, 2012, total compensation cost related to non-vested stock option awards not yet recognized was approximately \$7.2 million and the weighted-average period over which the Company expects to recognize such compensation costs and tax benefit is 2.4 years.

The following table summarizes stock option activity for the Company's plans during each of the fiscal years ended October 31, 2012, 2011 and 2010 (amounts in thousands, except per share amounts):

|                                     | 2012              |                                 | 2011              |                                 | 2010              |                                 |
|-------------------------------------|-------------------|---------------------------------|-------------------|---------------------------------|-------------------|---------------------------------|
|                                     | Number of options | Weighted-average exercise price | Number of options | Weighted-average exercise price | Number of options | Weighted-average exercise price |
| Balance, beginning                  | 12,868            | \$20.94                         | 14,339            | \$19.36                         | 16,123            | \$17.73                         |
| Granted                             | 777               | 20.50                           | 1,103             | 19.32                           | 1,015             | 18.39                           |
| Exercised                           | (2,941 )          | 12.52                           | (2,467 )          | 11.07                           | (2,498 )          | 8.72                            |
| Canceled                            | (35 )             | 20.67                           | (107 )            | 20.12                           | (301 )            | 17.03                           |
| Balance, ending                     | 10,669            | \$23.23                         | 12,868            | \$20.94                         | 14,339            | \$19.36                         |
| Options exercisable, at October 31, | 8,540             | \$24.09                         | 10,365            | \$21.24                         | 11,670            | \$19.00                         |

The weighted average remaining contractual life (in years) for options outstanding and exercisable at October 31, 2012 was 4.5 and 3.6 years, respectively.

The intrinsic value of options outstanding and exercisable is the difference between the fair market value of the Company's common stock on the applicable date ("Measurement Value") and the exercise price of those options that had an exercise price that was less than the Measurement Value. The intrinsic value of options exercised is the difference between the fair market value of the Company's common stock on the date of exercise and the exercise price.

The following table provides information pertaining to the intrinsic value of options outstanding and exercisable at October 31, 2012, 2011 and 2010 (amounts in thousands):

|                                        | 2012    | 2011   | 2010   |
|----------------------------------------|---------|--------|--------|
| Intrinsic value of options outstanding | 106,084 | 16,839 | 35,214 |
| Intrinsic value of options exercisable | 77,936  | 16,839 | 35,214 |

Information pertaining to the intrinsic value of options exercised and the fair value of options that became vested or modified in each of the fiscal years ended October 31, 2012, 2011 and 2010 is provided below (amounts in thousands):

|                                      | 2012   | 2011   | 2010   |
|--------------------------------------|--------|--------|--------|
| Intrinsic value of options exercised | 39,730 | 23,573 | 25,327 |
| Fair value of options vested         | 10,079 | 11,027 | 12,336 |

The Company's stock incentive plans permit optionees to exercise stock options using a "net exercise" method at the discretion of the Executive Compensation Committee of the Board of Directors ("Executive Compensation Committee"). In a net exercise, the Company withholds from the total number of shares that otherwise would be issued to an optionee upon exercise of the stock option that number of shares having a fair market value at the time of exercise equal to the option exercise price and applicable income tax withholdings and remits the remaining shares to the optionee. The following table provides information regarding the use of the net exercise method for fiscal 2012, 2011 and 2010.

|                                                          | 2012    | 2011    | 2010      |
|----------------------------------------------------------|---------|---------|-----------|
| Options exercised                                        | 303,412 | 194,000 | 1,201,372 |
| Shares withheld                                          | 151,889 | 98,918  | 798,420   |
| Shares issued                                            | 151,523 | 95,082  | 402,952   |
| Average market value per share withheld                  | \$22.68 | \$18.94 | \$17.96   |
| Aggregate market value of shares withheld (in thousands) | \$3,445 | \$1,873 | \$14,341  |



In addition, pursuant to the provisions of the Company's stock incentive plans, optionees are permitted to use the value of the Company's common stock that they own to pay for the exercise of options ("stock swap method"). The following table provides information regarding the use of the stock swap method for fiscal 2012, 2011 and 2010.

|                                                          | 2012    | 2011    | 2010    |
|----------------------------------------------------------|---------|---------|---------|
| Options exercised                                        | 19,686  | 28,900  | 29,512  |
| Shares tendered                                          | 8,224   | 14,807  | 14,459  |
| Shares issued                                            | 11,462  | 14,093  | 15,053  |
| Average market value per share withheld                  | \$25.52 | \$20.53 | \$19.71 |
| Aggregate market value of shares tendered (in thousands) | \$210   | \$304   | \$285   |

**Performance Based Restricted Stock Units:**

In December 2011, the Executive Compensation Committee 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 New York Stock Exchange ("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. The following table provides information regarding the issuance, valuation assumptions and amortization of the Company's Performance-Based RSUs issued in fiscal 2012.

|                                                                                | 2012    |
|--------------------------------------------------------------------------------|---------|
| Number of shares underlying Performance-Based RSUs to be issued                | 370,176 |
| 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) | \$7,589 |
| Performance-Based RSU expense recognized (in thousands)                        | \$3,953 |
| Unamortized value of Performance-Based RSUs at October 31, 2012 (in thousands) | \$3,636 |

**Stock Price-Based Restricted Stock Units:**

In each of December 2010, 2009 and 2008, the Executive Compensation Committee 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. In fiscal 2012, the Company adopted a Performance-Based Restricted Stock Award program to replace the Stock Price-Based RSU program. 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 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. In fiscal 2012, the Target Price of the Stock Price-Based RSUs issued in December 2010, 2009 and 2008 were met. The Stock Price-Based RSUs issued in December 2008 were paid in fiscal 2012. The recipient of this RSU elected to use a portion of the shares underlying the RSU to pay the required income withholding taxes on the payout. The gross value of the RSU payout was \$5,934,000 (200,000 shares), the income tax withholding was \$2,409,000 (81,200 shares) and the net value of the shares delivered was \$3,525,000 (118,800 shares).

The Company determined the aggregate value of the Stock Price-Based RSUs using a lattice-based option pricing model. Expenses related to the Stock Price-Based RSUs are included in the Company's selling, general and administrative expenses. The following table provides information regarding the issuance, valuation assumptions,

amortization and unamortized balances of the Company's Stock Price-Based RSUs in and at the relevant periods and dates in fiscal 2012, 2011 and 2010.

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|                                                                      | 2012     | 2011      | 2010      |   |  |
|----------------------------------------------------------------------|----------|-----------|-----------|---|--|
| Stock Price-Based RSUs issued:                                       |          |           |           |   |  |
| Number issued                                                        | —        | 306,000   | 200,000   |   |  |
| Closing price of the Company's common stock on date of issuance      |          | \$ 19.32  | \$ 18.38  |   |  |
| Target price                                                         |          | \$ 25.12  | \$ 23.89  |   |  |
| Volatility                                                           |          | 48.22     | % 49.92   | % |  |
| Risk-free interest rate                                              |          | 1.99      | % 2.43    | % |  |
| Expected life                                                        |          | 3.0 years | 3.0 years |   |  |
| Aggregate fair value of Performance-Based RSUs issued (in thousands) |          | \$ 4,994  | \$ 3,160  |   |  |
| Stock Price-Based RSU expense recognized (in thousands)              | \$ 2,887 | \$ 3,701  | \$ 2,121  |   |  |

|                                                                       | 2012     | 2011     | 2010     |
|-----------------------------------------------------------------------|----------|----------|----------|
| At October 31:                                                        |          |          |          |
| Aggregate outstanding Stock Price-Based RSUs                          | 506,000  | 706,000  | 400,000  |
| Cumulative unamortized value of Stock Price-Based RSUs (in thousands) | \$ 2,042 | \$ 4,929 | \$ 3,636 |

Non-performance Based Restricted Stock Units:

In December 2012, 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. The following table provides information regarding these RSUs.

|                                                                 | 2012     | 2011     | 2010     |
|-----------------------------------------------------------------|----------|----------|----------|
| Non-performance-Based RSUs issued:                              |          |          |          |
| Number issued                                                   | 107,820  | 15,497   | 19,663   |
| Closing price of the Company's common stock on date of issuance | \$ 20.50 | \$ 19.32 | \$ 18.38 |
| Aggregate fair value of RSUs issued (in thousands)              | \$ 2,210 | \$ 299   | \$ 361   |
| Non-performance-Based RSU expense recognized (in thousands):    |          |          |          |
| Twelve months ended October 31,                                 | \$ 156   | \$ 144   | \$ 138   |
|                                                                 | 2012     | 2011     | 2010     |

|                                                                           | 2012     | 2011   | 2010   |
|---------------------------------------------------------------------------|----------|--------|--------|
| At October 31:                                                            |          |        |        |
| Aggregate Non-performance-Based RSUs outstanding                          | 137,764  | 30,994 | 19,663 |
| Cumulative unamortized value of Non-performance-Based RSUs (in thousands) | \$ 1,326 | \$ 379 | \$ 224 |

Restricted Stock Units in Lieu of Compensation

In December 2008, the Company issued restricted stock units ("RSUs") relating to 62,051 shares of the Company's common stock to a number of employees in lieu of a portion of the employees' bonuses and in lieu of a portion of one employee's 2009 salary. These RSUs, although not subject to forfeiture, will vest in annual installments over a four-year period, unless accelerated due to death, disability or termination of employment, as more fully described in the RSU award document. Because the RSUs are non-forfeitable, 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 \$21.70, the closing price of the Company's common stock on the NYSE on December 19, 2008, the date the RSUs were awarded. The amount applicable to employee bonuses was charged to the Company's accrual for bonuses that it made in fiscal 2008 and the amount applicable to salary deferral (\$130,000) was charged to selling, general and administrative expense in the three-month period ended January 31, 2009. The Company's stock incentive plan permits the Company to withhold from the total number of shares that otherwise would be issued to a RSU recipient upon distribution that number of shares having a fair value at the time of distribution equal to the applicable income tax withholdings due and remit the remaining shares to the RSU participant. The following table



provides information relating to the distribution of shares and the withholding of taxes on the RSUs for fiscal 2012, 2011 and 2010.

|                                         | 2012  | 2011  | 2010  |
|-----------------------------------------|-------|-------|-------|
| Shares withheld                         | 356   | 741   | 924   |
| Shares issued                           | 7,982 | 8,975 | 2,749 |
| Value of shares withheld (in thousands) | \$10  | \$15  | \$17  |

At October 31, 2012, 2011 and 2010, approximately 38,000, 46,000 and 56,000 RSUs, respectively, were outstanding.

