TOLL BROTHERS INC
Form 10-K
December 28, 2012

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

x ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended October 31, 2012
or
o TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT of 1934
For the transition period from to

Commission file number 1-9186
TOLL BROTHERS, INC.
(Exact name of Registrant as specified in its charter)

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

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 x No o
Indicate by check mark if the Registrant is not required to file reports pursuant to Section 13 or 15(d) of the Securities Act. Yes o No x
Indicate by check mark whether the Registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the Registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes x No o
Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes x No o
Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§229.405 of this chapter) is not contained herein, and will not be contained, to the best of Registrant’s knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. x

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or a smaller reporting company. See the definitions of “large accelerated filer, “accelerated filer” and “smaller reporting company” in Rule 12b-2 of the Exchange Act. (Check one):

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

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

As of April 30, 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.

Documents Incorporated by Reference: Portions of the proxy statement of Toll Brothers, Inc. with respect to the 2013 Annual Meeting of Stockholders, scheduled to be held on March 13, 2012, are incorporated by reference into Part III of this report.

TABLE OF CONTENTS

PART I

ITEM 1. BUSINESS

General

Toll Brothers, Inc., a Delaware corporation formed in May 1986, began doing business through predecessor entities in 1967. When this report uses the words “we,” “us,” “our,” and the “Company,” they refer to Toll Brothers, Inc. and its subsidiaries, unless the context otherwise requires. References herein to “fiscal 2012,” “fiscal 2011,” “fiscal 2010,” “fiscal 2009,” and “fiscal 2008” refer to our fiscal years ended October 31, 2012, October 31, 2011, October 31, 2010, October 31, 2009, and October 31, 2008, respectively. References herein to “fiscal 2013” refer to our fiscal year ending October 31, 2013.

We design, build, market and arrange financing for detached and attached homes in luxury residential communities. We are also involved, directly and through joint ventures, in projects where we are building or converting existing rental apartment buildings into, high-, mid- and low-rise luxury homes. We are also developing, through joint ventures, a high-rise luxury condominium/hotel project and a for-rent luxury apartment complex. We cater to move-up, empty-nester, active-adult, age-qualified and second-home buyers in the United States. At October 31, 2012, we were operating in 19 states.

In recognition of our achievements, we have received numerous awards from national, state and local home builder publications and associations. In 2012, we were named Builder of the Year by Professional Builder Magazine. We are the only two-time recipient of this award.

Our traditional communities are generally located on land we have either acquired and developed or acquired fully-approved and, in some cases, improved. We also operate through a number of joint ventures. At October 31, 2012, we were operating in the following major suburban and urban residential markets:

- Philadelphia, Pennsylvania metropolitan area
- Lehigh Valley area of Pennsylvania
- Central and northern New Jersey
- Virginia and Maryland suburbs of Washington, D.C.
- Baltimore, Maryland metropolitan area
- Eastern Shore of Maryland and Delaware
- Richmond, Virginia metropolitan area
- Boston, Massachusetts metropolitan area
- Fairfield, Hartford, New Haven and New London Counties, Connecticut
- Westchester, Dutchess, Ulster and Saratoga Counties, New York
- Boroughs of Manhattan and Brooklyn in New York City
- Los Angeles, California metropolitan area
- San Francisco Bay, Sacramento and San Jose areas of northern California
- San Diego and Palm Springs, California areas
- Phoenix, Arizona metropolitan area
- Raleigh and Charlotte, North Carolina metropolitan areas
- Dallas, San Antonio and Houston, Texas metropolitan areas
- Southeast and southwest coasts and the Jacksonville and Orlando areas of Florida
- Las Vegas and Reno, Nevada metropolitan areas
- Detroit, Michigan metropolitan area
- Chicago, Illinois metropolitan area
- Denver, Colorado metropolitan area

- Minneapolis/St. Paul, Minnesota metropolitan area, and
- Seattle, Washington metropolitan area

We operate our own land development, architectural, engineering, mortgage, title, landscaping, security monitoring, lumber distribution, house component assembly, and manufacturing operations. We also develop, own and operate golf courses and country clubs associated with several of our master planned communities. We have investments in a number of joint ventures to develop land for the sole use of the venture participants, including ourselves, and to develop land for sale to the joint venture participants and to unrelated builders. We are a participant in joint ventures with unrelated parties to develop luxury condominium projects, including for-sale residential units and commercial space, a single master planned community, and a high-rise luxury for-sale condominium/hotel project. In addition, we formed Toll Brothers Realty Trust (“Trust”) and Toll Brothers Realty Trust II (“Trust II”) to invest in commercial real estate opportunities. In fiscal 2010, we formed Gibraltar Capital and Asset Management (“Gibraltar”) to invest in distressed real estate opportunities, which is different from our traditional home building operations.

We believe that, in fiscal 2012, the housing market began to recover from the significant slowdown that started in the fourth quarter of our fiscal year end October 31, 2005. During fiscal 2012, we and many of the other public home builders have seen a strong recovery in the number of new sales contracts signed. Our net contracts signed in fiscal 2012, as compared to fiscal 2011, increased nearly 50% in the number of net contracts signed and 59% in the value of net contracts signed. Although the number and value of fiscal 2012 net contracts signed increased over fiscal 2011, they were still significantly below what we recorded in fiscal 2005.

We are still affected by the slowdown in the housing market, which we believe started with a decline in consumer confidence, an overall softening of demand for new homes and an oversupply of homes available for sale. The slowdown was exacerbated by, among other things, a decline in the overall economy, increased unemployment, the large number of homes that were vacant and homes that had been foreclosed on due to the economic downturn, a fear of job loss, a decline in home prices and the resulting reduction in home equity, the inability of some of our home buyers, or some prospective buyers of their homes, to sell their current homes, the deterioration in the credit markets, and the direct and indirect impact of the turmoil in the mortgage loan market.

We believe our target customers generally have remained employed during this downturn. However, we believe many deferred their home buying decisions because of concerns over the direction of the economy, concerns over the direction of home prices, and their ability to sell their existing home. We believe that, as the national unemployment rate has declined and confidence improved, pent-up demand has begun to be released. Additionally, rising home prices, reduced inventory, and low mortgage rates have resulted in increased demand, although still below historical levels. We believe that the key to a full recovery in our business depends on these factors as well as a sustained stabilization of financial markets and the economy in general.

For information and analysis of recent trends in our operations and financial condition, see “Management’s Discussion and Analysis of Financial Condition and Results of Operations” in Item 7 of this Annual Report on Form 10-K (“Form 10-K”), and for financial information about our results of operations, assets, liabilities, stockholders’ equity and cash flows, see the accompanying Consolidated Financial Statements and Notes thereto in Item 8 of this Form 10-K.

At October 31, 2012, we had 501 communities containing approximately 40,350 home sites that we owned or controlled through options. Of the 501 communities, 262 communities containing approximately 18,122 home sites were residential communities under construction (“current communities”) and 239, containing 22,228 home sites, were future communities. Of our 262 current communities, 224 were offering homes for sale, 35 were sold out but not all homes had been completed and delivered, and 3 communities were preparing to re-open. Of the 18,122 home sites in current communities, 15,553 were available for sale and 2,569 were under agreement of sale but not yet delivered (“backlog”). We expect to be selling from 225 to 255 communities by October 31, 2013. Of the approximately 40,350 total home sites that we owned or controlled through options at October 31, 2012, we owned approximately 31,327 and controlled approximately 9,023 through options. Included in the 239 future communities are 39 communities containing 2,832 home sites that had previously been open but that we shut down due to the slowdown in the housing market.

At October 31, 2012, we were offering detached homes in 175 communities at prices, excluding customized options, lot premiums and sales incentives, generally ranging from $195,000 to $1,883,000 with some homes offered at prices higher than $1,883,000. During fiscal 2012, we delivered 2,128 detached homes at an average base price of approximately $537,400. On average, our detached home buyers added approximately 23.1%, or $124,000 per home, in customized options and lot premiums to the base price of detached homes we delivered in fiscal 2012, as compared to 21.8% or $124,000 per home in fiscal 2011 and 24.3% or $145,000 in fiscal 2010.

At October 31, 2012, we were offering attached homes in 49 communities at prices, excluding customized options, lot premiums and sales incentives, generally ranging from $165,000 to $982,000, with some units offered at prices higher than $982,000. During fiscal 2012, we delivered 1,158 attached homes at an average base price of approximately $477,000. On average, our attached home buyers added approximately 9.4%, or $45,000 per home, in customized options and lot premiums to the base price of attached homes we delivered in fiscal 2012, as compared to 12.6% or $52,000 per home in fiscal 2011 and 9.7% or $45,700 in fiscal 2010.