#### Employee Stock Purchase Plan

The Company's employee stock purchase plan enables substantially all employees to purchase the Company's common stock at 95% of the market price of the stock on specified offering dates without restriction or at 85% of the market price of the stock on specified offering dates subject to restrictions. The plan, which terminates in December 2017, provides that 1.2 million shares be reserved for purchase. At October 31, 2012, 594,000 shares were available for issuance.

The following table provides information regarding the Company's employee stock purchase plan for fiscal 2012, 2011 and 2010.

|                                                | 2012    | 2011    | 2010    |
|------------------------------------------------|---------|---------|---------|
| Shares issued                                  | 18,456  | 23,079  | 23,587  |
| Average price per share                        | \$22.58 | \$15.59 | \$16.20 |
| Compensation expense recognized (in thousands) | \$63    | \$54    | \$57    |

#### 11. Income (Loss) Per Share Information

Information pertaining to the calculation of income (loss) per share for each of the fiscal years ended October 31, 2012, 2011 and 2010 is as follows (amounts in thousands):

|                                                                                                        | 2012      | 2011      | 2010      |
|--------------------------------------------------------------------------------------------------------|-----------|-----------|-----------|
| Numerator:                                                                                             |           |           |           |
| Net income (loss) as reported                                                                          | \$487,146 | \$39,795  | \$(3,374) |
| Plus: Interest attributable to 0.5% Senior Notes, net of income tax benefit                            | 78        |           |           |
| Numerator for diluted earnings (loss) per share                                                        | \$487,224 | \$39,795  | \$(3,374) |
| Denominator:                                                                                           |           |           |           |
| Basic weighted-average shares                                                                          | \$167,346 | \$167,140 | \$165,666 |
| Common stock equivalents (a)                                                                           | 1,996     | 1,241     |           |
| Shares attributable to 0.5% Senior Notes (b)                                                           | 812       |           |           |
| Diluted weighted-average shares                                                                        | \$170,154 | \$168,381 | \$165,666 |
| Other information:                                                                                     |           |           |           |
| Common stock equivalents excluded from diluted weighted-average shares due to anti-dilutive effect (a) |           |           | 1,968     |
| Weighted average number of anti-dilutive options (c)                                                   | 3,646     | 7,936     | 8,401     |
| Shares issued under stock incentive and employee stock purchase plans                                  | 2,927     | 2,390     | 1,712     |

Common stock equivalents represent the dilutive effect of outstanding in-the-money stock options using the treasury stock method, Stock Price-Based RSUs whose Target Price criteria have been met but are unpaid and (a) shares expected to be issued under Performance-Based Restricted Stock Units. For fiscal 2010, there were no common stock equivalents used in the calculation of diluted earnings per share because the Company had a net loss and any incremental shares would be anti-dilutive.

(b) On a full year basis, shares attributable to the 0.5% Senior Notes will be 5.9 million shares.

(c) Based upon the average of the average quarterly closing prices of the Company's common stock on the NYSE for the year.



## 12. Fair Value Disclosures

A summary of assets and (liabilities) at October 31, 2012 and 2011 related to the Company's financial instruments, measured at fair value on a recurring basis, is set forth below (amounts in thousands).

| Financial Instrument                                                | Fair value hierarchy | Fair value October 31, 2012 | Fair value October 31, 2011 |
|---------------------------------------------------------------------|----------------------|-----------------------------|-----------------------------|
| Corporate Securities                                                | Level 2              | \$260,772                   | \$233,572                   |
| Certificates of Deposit                                             | Level 2              | \$148,112                   |                             |
| Short-Term Tax-Exempt Bond Fund                                     | Level 1              | \$30,184                    |                             |
| Residential Mortgage Loans Held for Sale                            | Level 2              | \$86,386                    | \$63,175                    |
| Forward Loan Commitments - Residential Mortgage Loans Held for Sale | Level 2              | \$(102)                     | ) \$218                     |
| Interest Rate Lock Commitments ("IRLCs")                            | Level 2              | \$(202)                     | ) \$(147)                   |
| Forward Loan Commitments—IRLCs                                      | Level 2              | \$202                       | \$147                       |

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

During fiscal 2012, the Company reevaluated the methodologies used by third party brokers in determining the estimated fair value of its investments in corporate securities. Based on this reevaluation, the Company concluded the estimated fair value of these investments was determined using Level 2 inputs. In prior years, corporate securities were classified as Level 1.

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

|                     | Aggregate unpaid principal balance | Fair value | Excess  |
|---------------------|------------------------------------|------------|---------|
| At October 31, 2012 | \$84,986                           | \$86,386   | \$1,400 |
| At October 31, 2011 | \$62,765                           | \$63,175   | \$410   |

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.

As of October 31, 2012 and 2011, the amortized cost, gross unrealized holding gains, gross unrealized holding losses, and fair value of marketable securities were as follows (amounts in thousands):





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|                                 |                     |                     |
|---------------------------------|---------------------|---------------------|
|                                 | October 31,<br>2012 | October 31,<br>2011 |
| Amortized cost                  | \$438,755           | \$233,852           |
| Gross unrealized holding gains  | 451                 | 28                  |
| Gross unrealized holding losses | (138                | ) (308              |
| Fair value                      | \$439,068           | \$233,572           |

The remaining contractual maturities of marketable securities as of October 31, 2012 ranged from less than 1 month to 26 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 per<br>unit (in<br>thousands) | Sales pace per<br>year<br>(in units) | Discount rate |
|-------------------------------------|---------------------------------------------|--------------------------------------|---------------|
| Three months ended October 31, 2012 | \$501 - \$536                               | 11                                   | 18.3%         |
| Three months ended July 31, 2012    | \$175 - \$571                               | 4 - 12                               | 14.0% - 17.5% |
| 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 operating communities whose carrying value was adjusted and the amount of impairment charges recognized on operating communities (amounts in thousands).

| Three months ended: | Impaired operating communities     |                          |                                                                  |                                     |
|---------------------|------------------------------------|--------------------------|------------------------------------------------------------------|-------------------------------------|
|                     | Number of<br>communities<br>tested | Number of<br>communities | Fair value of<br>communities,<br>net<br>of impairment<br>charges | Impairment<br>charges<br>recognized |
| 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                               |
| October 31          | 108                                | 3                        | \$9,319                                                          | 1,400                               |
|                     |                                    |                          |                                                                  | \$13,070                            |
| 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                            |
| Fiscal 2010:        |                                    |                          |                                                                  |                                     |
| January 31          | 260                                | 14                       | \$60,519                                                         | \$22,750                            |
| April 30            | 161                                | 7                        | \$53,594                                                         | \$15,020                            |
| July 31             | 155                                | 7                        | \$21,457                                                         | \$6,600                             |
| October 31          | 144                                | 12                       | \$39,209                                                         | \$9,119                             |
|                     |                                    |                          |                                                                  | \$53,489                            |



Gibraltar's portfolio of non-performing loans was recorded at estimated fair value at inception based on the acquisition price as determined by 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 dates indicated, the carrying amount and estimated fair value of the non-performing loan portfolios (amounts in thousands).

|                      |                     |                     |
|----------------------|---------------------|---------------------|
|                      | October 31,<br>2012 | October 31,<br>2011 |
| Carrying amount      | \$37,169            | \$63,234            |
| Estimated fair value | \$38,109            | \$64,539            |

Gibraltar's REO was recorded at estimated fair value at the time it was acquired through foreclosure or deed in lieu actions using Level 3 inputs. The valuation techniques used are discussed in Note 1, "Significant Accounting Policies, Investments in Non-Performing Loan Portfolios and Foreclosed Real Estate".

The purchase price allocation performed in connection with our acquisition of CamWest was primarily based on Level 3 inputs. The assets acquired were primarily inventory. The valuation techniques used to value this inventory were similar to the criteria used in valuing inventory as described in Note 1, "Significant Accounting Policies, Inventory". The table below provides, as of the dates indicated, the book value and estimated fair value of the Company's debt at October 31, 2012 and 2011 (amounts in thousands).

|                                     |                         | October 31, 2012 |                         | October 31, 2011 |                         |
|-------------------------------------|-------------------------|------------------|-------------------------|------------------|-------------------------|
|                                     | Fair value<br>hierarchy | Book value       | Estimated<br>fair value | Book value       | Estimated<br>fair value |
| Loans payable (a)                   | Level 2                 | \$99,817         | \$99,093                | \$106,556        | \$98,950                |
| Senior notes (b)                    | Level 1                 | 2,089,189        | 2,340,189               | 1,499,371        | 1,614,010               |
| Mortgage company warehouse loan (c) | Level 2                 | 72,664           | 72,664                  | 57,409           | 57,409                  |
|                                     |                         | \$2,261,670      | \$2,511,946             | \$1,663,336      | \$1,770,369             |

The estimated fair value of loans payable was based upon their indicated market prices or the interest rates that the (a) 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.

### 13. Employee Retirement and Deferred Compensation Plans

#### Salary Deferral Savings Plans

The Company maintains salary deferral savings plans covering substantially all employees. During the first quarter of fiscal 2009, due to the continued downturn in the Company's business, the Company suspended its matching contributions and discretionary contributions to one of the plans. In fiscal 2011, the Company elected to make a discretionary contribution of 1% of eligible compensation for the plan year ended December 31, 2010. The Company made a 1% discretionary contribution for the plan year ended December 31, 2011 and for the plan year ended December 31, 2012 it intends to make a contribution of 2% of eligible compensation. Beginning in the third quarter of fiscal 2011, the Company resumed a matching contribution of up to 1% of eligible compensation for employees electing to contribute via salary deferrals and increased the matching contribution to 2% in January 2012. The Company recognized an expense, net of plan forfeitures, with respect to the plans of \$5.0 million and \$2.7 million for the fiscal years ended October 31, 2012 and 2011, respectively. The Company recognized \$38,000 of expense for one plan in fiscal 2010.