We had a backlog of $1.67 billion (2,569 homes) at October 31, 2012 and $981.1 million (1,667 homes) at October 31, 2011. Of the homes in backlog at October 31, 2012, approximately 96% are scheduled to be delivered by October 31, 2013.

Because of the length of time that it takes to obtain the necessary approvals on a property, complete the land improvements on it, and deliver a home after a home buyer signs an agreement of sale, we are subject to many risks. We attempt, where possible, to reduce certain risks by controlling land for future development through options (also referred to herein as “land purchase contracts” or “option and purchase agreements”), thus allowing the necessary governmental approvals to be obtained before acquiring title to the land; generally commencing construction of a detached home only after executing an agreement of sale and receiving a substantial down payment from the buyer; and using subcontractors to perform home construction and land development work on a fixed-price basis. Our risk reduction strategy of generally not commencing the construction of a detached home until we have an agreement of sale with a buyer was implemented prior to the 2006-2011 downturn in the housing market, but, due to the number of cancellations of agreements of sale that we had during fiscal 2007, 2008 and 2009, many of which were for homes on which we had commenced construction, the number of homes under construction in detached communities for which we did not have an agreement of sale increased from our historical levels. With our contract cancellation rates returning to the levels we experienced prior to the downturn in the housing market and the sale of these units, we have reduced the number of unsold units to more historical levels. In addition, over the past several years, the number of our attached-home communities has grown, resulting in an increase in the number of unsold units under construction.

Acquisition

In November 2011, we acquired substantially all of the assets of CamWest Development LLC (“CamWest”) for approximately $144.7 million in cash. The assets acquired were primarily inventory. CamWest develops a variety of home types, including luxury detached homes, condominiums, and townhomes throughout the Seattle, Washington metropolitan area, primarily in King and Snohomish Counties. CamWest’s homes typically sell from the mid $300,000’s to over $600,000. As part of the acquisition, we assumed contracts to deliver approximately 29 homes with an aggregate value of $13.7 million. The assets we acquired included approximately 1,245 home sites owned and 254 home sites controlled through land purchase agreements. This acquisition increased our selling community count by 15 communities at the date of acquisition. In fiscal 2012, our CamWest operations delivered 201 homes and produced revenues of $99.7 million.

Our Communities

Our communities are generally located in affluent suburban areas near major highways providing access to major cities. We also operate in the affluent urban markets of Hoboken and Jersey City, New Jersey; New York City, New York; and Philadelphia, Pennsylvania. The following table lists the 19 states in which we were operating at October 31, 2012 and the fiscal years in which we or our predecessors commenced operations:

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

California	1994	Washington	2012
North Carolina	1994		

We market our high-quality homes to “upscale” luxury home buyers, generally comprised of those persons who have previously owned a principal residence and who are seeking to buy a larger or more desirable home — the so-called “move-up”

3

market. We believe our reputation as a developer of homes for this market enhances our competitive position with respect to the sale of our smaller, more moderately priced, detached homes, as well as our attached homes.
We also market to the 50+ year-old “empty-nester” market, which we believe has strong growth potential. We have developed a number of home designs with features such as one-story living and first-floor master bedroom suites, as well as communities with recreational amenities such as golf courses, marinas, pool complexes, country clubs and recreation centers that we believe appeal to this category of home buyers. We have integrated certain of these designs and features in some of our other home types and communities.
We develop active-adult, age-qualified communities for households in which at least one member is 55 years of age. As of October 31, 2012, we were selling from 20 such communities and expect to open additional age-qualified communities during the next few years. Of the value and number of net contracts signed in fiscal 2012, approximately 8% and 10%, respectively, were in active-adult communities; in fiscal 2011, approximately 10% and 13%, respectively, were in such communities. In fiscal 2010, approximately 11% and 15% of the value and number of net contracts signed were in active-adult communities.
In order to serve a growing market of affluent move-up families, empty-nesters and young professionals seeking to live in or close to major cities, we have developed and are developing a number of high-density, high-, mid- and low-rise urban luxury communities. These communities, which we are currently developing or planning on our own or through joint ventures, are located in Dublin, California; Chicago, Illinois suburbs; North Bethesda, Maryland; Hoboken, New Jersey; the boroughs of Manhattan and Brooklyn, New York; Philadelphia, Pennsylvania and its suburbs.
We believe that the demographics of the move-up, empty-nester, active-adult, age-qualified and second-home upscale markets will provide us with the potential for growth in the coming decade. According to the U.S. Census Bureau, the number of households earning $100,000 or more (in constant 2011 dollars) at September 2012 stood at 25.4 million, or approximately 17.3% of all U.S. households. This group has grown at three times the rate of increase of all U.S. households since 1980. According to Harvard University's June 2012 "The State of the Nation's Housing," the growth and aging of the current population, assuming the economic recovery is sustained over the next few years, supports the addition of about one million new household formations per year during the next decade.

According to the U.S. Census Bureau, during the period 1970 through 2007, total housing starts in the United States averaged approximately 1.26 million per year, while in the period 2008 through 2011, total housing starts averaged approximately 0.66 million per year. In addition, based on the trend of household formations in relation to population growth during the period 2000 through 2007, the number of households formations formed in the four year period of 2008 through 2011 was approximately 2.3 million less than would have been expected.
We develop individual stand-alone communities as well as multi-product, master planned communities. We currently have 28 master planned communities. Our master planned communities, many of which include golf courses and other country club-type amenities, enable us to offer multiple home types and sizes to a broad range of move-up, empty-nester, active-adult and second-home buyers. We seek to realize efficiencies from shared common costs, such as land development and infrastructure, over the several communities within the master planned community. We currently have master planned communities in Arizona, California, Connecticut, Florida, Illinois, Maryland, Massachusetts, Michigan, Nevada, North Carolina, Pennsylvania, Virginia and Washington.
Each of our detached-home communities offers several home plans, with the opportunity for home buyers to select various exterior styles. We design each community to fit existing land characteristics. We strive to achieve diversity among architectural styles within a community by offering a variety of house models and several exterior design options for each model, preserving existing trees and foliage whenever practicable, and curving street layouts to allow relatively few homes to be seen from any vantage point. Normally, homes of the same type or color may not be built next to each other. Our communities have attractive entrances with distinctive signage and landscaping. We believe that our added attention to community detail avoids a “development” appearance and gives each community a diversified neighborhood appearance that enhances home values.
Our traditional attached home communities generally offer one- to four-story homes, provide for limited exterior options and often include commonly owned recreational facilities such as clubhouses, playing fields, swimming pools

and tennis courts.

Our Homes

In most of our detached home communities, we offer a number of different house floor plans, each with several substantially different architectural styles. In addition, the exterior of each basic floor plan may be varied further by the use of stone, stucco, brick or siding. Our traditional attached home communities generally offer several different floor plans with two, three or four bedrooms.

We offer some of the same basic home designs in similar communities. However, we are continuously developing new designs to replace or augment existing ones to ensure that our homes reflect current consumer tastes. We use our own architectural staff and also engage unaffiliated architectural firms to develop new designs. During the past year, we introduced 68 new detached models, 16 new attached models and a significant number of designs in five of our high- and mid-rise communities.

In all of our communities, a wide selection of options is available to home buyers for additional charges. The number and complexity of options typically increase with the size and base selling price of our homes. Major options include additional garages, extra fireplaces, guest suites, finished lofts, and other additional rooms. On average, options purchased by our detached home buyers, including lot premiums, added approximately 23.1%, or $124,000 per home, to the base price of homes delivered in fiscal 2012, as compared to 21.8%, or $124,000 per home in fiscal 2011 and 24.3% or $145,000 per home in fiscal 2010. Options purchased by our attached home buyers, including lot premiums, added, on average, approximately 9.4%, or $45,000 per home, to the base price of homes delivered in fiscal 2012, as compared to 12.6%, or $52,000 per home in fiscal 2011 and 9.7% or $45,700 per home in fiscal 2010.

As a result of our wide product and geographic diversity, we have a wide range of base sales prices. The general range of base sales prices for our different lines of homes at October 31, 2012, was as follows:

Detached homes			
Move-up	$215,000	to	$860,000
Executive	200,000	to	915,000
Estate	334,000	to	1,883,000
Active-adult, age-qualified	195,000	to	583,000
Attached homes			
Flats	$182,000	to	$558,000
Townhomes/Carriage homes	165,000	to	825,000
Active-adult, age-qualified	190,000	to	496,000
Mid-rise/high-rise	291,000	to	982,000

A number of projects that we are developing are offering units at prices substantially in excess of those listed above.

At October 31, 2012, we were selling from 224 communities, compared to 215 communities at October 31, 2011 and 195 communities at October 31, 2010. We expect to be selling from 225 to 255 communities at October 31, 2013. In addition, at October 31, 2012, we had 42 communities that were temporarily closed due to market conditions. We currently expect to reopen 3 of these communities prior to October 31, 2013.