#### Deferred Compensation Plan

The Company has an unfunded, non-qualified deferred compensation plan that permits eligible employees to defer a portion of their compensation. The deferred compensation, together with certain Company contributions, earns various rates of return depending upon when the compensation was deferred and the length of time that it has been deferred. A portion of the deferred compensation and interest earned may be forfeited by a participant if he or she elects to withdraw the compensation prior to the end of the deferral period. At October 31, 2012 and 2011, the

Company had accrued \$20.7 million and \$19.1 million, respectively, for its obligations under the plan.

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## Defined Benefit Retirement Plans

The Company has two unfunded defined benefit retirement plans. Retirement benefits generally vest when the participant has completed 15 or 20 years of service with the Company and reaches normal retirement age (age 62). Unrecognized prior service costs are being amortized over the period from the date participants enter the plans until their interests are fully vested. The Company used a 3.07%, 4.06% and 4.99% discount rate in its calculation of the present value of its projected benefit obligations at October 31, 2012, 2011 and 2010, respectively. The rates represent the approximate long-term investment rate at October 31 of the fiscal year for which the present value was calculated. Information related to the plans is based on actuarial information calculated as of October 31, 2012, 2011 and 2010.

Information related to the Company's retirement plans for each of the fiscal years ended October 31, 2012, 2011 and 2010 is as follows (amounts in thousands):

|                                                  | 2012      | 2011       | 2010      |
|--------------------------------------------------|-----------|------------|-----------|
| Plan costs:                                      |           |            |           |
| Service cost                                     | \$389     | \$305      | \$270     |
| Interest cost                                    | 1,212     | 1,290      | 1,396     |
| Amortization of prior service cost               | 737       | 694        | 1,248     |
| Acceleration of benefits                         |           |            | 72        |
| Amortization of unrecognized losses              | 66        |            |           |
|                                                  | \$2,404   | \$2,289    | \$2,986   |
| Projected benefit obligation:                    |           |            |           |
| Beginning of year                                | \$29,766  | \$26,037   | \$25,161  |
| Plan amendments adopted during year              | 575       |            | 202       |
| Service cost                                     | 389       | 305        | 270       |
| Interest cost                                    | 1,212     | 1,290      | 1,396     |
| Benefit payments                                 | (731)     | ) (504     | ) (125    |
| Change in unrecognized loss (gain)               | 3,108     | 2,638      | (867      |
| Projected benefit obligation, end of year        | \$34,319  | \$29,766   | \$26,037  |
| Unamortized prior service cost:                  |           |            |           |
| Beginning of year                                | \$3,333   | \$4,027    | \$5,145   |
| Plan amendments adopted during year              | 575       |            | 130       |
| Amortization of prior service cost               | (737)     | ) (694     | ) (1,248  |
| Unamortized prior service cost, end of year      | \$3,171   | \$3,333    | \$4,027   |
| Accumulated unrecognized (loss) gain, October 31 | \$(4,307) | ) \$(1,265 | ) \$1,372 |
| Accumulated benefit obligation, October 31       | \$34,319  | \$29,766   | \$26,037  |
| Accrued benefit obligation, October 31           | \$34,319  | \$29,766   | \$26,037  |

The table below provides, based upon the estimated retirement dates of the participants in the retirement plans, the amounts of benefits the Company would be required to pay in each of the next five fiscal years and for the five fiscal years ended October 31, 2022 in the aggregate (in thousands).

| Year ending October 31,             | Amount   |
|-------------------------------------|----------|
| 2013                                | \$955    |
| 2014                                | \$1,042  |
| 2015                                | \$1,645  |
| 2016                                | \$1,770  |
| 2017                                | \$2,028  |
| November 1, 2017 - October 31, 2022 | \$12,247 |



## 14. Accumulated Other Comprehensive Loss and Total Comprehensive Income (Loss)

Accumulated other comprehensive loss at October 31, 2012 and 2011 was \$4.8 million and \$2.9 million, respectively, and was primarily related to employee retirement plans.

The table below provides, for each of the fiscal years ended October 31, 2012, 2011 and 2010, the components of total comprehensive income (loss) (amounts in thousands):

|                                                                           | 2012      | 2011     | 2010      |
|---------------------------------------------------------------------------|-----------|----------|-----------|
| Net income (loss) as reported                                             | \$487,146 | \$39,795 | \$(3,374) |
| Changes in pension liability, net of tax benefit                          | (1,839)   | (1,934)  | 1,986     |
| Change in fair value of available-for-sale securities, net of tax benefit | 476       | (192)    | 74        |
| Unrealized loss on derivative held by equity investee, net of tax benefit | (554)     |          |           |
| Total comprehensive income (loss)                                         | \$485,229 | \$37,669 | \$(1,314) |
| Tax benefit recognized in total comprehensive income                      | \$1,263   |          |           |

Due to the pre-tax losses recognized by the Company in fiscal 2011 and 2010 and its inability to forecast future profitability, the Company did not recognize tax benefit (provision) on the changes in other comprehensive income (loss) in those years. The benefit was recognized in fiscal 2012.

## 15. Commitments and Contingencies

## 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 have formally terminated the option and purchase agreements for those land parcels that it does not expect to acquire, it has written off any non-refundable deposits and costs previously capitalized to such land parcels in the periods that it determined such costs were not recoverable.

Information regarding the Company's land purchase commitments at October 31, 2012 and 2011 is provided in the table below (amounts in thousands).

|                                                                                 | 2012      | 2011      |
|---------------------------------------------------------------------------------|-----------|-----------|
| Aggregate purchase commitments:                                                 |           |           |
| Unrelated parties                                                               | \$742,918 | \$551,905 |
| Unconsolidated entities that the Company has investments in                     | 4,067     | 12,471    |
| Total                                                                           | \$746,985 | \$564,376 |
| Deposits against aggregate purchase commitments                                 | \$42,921  | \$37,987  |
| Additional cash required to acquire land                                        | 704,064   | 526,389   |
| Total                                                                           | \$746,985 | \$564,376 |
| Amount of additional cash required to acquire land included in accrued expenses | \$4,328   | \$44      |

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.

### 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.

### Investments in and Advances to Unconsolidated Entities

At October 31, 2012, the Company had investments in and advances to a number of unconsolidated entities, was committed to invest or advance additional funds and had guaranteed a portion of the indebtedness and/or loan commitments of these 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 October 31, 2012, the Company had outstanding surety bonds amounting to \$382.2 million, primarily related to its obligations to various governmental entities to construct improvements in the Company's various communities. The Company estimates that \$241.6 million of work remains on these improvements. The Company has an additional \$57.0 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 October 31, 2012, the Company had outstanding letters of credit of \$83.1 million, including \$70.1 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 in which it is operating. The Company believes it is not probable that any outstanding letters of credit will be drawn upon.

### Backlog

At October 31, 2012, the Company had agreements of sale outstanding to deliver 2,569 homes with an aggregate sales value of \$1.67 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 who 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") that are 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 at October 31, 2012 and 2011 is provided in the table below (amounts in thousands).

|                                      | 2012      | 2011      |
|--------------------------------------|-----------|-----------|
| Aggregate mortgage loan commitments: |           |           |
| IRLCs                                | \$111,173 | \$129,553 |
| Non-IRLCs                            | 456,825   | 306,722   |
| Total                                | \$567,998 | \$436,275 |
| Investor commitments to purchase:    |           |           |
| IRLCs                                | \$111,173 | \$129,553 |
| Mortgage loans receivable            | 80,697    | 60,680    |
| Total                                | \$191,870 | \$190,233 |





Rent Expense and Future Rent Payments

The Company leases certain facilities and equipment under non-cancelable operating leases. Rental expense incurred by the Company under these operating leases were (amounts in thousands):

| Year ending October 31, | Amount   |
|-------------------------|----------|
| 2012                    | \$11,183 |
| 2011                    | \$12,405 |
| 2010                    | \$16,583 |

At October 31, 2012, future minimum rent payments under the Company's operating leases were (amounts in thousands):

| Year ending October 31, | Amount   |
|-------------------------|----------|
| 2013                    | \$9,207  |
| 2014                    | 7,704    |
| 2015                    | 6,422    |
| 2016                    | 4,686    |
| 2017                    | 3,503    |
| Thereafter              | 5,919    |
|                         | \$37,441 |

16. Other Income - Net

The table below provides the components of other income - net for the years ended October 31, 2012, 2011 and 2010 (amounts in thousands):

|                                  | 2012   | 2011   | 2010   |
|----------------------------------|--------|--------|--------|
| Interest income                  | 4,677  | 5,210  | 4,370  |
| Income from ancillary businesses | 6,607  | 3,734  | 5,871  |
| Gibraltar                        | 4,476  | 1,522  | (472)  |
| Management fee income            | 2,212  | 5,137  | 4,347  |
| Retained customer deposits       | 3,247  | 2,076  | 11,190 |
| Land sales, net                  | 1,425  | 1,350  | 918    |
| Other                            | 3,277  | 4,374  | 2,089  |
| Total other income - net         | 25,921 | 23,403 | 28,313 |

Income from ancillary businesses includes the activity of the Company's non-core businesses which include its mortgage, title, landscaping, security monitoring, and golf course and country club operations. The table below provides revenues and expenses for the Company's non-core ancillary businesses for the years ended October 31, 2012, 2011 and 2010 (amounts in thousands):

|         | 2012     | 2011     | 2010     |
|---------|----------|----------|----------|
| Revenue | \$67,137 | \$60,021 | \$51,458 |
| Expense | \$60,529 | \$56,287 | \$45,587 |

## 17. Information on Geographic Segments

The table below summarizes revenue and income (loss) before income taxes for each of the Company's geographic segments for each of the fiscal years ended October 31, 2012, 2011 and 2010 (amounts in thousands):

|                     | Revenues    |             |             | Income (loss) before income taxes |            |             |
|---------------------|-------------|-------------|-------------|-----------------------------------|------------|-------------|
|                     | 2012        | 2011        | 2010        | 2012                              | 2011       | 2010        |
| North               | \$513,724   | \$381,569   | \$407,723   | \$71,836                          | \$42,525   | \$(2,296)   |
| Mid-Atlantic        | 564,434     | 499,747     | 488,359     | 67,768                            | 57,606     | 33,946      |
| South               | 366,701     | 285,012     | 264,321     | 18,000                            | (25,936)   | (35,193)    |
| West                | 437,922     | 309,553     | 334,368     | 39,383                            | (27,113)   | (11,895)    |
| Corporate and other |             |             |             | (84,045)                          | (76,448)   | (101,749)   |
| Total               | \$1,882,781 | \$1,475,881 | \$1,494,771 | \$112,942                         | \$(29,366) | \$(117,187) |

"Corporate and other" is comprised principally of general corporate expenses such as the Offices of the Executive Chairman, the Chief Executive Officer, and the corporate finance, accounting, audit, tax, human resources, risk management, marketing and legal groups, directly expensed interest, offset, in part, by interest income and income from the Company's ancillary businesses and income from a number of its unconsolidated entities.

Total assets for each of the Company's geographic segments at October 31, 2012 and 2011 are shown in the table below (amounts in thousands):

|                     | 2012        | 2011        |
|---------------------|-------------|-------------|
| North               | \$1,205,900 | \$1,060,215 |
| Mid-Atlantic        | 1,304,798   | 1,160,926   |
| South               | 821,001     | 760,097     |
| West                | 913,699     | 650,844     |
| Corporate and other | 1,935,646   | 1,423,164   |
| Total               | \$6,181,044 | \$5,055,246 |

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

The Company provided for inventory impairment charges and the expensing of costs that it believed not to be recoverable and write-downs of investments in unconsolidated entities (including the Company's pro-rata share of impairment charges recognized by the unconsolidated entities in which it has an investment) for the years ended October 31, 2012, 2011 and 2010, as 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 at October 31, 2012 and 2011 is also shown (amounts in thousands).

|                                                         | Net Carrying Value |             | Impairments            |            | 2010      |
|---------------------------------------------------------|--------------------|-------------|------------------------|------------|-----------|
|                                                         | At October 31,     |             | Year ended October 31, |            |           |
|                                                         | 2012               | 2011        | 2012                   | 2011       |           |
| Inventory:                                              |                    |             |                        |            |           |
| Land controlled for future communities:                 |                    |             |                        |            |           |
| North                                                   | \$13,196           | \$19,390    | \$(881                 | ) \$948    | \$3,947   |
| Mid-Atlantic                                            | 27,249             | 21,592      | 327                    | 307        | (81       |
| South                                                   | 7,724              | 3,812       | 800                    | 313        | (233      |
| West                                                    | 8,131              | 1,787       | 205                    | 16,184     | 2,436     |
|                                                         | 56,300             | 46,581      | 451                    | 17,752     | 6,069     |
| Land owned for future communities:                      |                    |             |                        |            |           |
| North                                                   | 226,082            | 231,085     |                        |            | 15,900    |
| Mid-Atlantic                                            | 431,620            | 455,818     | 300                    | 300        | 9,000     |
| South                                                   | 141,644            | 125,461     | 918                    | 16,700     | 13,950    |
| West                                                    | 241,027            | 166,781     |                        |            | 16,850    |
|                                                         | 1,040,373          | 979,145     | 1,218                  | 17,000     | 55,700    |
| Operating communities:                                  |                    |             |                        |            |           |
| North                                                   | 803,085            | 738,473     | 2,725                  | 2,885      | 9,557     |
| Mid-Atlantic                                            | 729,739            | 659,081     | 5,500                  | 3,700      | 2,100     |
| South                                                   | 603,239            | 539,582     | 4,245                  | 3,800      | 23,444    |
| West                                                    | 528,451            | 453,861     | 600                    | 6,700      | 18,388    |
|                                                         | 2,664,514          | 2,390,997   | 13,070                 | 17,085     | 53,489    |
| Total                                                   | \$3,761,187        | \$3,416,723 | \$14,739               | \$51,837   | \$115,258 |
| Investments in and advances to unconsolidated entities: |                    |             |                        |            |           |
| North                                                   | \$142,213          | \$40,734    |                        |            |           |
| South                                                   | 31,252             | 32,000      |                        | 15,170     |           |
| West                                                    | 116,452            | 17,098      | (2,311                 | ) 25,700   |           |
| Corporate                                               | 40,700             | 36,523      |                        |            |           |
| Total                                                   | \$330,617          | \$126,355   | \$(2,311               | ) \$40,870 | \$—       |

## 18. Supplemental Disclosure to Consolidated Statements of Cash Flows

The following are supplemental disclosures to the Consolidated Statements of Cash Flows for each of the fiscal years ended October 31, 2012, 2011 and 2010 (amounts in thousands):

|                                                                                                                                      | 2012      | 2011        | 2010      |
|--------------------------------------------------------------------------------------------------------------------------------------|-----------|-------------|-----------|
| Cash flow information:                                                                                                               |           |             |           |
| Interest paid, net of amount capitalized                                                                                             | \$1,223   | \$18,666    | \$34,333  |
| Income tax payment                                                                                                                   | \$4,264   |             | \$3,994   |
| Income tax refunds                                                                                                                   |           | \$154,524   | \$152,770 |
| Non-cash activity:                                                                                                                   |           |             |           |
| Cost of inventory acquired through seller financing municipal bonds or recorded due to VIE criteria, net                             | \$26,059  | \$29,320    | \$41,276  |
| Cost of inventory acquired under specific performance contracts                                                                      |           |             | \$(4,889) |
| Miscellaneous (decreases) increases to inventory                                                                                     | \$(478)   | ) \$1,781   | \$1,725   |
| Reclassification of inventory to property, construction and office equipment                                                         |           | \$20,005    | \$18,711  |
| Increase (decrease) in unrecognized losses in defined benefit plans                                                                  | \$3,108   | \$2,638     | \$(867)   |
| Defined benefit plan amendment                                                                                                       | \$575     |             | \$202     |
| Income tax benefit related to exercise of employee stock options                                                                     | \$3,885   |             | \$27,150  |
| Income tax benefit recognized in total comprehensive income                                                                          | \$1,263   |             |           |
| (Increase) reduction of investments in unconsolidated entities due to increase/reduction in letters of credit or accrued liabilities | \$448     | \$13,423    | \$7,679   |
| 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   |             |           |
| Reversal of litigation costs previously accrued                                                                                      |           |             | \$10,981  |
| Reclassification of stock-based compensation from accrued liabilities to additional paid-in capital                                  |           | \$4,233     |           |
| Unrealized loss on derivative held by equity investee                                                                                | \$(875)   | )           |           |
| Miscellaneous (decreases) increases to investments in unconsolidated entities                                                        | \$(276)   | ) \$(2,212) | ) \$2,495 |
| Acquisition of Business:                                                                                                             |           |             |           |
| Fair value of assets purchased                                                                                                       | \$149,959 |             |           |
| Liabilities assumed                                                                                                                  | \$5,213   |             |           |
| Cash paid                                                                                                                            | \$144,746 |             |           |

## 19. Revised 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 thousands):

|                                          | Original Amount Issued | Amount outstanding at October 31, 2012 |
|------------------------------------------|------------------------|----------------------------------------|
| 6.875% Senior Notes due 2012             | \$ 300,000             | \$ 59,068                              |
| 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                             |
| 0.50% Exchangeable Senior Notes due 2032 | \$ 287,500             | \$ 287,500                             |

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 a majority 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. The Subsidiary Issuer generates no operating revenues and does not have any independent operations other than the financing of other subsidiaries of the Company by lending the proceeds from the above described debt issuances. 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.

As of April 30, 2013, certain Non-Guarantor Subsidiaries became Guarantor Subsidiaries. This change in status has been retrospectively reflected in the accompanying consolidating financial statements.

The consolidating financial statements have been revised in order to (i) retrospectively reflect the transfer of the balance sheets, statements of operations and cash flows of certain non-guarantor subsidiaries to guarantor subsidiaries as a result of such entities becoming guarantor subsidiaries as of April 30, 2013 and the reclassification of guarantor and non-guarantor intercompany advances and equity balances with corresponding offsets in the elimination column, (ii) revise the presentation of cash flows from operating activities, financing activities and investing activities in the consolidating statements of cash flows for the years ended October 31, 2012, 2011 and 2010 to reflect intercompany activity, which had previously been included in cash flow from operating activities, as cash flow from investing activities and cash flow from financing activities, and (iii) present the line entitled "Interest expense" as a separate line below the line entitled "Income (loss) from operations" and include lines for other comprehensive income (loss) and total comprehensive income (loss) in each of the consolidating statements of operations presented.

Summary financial information related to the transfer of certain Non-Guarantor Subsidiaries to Guarantor Subsidiaries and the reclassification of guarantor and non-guarantor intercompany advances and equity balances, resulting in a decrease in Non-Guarantor Subsidiaries amounts, is presented below (amounts in thousands).

|                                                        | October 31,<br>2012             | October 31,<br>2011 |            |
|--------------------------------------------------------|---------------------------------|---------------------|------------|
| Inventory                                              | \$168,218                       | \$429,130           |            |
| Investments in and advances to unconsolidated entities | \$110,014                       | \$—                 |            |
| Total assets                                           | \$282,638                       | \$463,592           |            |
| Loans payable                                          | \$30,424                        | \$44,562            |            |
| Intercompany advances                                  | \$239,301                       | \$248,429           |            |
| Total liabilities                                      | \$277,741                       | \$366,184           |            |
| Equity                                                 | \$4,897                         | \$97,408            |            |
|                                                        | For the years ended October 31, |                     |            |
|                                                        | 2012                            | 2011                | 2010       |
| Revenue                                                | \$22,269                        | \$56,999            | \$51,867   |
| Operating income (loss)                                | \$6,923                         | \$(4,830)           | \$(13,292) |
| Income (loss) before income taxes                      | \$3,545                         | \$(31,927)          | \$1,272    |

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Following are reconciliations of the amounts previously reported to the revised amounts as stated in the following components of the revised consolidating statements of cash flows for the years ended October 31, 2012, 2011 and 2010.