The following table summarizes certain information with respect to our residential communities under development at October 31, 2012:

Geographic segment	Total number of communities	Number of selling communities	Homes approved	Homes closed	Homes under contract but not closed	Home sites available
North	68	58	9,812	4,454	655	4,703
Mid-Atlantic	72	59	11,197	5,382	658	5,157
South	67	59	7,485	2,763	749	3,973
West	55	48	4,544	2,317	507	1,720
Total	262	224	33,038	14,916	2,569	15,553

At October 31, 2012, significant site improvements had not yet commenced on approximately 5,400 of the 15,553 available home sites. Of the 15,553 available home sites, 948 were not yet owned by us but were controlled through options.

Of our 262 communities under development at October 31, 2012, 224 were offering homes for sale, 35 were sold out but not all homes had been completed and delivered, and 3 communities were preparing to re-open. Of the 224 communities in which homes were being offered for sale at October 31, 2012, 175 were detached home communities and 49 were attached home communities. At October 31, 2012, we had 523 homes (exclusive of model homes) under construction or completed but not under contract, of which 188 were in detached home communities and 335 were in attached home communities. In addition, we had 155 units that were temporarily being held as rental units. Of the 335 homes under construction or completed but not under contract in attached home communities at October 31, 2012, 301 were in high- and mid-rise projects and 34 were in two communities that we acquired and are converting to condominium units.

At the end of each fiscal quarter, we review the profitability of each of our operating communities. For those communities operating below certain profitability thresholds, we estimate the expected future cash flow for each of those communities. For each community whose estimated cash flow is not sufficient to recover its carrying value, we estimate the fair value of the community in accordance with U.S. generally accepted accounting principles ("GAAP") and recognize an impairment charge for the difference between the estimated fair value of the community and its carrying value. In fiscal 2012, 2011 and 2010, we recognized impairment charges related to operating communities of $13.1 million, $17.1 million and $53.5 million, respectively.

For more information regarding revenues, gross contracts signed, contract cancellations, net contracts signed, and sales incentives provided on units delivered; (loss) income before income taxes; and assets by geographic segment; see "Management's Discussion and Analysis of Financial Condition and Results of Operation — Geographic Segments" in Item 7 of this Form 10-K and Note 17 to the Consolidated Financial Statements in Item 15 of this Form 10-K.

Land Policy

Before entering into an agreement to purchase a land parcel, we complete extensive comparative studies and analyses on detailed internally-designed forms that assist us in evaluating the acquisition. Historically, we have attempted to enter into option agreements to purchase land for future communities. However, in order to obtain better terms or prices, or due to competitive pressures, we acquire property outright from time to time. We have also entered into several joint ventures with other builders or developers to develop land for the use of the joint venture participants or for sale to outside third parties. In addition, we have, at times, acquired the underlying mortgage on a property and subsequently obtained title to that property.

We generally attempt, where possible, to enter into agreements to purchase land, referred to in this Form 10-K as "land purchase contracts," "purchase agreements," "options" or "option agreements," on a non-recourse basis, thereby limiting our financial exposure to the amounts expended in obtaining any necessary governmental approvals, the costs incurred in the planning and design of the community and, in some cases, some or all of our deposit. The use of these agreements may increase the price of land that we eventually acquire, but reduces our risk by allowing us to obtain the necessary development approvals before acquiring the land or allowing us to delay the acquisition to a later date. Historically, as approvals were obtained, the value of the options, purchase agreements and land generally increased. However, in any given time period, this may not happen. We have the ability to extend some of these options for varying periods of time, in some cases by making an additional payment and, in other cases, without making any additional payment.

Our purchase agreements are typically subject to numerous conditions including, but not limited to, the ability to obtain necessary governmental approvals for the proposed community. Our deposit under an agreement may be returned to us if all approvals are not obtained, although pre-development costs may not be recoverable. We generally have the right to cancel any of our agreements to purchase land by forfeiture of some or all of the deposits we have made pursuant to the agreement. We are currently evaluating many opportunities to acquire distressed properties from various sources. We believe that, in general, we will not be able to purchase these distressed properties through the use of purchase options, but will be required to purchase them outright.

In response to the decline in market conditions during the downturn in the housing industry since 2006, we have re-evaluated and renegotiated or canceled many of our land purchase contracts. In addition, we have sold, and may continue to sell, certain parcels of land that we have identified as non-strategic. As a result, we reduced our home sites controlled from a high of approximately 91,200 at April 30, 2006 to approximately 40,350 at October 31, 2012.

Based on our experience during prior downturns in the housing industry, we believe that attractive land acquisition opportunities arise in difficult times for those builders that have the financial strength to take advantage of them. In the current environment, we believe our strong balance sheet, liquidity, access to capital, broad geographic presence, diversified product line, experienced personnel and national brand name all position us well for such opportunities now and in the future. Based on our belief that the housing market has begun to recover, the increased attractiveness of land available for purchase and the revival of demand in certain areas, we have begun to increase our land positions. During the twelve-month period ended October 31, 2012 and 2011, we acquired control of approximately

6,100 home sites (net of options terminated) and, approximately 5,300 home sites (net of options terminated), respectively. At October 31, 2012, we controlled approximately 40,350 home sites, as compared to approximately 37,500 home sites at October 31, 2011 and 34,900 home sites at October 31, 2010. In addition, in November 2012, we entered into an agreement with one of our joint venture partners to acquire approximately 800 lots from the joint venture.

Our ability to continue development activities over the long-term will be dependent, among other things, upon a suitable economic environment and our continued ability to locate and enter into options or agreements to purchase land, obtain governmental approvals for suitable parcels of land, and consummate the acquisition and complete the development of such land.

The following is a summary of home sites for future communities that we either owned or controlled through purchase agreements at October 31, 2012, as distinguished from those communities currently under development:

Geographic segment	Number of communities	Number of home sites
North	51	4,722
Mid-Atlantic	85	8,599
South	40	4,337
West	63	4,570
	239	22,228

Of the 22,228 planned home sites at October 31, 2012, we owned 14,153 and controlled 8,075 through options and purchase agreements. At October 31, 2012, the aggregate purchase price of land parcels subject to option and purchase agreements in operating communities and future communities was approximately $747.0 million (including $4.1 million of land to be acquired from joint ventures in which we have invested). Of the $747.0 million of land purchase commitments, we paid or deposited $42.9 million and, if we acquire all of these land parcels, we will be required to pay an additional $704.1 million. The purchases of these land parcels are scheduled over the next several years. We have additional land parcels under option that have been excluded from the aforementioned aggregate purchase price since we do not believe that we will complete the purchase of these land parcels and no additional funds will be required from us to terminate these contracts; these land parcels have either been written off or written down to the estimated amount that we expect to recover on them when the contracts are terminated. In addition, in November 2012, we entered into an agreement with a joint venture partner to acquire approximately 800 lots from the joint venture.

We evaluate all of the land owned or optioned for future communities on an ongoing basis for continued economic and market feasibility. During each of the fiscal years ended October 31, 2012, 2011 and 2010, such feasibility analyses resulted in approximately $1.7 million, $34.8 million and $61.8 million, respectively, of capitalized costs related to land owned or optioned for future communities being charged to cost of revenues because such costs were no longer deemed to be recoverable or exceeded the properties' fair value.

We have a substantial amount of land currently under control for which approvals have been obtained or are being sought. We devote significant resources to locating suitable land for future development and obtaining the required approvals on land under our control. There can be no assurance that the necessary development approvals will be secured for the land currently under our control or for land which we may acquire control of in the future or that, upon obtaining such development approvals, we will elect to complete the purchases of land under option or complete the development of land that we own. We generally have been successful in obtaining governmental approvals in the past. Based upon our current decreased level of business, we believe that we have an adequate supply of land in our existing communities and proposed communities (assuming that all properties are developed) to maintain our operations at current levels for several years.

Community Development

We typically expend considerable effort in developing a concept for each community, which includes determining the size, style and price range of the homes; the layout of the streets and individual home sites; and the overall community design. After the necessary governmental subdivision and other approvals have been obtained, which may take several years, we improve the land by clearing and grading it; installing roads, underground utility lines and recreational amenities; erecting distinctive entrance structures; and staking out individual home sites.

Each community is managed by a project manager. Working with sales staff, construction managers, marketing personnel and, when required, other in-house and outside professionals such as accountants, engineers, architects and legal counsel, a project manager is responsible for supervising and coordinating the various developmental steps such as land approval, land acquisition, marketing, selling, construction and customer service, and monitoring the progress of work and controlling expenditures. Major decisions regarding each community are made in consultation with senior members of our management team.