For the year ended October 31, 2012

|                                                       | As Previously<br>Reported | Reclassification<br>of intercompany<br>activity | Change in status<br>from<br>Non-Guarantor<br>to Guarantor | As Revised   |
|-------------------------------------------------------|---------------------------|-------------------------------------------------|-----------------------------------------------------------|--------------|
| Cash flow (used in) provided by operating activities: |                           |                                                 |                                                           |              |
| Net cash (used in) provided by operating activities   |                           |                                                 |                                                           |              |
| Toll Brothers, Inc.                                   | \$(39,018                 | ) \$43,383                                      | \$—                                                       | \$4,365      |
| Subsidiary Issuer                                     | \$(578,696                | ) \$584,260                                     | \$—                                                       | \$5,564      |
| Guarantor Subsidiaries                                | \$243,789                 | \$(460,632                                      | ) \$109,684                                               | \$(107,159   |
| Non-Guarantor Subsidiaries                            | \$204,963                 | \$(164,302                                      | ) \$(109,684                                              | ) \$(69,023  |
| Elimination                                           | \$—                       | \$(2,709                                        | ) \$—                                                     | \$(2,709     |
| Cash flow (used in) provided by investing activities: |                           |                                                 |                                                           |              |
| Intercompany advances                                 |                           |                                                 |                                                           |              |
| Toll Brothers, Inc.                                   | \$—                       | \$(43,383                                       | ) \$—                                                     | \$(43,383    |
| Subsidiary Issuer                                     | \$—                       | \$(584,260                                      | ) \$—                                                     | \$(584,260   |
| Guarantor Subsidiaries                                | \$—                       | \$—                                             | \$—                                                       | \$—          |
| Non-Guarantor Subsidiaries                            | \$—                       | \$—                                             | \$—                                                       | \$—          |
| Elimination                                           | \$—                       | \$627,643                                       | \$—                                                       | \$627,643    |
| Net cash used in investing activities                 |                           |                                                 |                                                           |              |
| Toll Brothers, Inc.                                   | \$—                       | \$(43,383                                       | ) \$—                                                     | \$(43,383    |
| Subsidiary Issuer                                     | \$—                       | \$(584,260                                      | ) \$—                                                     | \$(584,260   |
| Guarantor Subsidiaries                                | \$(280,914                | ) \$—                                           | \$(109,145                                                | ) \$(390,059 |
| Non-Guarantor Subsidiaries                            | \$(282,207                | ) \$—                                           | \$109,145                                                 | \$(173,062   |
| Elimination                                           | \$—                       | \$627,643                                       | \$—                                                       | \$627,643    |
| Cash flow provided by (used in) financing activities: |                           |                                                 |                                                           |              |
| Intercompany advances                                 |                           |                                                 |                                                           |              |
| Toll Brothers, Inc.                                   | \$—                       | \$—                                             | \$—                                                       | \$—          |
| Subsidiary Issuer                                     | \$—                       | \$—                                             | \$—                                                       | \$—          |
| Guarantor Subsidiaries                                | \$—                       | \$460,632                                       | \$—                                                       | \$460,632    |
| Non-Guarantor Subsidiaries                            | \$—                       | \$164,302                                       | \$—                                                       | \$164,302    |
| Elimination                                           | \$—                       | \$(624,934                                      | ) \$—                                                     | \$(624,934   |
| Net cash used in financing activities                 |                           |                                                 |                                                           |              |
| Toll Brothers, Inc.                                   | \$39,018                  | \$—                                             | \$—                                                       | \$39,018     |
| Subsidiary Issuer                                     | \$578,696                 | \$—                                             | \$—                                                       | \$578,696    |
| Guarantor Subsidiaries                                | \$(26,800                 | ) \$460,632                                     | \$(1,602                                                  | ) \$432,230  |
| Non-Guarantor Subsidiaries                            | \$13,653                  | \$164,302                                       | \$1,602                                                   | \$179,557    |
| Elimination                                           | \$—                       | \$(624,934                                      | ) \$—                                                     | \$(624,934   |



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For the year ended October 31, 2011

|                                                       | As Previously<br>Reported | Reclassification<br>of intercompany<br>activity | Change in status<br>from<br>Non-Guarantor<br>to Guarantor | As Revised   |
|-------------------------------------------------------|---------------------------|-------------------------------------------------|-----------------------------------------------------------|--------------|
| Cash flow provided by (used in) operating activities: |                           |                                                 |                                                           |              |
| Net cash provided by (used in) operating activities   |                           |                                                 |                                                           |              |
| Toll Brothers, Inc.                                   | \$23,571                  | \$76,997                                        | \$—                                                       | \$100,568    |
| Subsidiary Issuer                                     | \$58,837                  | \$(53,558)                                      | ) \$—                                                     | \$5,279      |
| Guarantor Subsidiaries                                | \$(116,596)               | ) \$(118,133)                                   | ) \$5,981                                                 | \$(228,748)  |
| Non-Guarantor Subsidiaries                            | \$87,038                  | \$94,686                                        | \$(5,981)                                                 | ) \$175,743  |
| Elimination                                           | \$—                       | \$8                                             | \$—                                                       | \$8          |
| Cash flow (used in) provided by investing activities: |                           |                                                 |                                                           |              |
| Intercompany advances                                 |                           |                                                 |                                                           |              |
| Toll Brothers, Inc.                                   | \$—                       | \$(76,997)                                      | ) \$—                                                     | \$(76,997)   |
| Subsidiary Issuer                                     | \$—                       | \$53,558                                        | \$—                                                       | \$53,558     |
| Guarantor Subsidiaries                                | \$—                       | \$—                                             | \$—                                                       | \$—          |
| Non-Guarantor Subsidiaries                            | \$—                       | \$—                                             | \$—                                                       | \$—          |
| Elimination                                           | \$—                       | \$23,439                                        | \$—                                                       | \$23,439     |
| Net cash (used in) provided by investing activities   |                           |                                                 |                                                           |              |
| Toll Brothers, Inc.                                   | \$—                       | \$(76,997)                                      | ) \$—                                                     | \$(76,997)   |
| Subsidiary Issuer                                     | \$—                       | \$53,558                                        | \$—                                                       | \$53,558     |
| Guarantor Subsidiaries                                | \$(26,902)                | ) \$—                                           | \$536                                                     | \$(26,366)   |
| Non-Guarantor Subsidiaries                            | \$(47,568)                | ) \$—                                           | \$(536)                                                   | ) \$(48,104) |
| Elimination                                           | \$—                       | \$23,439                                        | \$—                                                       | \$23,439     |
| Cash flow (used in) provided by financing activities: |                           |                                                 |                                                           |              |
| Intercompany advances                                 |                           |                                                 |                                                           |              |
| Toll Brothers, Inc.                                   | \$—                       | \$—                                             | \$—                                                       | \$—          |
| Subsidiary Issuer                                     | \$—                       | \$—                                             | \$—                                                       | \$—          |
| Guarantor Subsidiaries                                | \$—                       | \$118,133                                       | \$—                                                       | \$118,133    |
| Non-Guarantor Subsidiaries                            | \$—                       | \$(94,686)                                      | ) \$—                                                     | \$(94,686)   |
| Elimination                                           | \$—                       | \$(23,447)                                      | ) \$—                                                     | \$(23,447)   |
| Net cash (used in) provided by financing activities   |                           |                                                 |                                                           |              |
| Toll Brothers, Inc.                                   | \$(23,571)                | ) \$—                                           | \$—                                                       | \$(23,571)   |
| Subsidiary Issuer                                     | \$(58,837)                | ) \$—                                           | \$—                                                       | \$(58,837)   |
| Guarantor Subsidiaries                                | \$(11,589)                | ) \$118,133                                     | \$(4,823)                                                 | ) \$101,721  |
| Non-Guarantor Subsidiaries                            | \$(17,103)                | ) \$(94,686)                                    | ) \$4,823                                                 | \$(106,966)  |
| Elimination                                           | \$—                       | \$(23,447)                                      | ) \$—                                                     | \$(23,447)   |



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For the year ended October 31, 2010

|                                                       | As Previously<br>Reported |   | Reclassification<br>of intercompany<br>activity |   | Change in status<br>from<br>Non-Guarantor<br>to Guarantor |   | As Revised |
|-------------------------------------------------------|---------------------------|---|-------------------------------------------------|---|-----------------------------------------------------------|---|------------|
| Cash flow (used in) provided by operating activities: |                           |   |                                                 |   |                                                           |   |            |
| Net cash (used in) provided by operating activities   |                           |   |                                                 |   |                                                           |   |            |
| Toll Brothers, Inc.                                   | \$(11,955                 | ) | \$53,778                                        |   | \$—                                                       |   | \$41,823   |
| Subsidiary Issuer                                     | \$46,114                  |   | \$(36,428                                       | ) | \$—                                                       |   | \$9,686    |
| Guarantor Subsidiaries                                | \$(228,164                | ) | \$170,607                                       |   | \$61,564                                                  |   | \$4,007    |
| Non-Guarantor Subsidiaries                            | \$47,721                  |   | \$(187,656                                      | ) | \$(61,564                                                 | ) | \$(201,499 |
| Elimination                                           | \$—                       |   | \$(301                                          | ) | \$—                                                       |   | \$(301     |
| Cash flow (used in) provided by investing activities: |                           |   |                                                 |   |                                                           |   |            |
| Intercompany advances                                 |                           |   |                                                 |   |                                                           |   |            |
| Toll Brothers, Inc.                                   | \$—                       |   | \$(53,778                                       | ) | \$—                                                       |   | \$(53,778  |
| Subsidiary Issuer                                     | \$—                       |   | \$36,428                                        |   | \$—                                                       |   | \$36,428   |
| Guarantor Subsidiaries                                | \$—                       |   | \$—                                             |   | \$—                                                       |   | \$—        |
| Non-Guarantor Subsidiaries                            | \$—                       |   | \$—                                             |   | \$—                                                       |   | \$—        |
| Elimination                                           | \$—                       |   | \$17,350                                        |   | \$—                                                       |   | \$17,350   |
| Net cash (used in) provided by investing activities   |                           |   |                                                 |   |                                                           |   |            |
| Toll Brothers, Inc.                                   | \$—                       |   | \$(53,778                                       | ) | \$—                                                       |   | \$(53,778  |
| Subsidiary Issuer                                     | \$—                       |   | \$36,428                                        |   | \$—                                                       |   | \$36,428   |
| Guarantor Subsidiaries                                | \$(121,509                | ) | \$—                                             |   | \$(751                                                    | ) | \$(122,260 |
| Non-Guarantor Subsidiaries                            | \$(29,873                 | ) | \$—                                             |   | \$751                                                     |   | \$(29,122  |
| Elimination                                           | \$—                       |   | \$17,350                                        |   | \$—                                                       |   | \$17,350   |
| Cash flow (used in) provided by financing activities: |                           |   |                                                 |   |                                                           |   |            |
| Intercompany advances                                 |                           |   |                                                 |   |                                                           |   |            |
| Toll Brothers, Inc.                                   | \$—                       |   | \$—                                             |   | \$—                                                       |   | \$—        |
| Subsidiary Issuer                                     | \$—                       |   | \$—                                             |   | \$—                                                       |   | \$—        |
| Guarantor Subsidiaries                                | \$—                       |   | \$(170,607                                      | ) | \$—                                                       |   | \$(170,607 |
| Non-Guarantor Subsidiaries                            | \$—                       |   | \$187,656                                       |   | \$—                                                       |   | \$187,656  |
| Elimination                                           | \$—                       |   | \$(17,049                                       | ) | \$—                                                       |   | \$(17,049  |
| Net cash (used in) provided by financing activities   |                           |   |                                                 |   |                                                           |   |            |
| Toll Brothers, Inc.                                   | \$11,955                  |   | \$—                                             |   | \$—                                                       |   | \$11,955   |
| Subsidiary Issuer                                     | \$(46,114                 | ) | \$—                                             |   | \$—                                                       |   | \$(46,114  |
| Guarantor Subsidiaries                                | \$(420,291                | ) | \$(170,607                                      | ) | \$(62,214                                                 | ) | \$(653,112 |
| Non-Guarantor Subsidiaries                            | \$(16,542                 | ) | \$187,656                                       |   | \$62,214                                                  |   | \$233,328  |
| Elimination                                           | \$—                       |   | \$(17,049                                       | ) | \$—                                                       |   | \$(17,049  |