The most significant variable affecting the timing of our revenue stream, other than housing demand, is the opening of the community for sale, which generally occurs shortly after receipt of final land regulatory approvals. Receipt of approvals permits us to begin the process of obtaining executed sales contracts from home buyers. Although our sales and construction activities vary somewhat by season, which can affect the timing of closings, any such seasonal effect is relatively insignificant compared to the effect of the timing of receipt of final regulatory approvals, the opening of the community and the subsequent timing of closings. In the recent housing slowdown, we have delayed the opening of new communities and temporarily shut down a number of operating communities to reduce operating expenses and conserve cash.

We act as a general contractor for most of our projects. Subcontractors perform all home construction and land development work, generally under fixed-price contracts. We purchase most of the materials we use to build our homes and in our land development activities directly from the manufacturers or producers. We generally have multiple sources for the materials we purchase and we have not experienced significant delays due to unavailability of necessary materials. See “Manufacturing/Distribution Facilities” in Item 2 of this Form 10-K.

Our construction managers coordinate subcontracting activities and supervise all aspects of construction work and quality control. One of the ways in which we seek to achieve home buyer satisfaction is by providing our construction managers with incentive compensation arrangements based upon each home buyer’s satisfaction, as expressed by the buyers’ responses on pre- and post-closing questionnaires.

We maintain insurance, subject to deductibles and self-insured amounts, to protect us against various risks associated with our activities, including, among others, general liability, “all-risk” property, construction defects, workers’ compensation, automobile and employee fidelity. We accrue for our expected costs associated with the deductibles and self-insured amounts.

Marketing and Sales

We believe that our marketing strategy, which emphasizes our more expensive “Estate” and “Executive” lines of homes, has enhanced our reputation as a builder-developer of high-quality upscale housing. We believe this reputation results in greater demand for all of our lines of homes. We generally include attractive decorative features such as chair rails, crown moldings, dentil moldings, vaulted and coffered ceilings and other aesthetic elements, even in our less expensive homes, based on our belief that this additional construction expense enhances our image and improves our marketing and sales effort.

In determining the prices for our homes, we utilize, in addition to management’s extensive experience, an internally developed value analysis program that compares our homes with homes offered by other builders in each local marketing area. In our application of this program, we assign a positive or negative dollar value to differences between our product features and those of our competitors, such as house and community amenities, location and reputation.

We expend great effort and cost in designing and decorating our model homes, which play an important role in our marketing. In our models, we attempt to create an attractive atmosphere, which may include bread baking in the oven, fires burning in fireplaces, and music playing in the background. Interior decorating varies among the models and is carefully selected to reflect the lifestyles of prospective buyers.

We typically have a sales office in each community that is staffed by our own sales personnel. Sales personnel are generally compensated with both salary and commission. A significant portion of our sales is also derived from the introduction of customers to our communities by local cooperating realtors.

We advertise in newspapers, in other local and regional publications, and on billboards. We also use color brochures to market our communities. The internet is also an important resource we use in marketing and providing information to our customers. Visitors to our web site, www.tollbrothers.com, can obtain detailed information regarding our communities and homes across the country, take panoramic or video tours of our homes and design their own home based upon our available floor plans and options.

Due to the weak market conditions over the past several years and in an effort to promote the sales of homes, including the significant number of speculative homes that we had due to sales contract cancellations, we increased the amount of sales incentives offered to home buyers. These incentives varied by type and amount on a community-by-community and home-by-home basis. As demand in the housing market has strengthened, we have been reducing the amount of sales incentives offered to our home buyers.

All of our homes are sold under our limited warranty as to workmanship and mechanical equipment. Many homes also come with a limited ten-year warranty as to structural integrity.

We have a two-step sales process. The first step takes place when a potential home buyer visits one of our communities and decides to purchase one of our homes, at which point the home buyer signs a non-binding deposit agreement and provides a small, refundable deposit. This deposit will reserve, for a short period of time, the home site or unit that the home buyer has selected and locks in the base price of the home. Because these deposit agreements are non-binding, they are not recorded as signed contracts, nor are they recorded in backlog. Deposit rates are tracked on a weekly basis to help us monitor the strength or weakness in demand in each of our communities. If demand for homes in a particular community is strong, senior management determines whether the base selling prices in that community should be increased. If demand for the homes in a particular community is weak, we determine whether or not sales incentives and/or discounts on home prices should be adjusted.