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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).

Revised Consolidating Balance Sheet at October 31, 2012

|                                                                             | Toll<br>Brothers,<br>Inc. | Subsidiary<br>Issuer | Guarantor<br>Subsidiaries | Non-<br>Guarantor<br>Subsidiaries | Eliminations | Consolidated |
|-----------------------------------------------------------------------------|---------------------------|----------------------|---------------------------|-----------------------------------|--------------|--------------|
| <b>ASSETS</b>                                                               |                           |                      |                           |                                   |              |              |
| Cash and cash equivalents                                                   | —                         | —                    | 712,024                   | 66,800                            | —            | 778,824      |
| Marketable securities                                                       |                           |                      | 378,858                   | 60,210                            |              | 439,068      |
| Restricted cash                                                             | 28,268                    |                      | 17,561                    | 1,447                             |              | 47,276       |
| Inventory                                                                   |                           |                      | 3,695,895                 | 65,292                            |              | 3,761,187    |
| Property, construction and office<br>equipment, net                         |                           |                      | 103,206                   | 3,008                             |              | 106,214      |
| Receivables, prepaid expenses and<br>other assets                           | 134                       | 15,130               | 79,949                    | 64,543                            | (11,441 )    | 148,315      |
| Mortgage loans receivable                                                   |                           |                      |                           | 86,386                            |              | 86,386       |
| Customer deposits held in escrow                                            |                           |                      | 27,312                    | 2,267                             |              | 29,579       |
| Investments in and advances to<br>unconsolidated entities                   |                           |                      | 180,159                   | 150,458                           |              | 330,617      |
| Investments in non-performing loan<br>portfolios and foreclosed real estate |                           |                      |                           | 95,522                            |              | 95,522       |
| Investments in and advances to<br>consolidated entities                     | 2,816,607                 | 2,092,810            | 4,740                     |                                   | (4,914,157 ) | —            |
| Deferred tax assets, net of valuation<br>allowances                         | 358,056                   |                      |                           |                                   |              | 358,056      |
|                                                                             | 3,203,065                 | 2,107,940            | 5,199,704                 | 595,933                           | (4,925,598 ) | 6,181,044    |
| <b>LIABILITIES AND EQUITY</b>                                               |                           |                      |                           |                                   |              |              |
| <b>Liabilities</b>                                                          |                           |                      |                           |                                   |              |              |
| Loans payable                                                               |                           |                      | 99,817                    |                                   |              | 99,817       |
| Senior notes                                                                |                           | 2,032,335            |                           |                                   | 48,128       | 2,080,463    |
| Mortgage company warehouse loan                                             |                           |                      |                           | 72,664                            |              | 72,664       |
| Customer deposits                                                           |                           |                      | 142,919                   | 58                                |              | 142,977      |
| Accounts payable                                                            |                           |                      | 99,889                    | 22                                |              | 99,911       |
| Accrued expenses                                                            |                           | 27,476               | 344,555                   | 115,922                           | (11,603 )    | 476,350      |
| Advances from consolidated entities                                         |                           |                      | 1,341,189                 | 393,195                           | (1,734,384 ) | —            |
| Income taxes payable                                                        | 80,991                    |                      |                           |                                   |              | 80,991       |
| Total liabilities                                                           | 80,991                    | 2,059,811            | 2,028,369                 | 581,861                           | (1,697,859 ) | 3,053,173    |
| <b>Equity</b>                                                               |                           |                      |                           |                                   |              |              |
| <b>Stockholders' equity</b>                                                 |                           |                      |                           |                                   |              |              |
| Common stock                                                                | 1,687                     |                      | 48                        | 3,006                             | (3,054 )     | 1,687        |
| Additional paid-in capital                                                  | 404,418                   | 49,400               |                           | 1,734                             | (51,134 )    | 404,418      |
| Retained earnings (deficits)                                                | 2,721,397                 | (1,271 )             | 3,171,654                 | 3,168                             | (3,173,551 ) | 2,721,397    |
| Treasury stock, at cost                                                     | (983 )                    |                      |                           |                                   |              | (983 )       |
| Accumulated other comprehensive<br>loss                                     | (4,445 )                  |                      | (367 )                    | (7 )                              |              | (4,819 )     |
| Total stockholders' equity                                                  | 3,122,074                 | 48,129               | 3,171,335                 | 7,901                             | (3,227,739 ) | 3,121,700    |
| Noncontrolling interest                                                     |                           |                      |                           | 6,171                             |              | 6,171        |
| Total equity                                                                | 3,122,074                 | 48,129               | 3,171,335                 | 14,072                            | (3,227,739 ) | 3,127,871    |

3,203,065 2,107,940 5,199,704 595,933 (4,925,598) 6,181,044

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## Revised Consolidating Balance Sheet at October 31, 2011

|                                                                             | Toll<br>Brothers,<br>Inc. | Subsidiary<br>Issuer | Guarantor<br>Subsidiaries | Non-<br>Guarantor<br>Subsidiaries | Eliminations | Consolidated |
|-----------------------------------------------------------------------------|---------------------------|----------------------|---------------------------|-----------------------------------|--------------|--------------|
| <b>ASSETS</b>                                                               |                           |                      |                           |                                   |              |              |
| Cash and cash equivalents                                                   | —                         | —                    | 777,012                   | 129,328                           | —            | 906,340      |
| Marketable securities                                                       |                           |                      | 233,572                   |                                   |              | 233,572      |
| Restricted cash                                                             |                           |                      | 19,084                    | 676                               |              | 19,760       |
| Inventory                                                                   |                           |                      | 3,340,341                 | 76,382                            |              | 3,416,723    |
| Property, construction and office<br>equipment, net                         |                           |                      | 96,554                    | 3,158                             |              | 99,712       |
| Receivables, prepaid expenses and<br>other assets                           |                           | 6,768                | 88,177                    | 12,870                            | (2,239 )     | 105,576      |
| Mortgage loans receivable                                                   |                           |                      |                           | 63,175                            |              | 63,175       |
| Customer deposits held in escrow                                            |                           |                      | 10,682                    | 4,177                             |              | 14,859       |
| Investments in and advances to<br>unconsolidated entities                   |                           |                      | 86,481                    | 39,874                            |              | 126,355      |
| Investments in non-performing loan<br>portfolios and foreclosed real estate |                           |                      |                           | 69,174                            |              | 69,174       |
| Investments in and advances to<br>consolidated entities                     | 2,692,715                 | 1,508,550            | 4,747                     |                                   | (4,206,012 ) | —            |
|                                                                             | 2,692,715                 | 1,515,318            | 4,656,650                 | 398,814                           | (4,208,251 ) | 5,055,246    |
| <b>LIABILITIES AND EQUITY</b>                                               |                           |                      |                           |                                   |              |              |
| <b>Liabilities</b>                                                          |                           |                      |                           |                                   |              |              |
| Loans payable                                                               |                           |                      | 106,556                   |                                   |              | 106,556      |
| Senior notes                                                                |                           | 1,490,972            |                           |                                   |              | 1,490,972    |
| Mortgage company warehouse loan                                             |                           |                      |                           | 57,409                            |              | 57,409       |
| Customer deposits                                                           |                           |                      | 83,563                    | 261                               |              | 83,824       |
| Accounts payable                                                            |                           |                      | 96,645                    | 172                               |              | 96,817       |
| Accrued expenses                                                            |                           | 24,346               | 383,039                   | 115,947                           | (2,281 )     | 521,051      |
| Advances from consolidated entities                                         |                           |                      | 897,264                   | 228,893                           | (1,126,157 ) | —            |
| Income taxes payable                                                        | 106,066                   |                      |                           |                                   |              | 106,066      |
| Total liabilities                                                           | 106,066                   | 1,515,318            | 1,567,067                 | 402,682                           | (1,128,438 ) | 2,462,695    |
| <b>Equity</b>                                                               |                           |                      |                           |                                   |              |              |
| <b>Stockholders' equity</b>                                                 |                           |                      |                           |                                   |              |              |
| 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 (deficits)                                                | 2,234,251                 |                      | 3,085,459                 | (14,803 )                         | (3,070,656 ) | 2,234,251    |
| Treasury stock, at cost                                                     | (47,065 )                 |                      |                           |                                   |              | (47,065 )    |
| Accumulated other comprehensive<br>loss                                     | (2,606 )                  |                      | (296 )                    |                                   |              | (2,902 )     |
| Total stockholders' equity                                                  | 2,586,649                 | —                    | 3,089,583                 | (10,066 )                         | (3,079,813 ) | 2,586,353    |
| Noncontrolling interest                                                     |                           |                      |                           | 6,198                             |              | 6,198        |
| Total equity                                                                | 2,586,649                 | —                    | 3,089,583                 | (3,868 )                          | (3,079,813 ) | 2,592,551    |
|                                                                             | 2,692,715                 | 1,515,318            | 4,656,650                 | 398,814                           | (4,208,251 ) | 5,055,246    |



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Revised Consolidating Statement of Operations and Comprehensive Income (Loss) for the fiscal year ended October 31, 2012

|                                          | Toll<br>Brothers,<br>Inc. | Subsidiary<br>Issuer | Guarantor<br>Subsidiaries | Non-<br>Guarantor<br>Subsidiaries | Eliminations | Consolidated |
|------------------------------------------|---------------------------|----------------------|---------------------------|-----------------------------------|--------------|--------------|
| Revenues                                 |                           |                      | 1,903,177                 | 57,581                            | (77,977 )    | 1,882,781    |
| Cost of revenues                         |                           |                      | 1,541,937                 | 10,597                            | (20,439 )    | 1,532,095    |
| Selling, general and<br>administrative   | 95                        | 2,965                | 309,923                   | 38,424                            | (64,150 )    | 287,257      |
|                                          | 95                        | 2,965                | 1,851,860                 | 49,021                            | (84,589 )    | 1,819,352    |
| Income (loss) from operations            | (95 )                     | (2,965 )             | 51,317                    | 8,560                             | 6,612        | 63,429       |
| Other:                                   |                           |                      |                           |                                   |              |              |
| Income from unconsolidated<br>entities   |                           |                      | 18,342                    | 5,250                             |              | 23,592       |
| Other income - net                       | 1,327                     |                      | 20,032                    | 10,181                            | (5,619 )     | 25,921       |
| Intercompany interest income             |                           | 116,835              |                           |                                   | (116,835 )   | —            |
| Interest expense                         |                           | (115,141 )           |                           | (701 )                            | 115,842      | —            |
| Income from consolidated<br>subsidiaries | 111,710                   |                      | 22,019                    |                                   | (133,729 )   | —            |
| Income (loss) before income<br>taxes     | 112,942                   | (1,271 )             | 111,710                   | 23,290                            | (133,729 )   | 112,942      |
| Income tax (benefit)<br>provision        | (374,204 )                |                      | 25,515                    | 5,319                             | (30,834 )    | (374,204 )   |
| Net income (loss)                        | 487,146                   | (1,271 )             | 86,195                    | 17,971                            | (102,895 )   | 487,146      |
| Other comprehensive loss                 | (1,839 )                  |                      | (71 )                     | (7 )                              |              | (1,917 )     |

Toll Brothers, Inc. (the “Company”) is filing this Amendment No.1 on Form 10-K/A (the “Form 10-K/A”) to its Annual Report on Form 10-K for the fiscal year ended October 31, 2012, filed with the Securities and Exchange Commission on December 28, 2012 (the “Original Filing”), for the purpose of revising certain

financial statements and footnotes contained in Part II, Item 8 as described below, making related updates to Part II, Item 9A to address the impact of the revised financial statements and footnotes on the Chief Executive Officer and Chief Financial Officer's original conclusions regarding the effectiveness of the Company's disclosure controls and procedures and internal control over financial reporting, and making corresponding revisions to the Interactive Data File included in the Original Filing as Exhibit 101. Part IV of the Original Filing has also been amended to contain currently dated certifications, as required by Rule 12b-15

under the  
Securities  
Exchange Act  
of 1934, as  
amended, and  
a currently  
dated auditor's  
consent.

Total comprehensive income (loss) 485,307 (1,271 ) 86,124 17,964 (102,895 ) 485,229

Revised Consolidating Statement of Operations and Comprehensive Income (Loss) for the fiscal year ended October 31, 2011

|                                              | Toll<br>Brothers,<br>Inc. | Subsidiary<br>Issuer | Guarantor<br>Subsidiaries | Non-<br>Guarantor<br>Subsidiaries | Eliminations | Consolidated |
|----------------------------------------------|---------------------------|----------------------|---------------------------|-----------------------------------|--------------|--------------|
| Revenues                                     |                           |                      | 1,502,147                 | 48,365                            | (74,631 )    | 1,475,881    |
| Cost of revenues                             |                           |                      | 1,274,173                 | 4,314                             | (17,717 )    | 1,260,770    |
| Selling, general and administrative          | 137                       | 1,345                | 279,131                   | 33,605                            | (52,863 )    | 261,355      |
|                                              | 137                       | 1,345                | 1,553,304                 | 37,919                            | (70,580 )    | 1,522,125    |
| (Loss) income from operations                | (137 )                    | (1,345 )             | (51,157 )                 | 10,446                            | (4,051 )     | (46,244 )    |
| Other:                                       |                           |                      |                           |                                   |              |              |
| (Loss) income from unconsolidated entities   |                           |                      | (18,905 )                 | 17,711                            |              | (1,194 )     |
| Other income (loss) - net                    |                           |                      | 15,784                    | (1,359 )                          | 8,978        | 23,403       |
| Intercompany interest income                 |                           | 108,776              |                           |                                   | (108,776 )   | —            |
| Interest expense                             |                           | (103,604 )           | (1,504 )                  | (245 )                            | 103,849      | (1,504 )     |
| Expenses related to early retirement of debt |                           | (3,827 )             |                           |                                   |              | (3,827 )     |
| (Loss) income from consolidated subsidiaries | (29,229 )                 |                      | 26,553                    |                                   | 2,676        | —            |
| (Loss) income before income taxes            | (29,366 )                 | —                    | (29,229 )                 | 26,553                            | 2,676        | (29,366 )    |
| Income tax (benefit) provision               | (69,161 )                 |                      | (68,837 )                 | 62,536                            | 6,301        | (69,161 )    |
| Net income (loss)                            | 39,795                    | —                    | 39,608                    | (35,983 )                         | (3,625 )     | 39,795       |
| Other comprehensive loss                     | (1,934 )                  |                      | (192 )                    |                                   |              | (2,126 )     |
| Total comprehensive income (loss)            | 37,861                    | —                    | 39,416                    | (35,983 )                         | (3,625 )     | 37,669       |

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Revised Consolidating Statement of Operations and Comprehensive Income (Loss) for the fiscal year ended October 31, 2010

|                                              | Toll<br>Brothers,<br>Inc. | Subsidiary<br>Issuer | Guarantor<br>Subsidiaries | Non-<br>Guarantor<br>Subsidiaries | Eliminations | Consolidated |
|----------------------------------------------|---------------------------|----------------------|---------------------------|-----------------------------------|--------------|--------------|
| Revenues                                     |                           |                      | 1,520,545                 | 28,461                            | (54,235 )    | 1,494,771    |
| Cost of revenues                             |                           |                      | 1,388,106                 | 3,564                             | (15,112 )    | 1,376,558    |
| Selling, general and administrative          | 77                        | 1,365                | 264,000                   | 19,897                            | (22,115 )    | 263,224      |
|                                              | 77                        | 1,365                | 1,652,106                 | 23,461                            | (37,227 )    | 1,639,782    |
| (Loss) income from operations                | (77 )                     | (1,365 )             | (131,561 )                | 5,000                             | (17,008 )    | (145,011 )   |
| Other:                                       |                           |                      |                           |                                   |              |              |
| Income from unconsolidated entities          |                           |                      | 16,886                    | 6,584                             |              | 23,470       |
| Other income - net                           |                           |                      | 5,890                     | 3,624                             | 18,799       | 28,313       |
| Intercompany interest income                 |                           | 108,520              |                           |                                   | (108,520 )   | —            |
| Interest expense                             |                           | (106,411 )           | (22,751 )                 | (318 )                            | 106,729      | (22,751 )    |
| Expenses related to early retirement of debt |                           | (744 )               | (464 )                    |                                   |              | (1,208 )     |
| (Loss) income from consolidated subsidiaries | (117,110 )                |                      | 14,890                    |                                   | 102,220      | —            |
| (Loss) income before income taxes            | (117,187 )                | —                    | (117,110 )                | 14,890                            | 102,220      | (117,187 )   |
| Income tax (benefit) provision               | (113,813 )                |                      | (113,739 )                | 14,461                            | 99,278       | (113,813 )   |
| Net (loss) income                            | (3,374 )                  | —                    | (3,371 )                  | 429                               | 2,942        | (3,374 )     |
| Other comprehensive income                   | 1,986                     |                      | 74                        |                                   |              | 2,060        |
| Total comprehensive (loss) income            | (1,388 )                  | —                    | (3,297 )                  | 429                               | 2,942        | (1,314 )     |

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Revised Consolidating Statement of Cash Flows for the fiscal year ended October 31, 2012

|                                                                                    | Toll<br>Brothers,<br>Inc. | Subsidiary<br>Issuer | Guarantor<br>Subsidiaries | Non-<br>Guarantor<br>Subsidiaries | Eliminations | Consolidated |
|------------------------------------------------------------------------------------|---------------------------|----------------------|---------------------------|-----------------------------------|--------------|--------------|
| Net cash (used in) provided by operating activities                                | 4,365                     | 5,564                | (107,159 )                | (69,023 )                         | (2,709 )     | (168,962 )   |
| Cash flow (used in) provided by investing activities:                              |                           |                      |                           |                                   |              |              |
| Purchase of property and equipment — net                                           |                           |                      | (14,586 )                 | 91                                |              | (14,495 )    |
| Purchase of marketable securities                                                  |                           |                      | (519,737 )                | (60,221 )                         |              | (579,958 )   |
| Sale and redemption of marketable securities                                       |                           |                      | 368,253                   |                                   |              | 368,253      |
| Investment in and advances to unconsolidated entities                              |                           |                      | (113,651 )                | (103,509 )                        |              | (217,160 )   |
| Return of investments in unconsolidated entities                                   |                           |                      | 34,408                    | 3,960                             |              | 38,368       |
| Investment in non-performing loan portfolios and foreclosed real estate            |                           |                      |                           | (30,090 )                         |              | (30,090 )    |
| Return of investments in non-performing loan portfolios and foreclosed real estate |                           |                      |                           | 16,707                            |              | 16,707       |
| Acquisition of a business                                                          |                           |                      | (144,746 )                |                                   |              | (144,746 )   |
| Intercompany advances                                                              | (43,383 )                 | (584,260 )           |                           |                                   | 627,643      | —            |
| Net cash used in investing activities                                              | (43,383 )                 | (584,260 )           | (390,059 )                | (173,062 )                        | 627,643      | (563,121 )   |
| Cash flow provided by (used in) financing activities:                              |                           |                      |                           |                                   |              |              |
| Net proceeds from issuance of senior notes                                         |                           | 578,696              |                           |                                   |              | 578,696      |
| Proceeds from loans payable                                                        |                           |                      |                           | 1,002,934                         |              | 1,002,934    |
| Principal payments of loans payable                                                |                           |                      | (28,402 )                 | (987,679 )                        |              | (1,016,081 ) |
| Proceeds from stock-based benefit plans                                            | 33,747                    |                      |                           |                                   |              | 33,747       |
| Excess tax benefits from stock-based compensation                                  | 5,776                     |                      |                           |                                   |              | 5,776        |
| Purchase of treasury stock                                                         | (505 )                    |                      |                           |                                   |              | (505 )       |
| Intercompany advances                                                              |                           |                      | 460,632                   | 164,302                           | (624,934 )   | —            |
| Net cash provided by financing activities                                          | 39,018                    | 578,696              | 432,230                   | 179,557                           | (624,934 )   | 604,567      |
| Net decrease in cash and cash equivalents                                          | —                         | —                    | (64,988 )                 | (62,528 )                         | —            | (127,516 )   |
| Cash and cash equivalents, beginning of year                                       | —                         | —                    | 777,012                   | 129,328                           | —            | 906,340      |
| Cash and cash equivalents, end of year                                             | —                         | —                    | 712,024                   | 66,800                            | —            | 778,824      |

Revised Consolidating Statement of Cash Flows for the fiscal year ended October 31, 2011

|  | Toll<br>Brothers,<br>Inc. | Subsidiary<br>Issuer | Guarantor<br>Subsidiaries | Non-<br>Guarantor<br>Subsidiaries | Eliminations | Consolidated |
|--|---------------------------|----------------------|---------------------------|-----------------------------------|--------------|--------------|
|  | 100,568                   | 5,279                | (228,748 )                | 175,743                           | 8            | 52,850       |

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|                                                                                    |           |            |            |            |           |            |
|------------------------------------------------------------------------------------|-----------|------------|------------|------------|-----------|------------|
| Net cash provided by (used in) operating activities                                |           |            |            |            |           |            |
| Cash flow (used in) provided by investing activities:                              |           |            |            |            |           |            |
| Purchase of property and equipment — net                                           |           | (6,122 )   | (3,431 )   |            |           | (9,553 )   |
| Purchase of marketable securities                                                  |           | (452,864 ) |            |            |           | (452,864 ) |
| Sale and redemption of marketable securities                                       |           | 408,831    |            |            |           | 408,831    |
| Investment in and advances to unconsolidated entities                              |           | (70 )      | (62 )      |            |           | (132 )     |
| Return of investments in unconsolidated entities                                   |           | 23,859     | 19,450     |            |           | 43,309     |
| Investment in non-performing loan portfolios and foreclosed real estate            |           |            | (66,867 )  |            |           | (66,867 )  |
| Return of investments in non-performing loan portfolios and foreclosed real estate |           |            | 2,806      |            |           | 2,806      |
| Intercompany advances                                                              | (76,997 ) | 53,558     |            | 23,439     |           | —          |
| Net cash (used in) provided by investing activities                                | (76,997 ) | 53,558     | (26,366 )  | (48,104 )  | 23,439    | (74,470 )  |
| Cash flow (used in) provided by financing activities:                              |           |            |            |            |           |            |
| Proceeds from loans payable                                                        |           |            |            | 921,251    |           | 921,251    |
| Principal payments of loans payable                                                |           |            | (16,412 )  | (936,209 ) |           | (952,621 ) |
| Redemption of senior notes                                                         |           | (58,837 )  |            |            |           | (58,837 )  |
| Proceeds from stock-based benefit plans                                            | 25,531    |            |            |            |           | 25,531     |
| Purchase of treasury stock                                                         | (49,102 ) |            |            |            |           | (49,102 )  |
| Change in noncontrolling interest                                                  |           |            |            | 2,678      |           | 2,678      |
| Intercompany advances                                                              |           |            | 118,133    | (94,686 )  | (23,447 ) | —          |
| Net cash (used in) provided financing activities                                   | (23,571 ) | (58,837 )  | 101,721    | (106,966 ) | (23,447 ) | (111,100 ) |
| Net (decrease) increase in cash and cash equivalents                               | —         | —          | (153,393 ) | 20,673     | —         | (132,720 ) |
| Cash and cash equivalents, beginning of year                                       | —         | —          | 930,405    | 108,655    | —         | 1,039,060  |
| Cash and cash equivalents, end of year                                             | —         | —          | 777,012    | 129,328    | —         | 906,340    |

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Revised Consolidating Statement of Cash Flows for the fiscal year ended October 31, 2010

|                                                       | Toll<br>Brothers,<br>Inc. | Subsidiary<br>Issuer | Guarantor<br>Subsidiaries | Non-<br>Guarantor<br>Subsidiaries | Eliminations | Consolidated |
|-------------------------------------------------------|---------------------------|----------------------|---------------------------|-----------------------------------|--------------|--------------|
| Net cash (used in) provided by operating activities   | 41,823                    | 9,686                | 4,007                     | (201,499 )                        | (301 )       | (146,284 )   |
| Cash flow (used in) provided by investing activities: |                           |                      |                           |                                   |              |              |
| Purchase of property and equipment — net              |                           |                      | (4,826 )                  | (4 )                              |              | (4,830 )     |
| Purchase of marketable securities                     |                           |                      | (157,962 )                |                                   |              | (157,962 )   |
| Sale and redemption of marketable securities          |                           |                      | 60,000                    |                                   |              | 60,000       |
| Investment in and advances to unconsolidated entities |                           |                      | (29,168 )                 | (29,118 )                         |              | (58,286 )    |
| Return of investments in unconsolidated entities      |                           |                      | 9,696                     |                                   |              | 9,696        |
| Intercompany advances                                 | (53,778 )                 | 36,428               |                           |                                   | 17,350       | —            |
| Net cash (used in) provided by investing activities   | (53,778 )                 | 36,428               | (122,260 )                | (29,122 )                         | 17,350       | (151,382 )   |
| Cash flow (used in) provided by financing activities: |                           |                      |                           |                                   |              |              |
| Proceeds from loans payable                           |                           |                      | 219                       | 927,014                           |              | 927,233      |
| Principal payments of loans payable                   |                           |                      | (434,852 )                | (881,662 )                        |              | (1,316,514 ) |
| Redemption of senior subordinated notes               |                           |                      | (47,872 )                 |                                   |              | (47,872 )    |
| Redemption of senior notes                            |                           | (46,114 )            |                           |                                   |              | (46,114 )    |
| Proceeds from stock-based benefit plans               | 7,589                     |                      |                           |                                   |              | 7,589        |
| Excess tax benefits from stock-based compensation     | 4,954                     |                      |                           |                                   |              | 4,954        |
| Purchase of treasury stock                            | (588 )                    |                      |                           |                                   |              | (588 )       |
| Change in noncontrolling interest                     |                           |                      |                           | 320                               |              | 320          |
| Intercompany advances                                 |                           |                      | (170,607 )                | 187,656                           | (17,049 )    | —            |
| Net cash (used in) provided by financing activities   | 11,955                    | (46,114 )            | (653,112 )                | 233,328                           | (17,049 )    | (470,992 )   |
| Net (decrease) increase in cash and cash equivalents  | —                         | —                    | (771,365 )                | 2,707                             | —            | (768,658 )   |
| Cash and cash equivalents, beginning of year          | —                         | —                    | 1,701,770                 | 105,948                           | —            | 1,807,718    |
| Cash and cash equivalents, end of year                | —                         | —                    | 930,405                   | 108,655                           | —            | 1,039,060    |

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## 20. Summary Consolidated Quarterly Financial Data (Unaudited)

The table below provides summary income statement data for each quarter of fiscal 2012 and 2011 (amounts in thousands, except per share data).

|                                   | Three Months Ended, |           |            |            |
|-----------------------------------|---------------------|-----------|------------|------------|
|                                   | October 31          | July 31   | April 30   | January 31 |
| Fiscal 2012:                      |                     |           |            |            |
| Revenue                           | \$632,826           | \$554,319 | \$373,681  | \$321,955  |
| Gross profit                      | \$127,088           | \$106,391 | \$66,860   | \$50,347   |
| Income (loss) before income taxes | \$60,749            | \$42,952  | \$15,649   | \$(6,408)  |
| Net income (loss)                 | \$411,417           | \$61,643  | \$16,872   | \$(2,786)  |
| Income (loss) per share (1)       |                     |           |            |            |
| Basic                             | \$2.44              | \$0.37    | \$0.10     | \$(0.02)   |
| Diluted                           | \$2.35              | \$0.36    | \$0.10     | \$(0.02)   |
| Weighted-average number of shares |                     |           |            |            |
| Basic                             | 168,416             | 167,664   | 166,994    | 166,311    |
| Diluted (2)                       | 174,775             | 170,229   | 168,503    | 166,311    |
| Fiscal 2011:                      |                     |           |            |            |
| Revenue                           | \$427,785           | \$394,305 | \$319,675  | \$334,116  |
| Gross profit                      | \$65,281            | \$54,358  | \$43,321   | \$52,151   |
| Income (loss) before income taxes | \$15,277            | \$3,888   | \$(31,484) | \$(17,047) |
| Net income (loss)                 | \$15,043            | \$42,108  | \$(20,773) | \$3,417    |
| Income (loss) per share (1)       |                     |           |            |            |
| Basic                             | \$0.09              | \$0.25    | \$(0.12)   | \$0.02     |
| Diluted                           | \$0.09              | \$0.25    | \$(0.12)   | \$0.02     |
| Weighted-average number of shares |                     |           |            |            |
| Basic                             | 166,896             | 168,075   | 166,910    | 166,677    |
| Diluted (2)                       | 167,525             | 169,338   | 166,910    | 168,121    |

(1) Due to rounding, the sum of the quarterly earnings per share amounts may not equal the reported earnings per share for the year.

(2) For the three months ended January 31, 2012 and April 30, 2011, there were no common stock equivalents used in the calculation of diluted loss per share because the Company reported a net loss for each period, and any common stock equivalents would be anti-dilutive.