The second step in the sales process occurs when we actually sign a binding agreement of sale with the home buyer and the home buyer gives us a cash down payment which is generally non-refundable. Cash down payments currently average approximately 8.1% of the total purchase price of a home, although, historically, they have averaged approximately 7% of the total purchase price of a home. Between the time that the home buyer signs the non-binding deposit agreement and the binding agreement of sale, he or she is required to complete a financial questionnaire that gives us the ability to evaluate whether the home buyer has the financial resources necessary to purchase the home. If we determine that the home buyer is not financially qualified, we will not enter into an agreement of sale with the home buyer. During fiscal 2012, 2011 and 2010, our customers signed gross contracts for $2.67 billion (4,341 homes), $1.71 billion (2,965 homes) and $1.57 billion (2,789 homes) , respectively. During fiscal 2012, fiscal 2011 and fiscal 2010, our home buyers canceled home purchase contracts with a value of $107.3 million (182 homes), $102.8 million (181 homes) and $98.3 million (184 homes), respectively. Contract cancellations in a fiscal year include all contracts canceled in that fiscal year, whether signed in that fiscal year or signed in prior fiscal years. When we report net contracts signed, the number and value of contracts signed are reported net of all cancellations occurring during the reporting period, whether signed in that reporting period or in a prior period. Only outstanding agreements of sale that have been signed by both the home buyer and us as of the end of the period for which we are reporting are included in backlog. As a result of cancellations, we retained $3.2 million, $2.1 million and $11.2 million of customer deposits in fiscal 2012, 2011 and 2010, respectively. These retained deposits are included in other income-net in our Consolidated Statements of Operations.

While we try to avoid selling homes to speculators and generally do not build detached homes without first having a signed agreement of sale, we have been impacted by an overall increase in the supply of homes available for sale in many markets due primarily to the large number of homes that are or will be available for sale from increased foreclosures.

Our mortgage subsidiary provides mortgage financing for a portion of our home closings. Our mortgage subsidiary determines whether the home buyer qualifies for the mortgage he or she is seeking based upon information provided by the home buyer and other sources. For those home buyers that qualify, our 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. Information about the number and amount of loans funded by our mortgage subsidiary is contained in the table below.

Fiscal year	Total Toll Brothers, Inc. settlements (a)	TBI Mortgage Company financed settlements*(b)	Gross capture rate (b/a)	Amount financed (in thousands)
2012	3,286	1,572	47.8%	$585,732
2011	2,611	1,361	52.1%	$508,880
2010	2,642	1,451	54.9%	$530,575
2009	2,965	1,341	45.2%	$489,269

* TBI Mortgage Company financed settlements exclude brokered and referred loans which amounted to approximately 10.7%, 11.5%, 5.8% and 5.0% of our closings in 2012, 2011, 2010 and 2009, respectively.

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, our mortgage subsidiary agrees to sell the proposed mortgage loan to one of several outside recognized mortgage financing institutions (“investors”) who are willing to honor the terms and conditions, including the interest rate, committed to the home buyer. We believe that these investors have adequate financial resources to honor their commitments to our mortgage subsidiary. At October 31, 2012, our mortgage subsidiary was committed to fund $568.0 million of mortgage loans. Of these commitments, $111.2 million, as well as $85.0 million of mortgage loans receivable, have “locked-in” interest rates. Our mortgage subsidiary funds its commitments through a combination of its own capital, capital provided from us, its loan facility and from the sale of mortgage loans to various investors. Our mortgage subsidiary has commitments from investors to acquire $191.9 million of these locked-in loans and receivables. Our home buyers have not locked in the interest rate on the remaining $456.8 million.

There has been significant media attention given to mortgage put-backs, a practice by which a buyer of a mortgage loan tries to recoup losses from the loan originator. We do not believe this is a material issue for our mortgage subsidiary. Of the approximately 15,700 loans sold by our mortgage subsidiary since November 1, 2004, only 31 have been the subject of either actual indemnification payments or take-backs or contingent liability loss provisions related thereto. We believe that this is due to (i) our typical home buyer's financial position and sophistication, (ii) on average, our home buyers who use mortgage financing to purchase a home pay approximately 30% of the purchase price in cash, (iii) our general practice of not originating certain loan types such as option adjustable rate mortgages and down payment assistance products, and our origination of few sub-prime and high loan-to-value/no documentation loans and (iv) our elimination, several years ago, of "early payment default" provisions from our agreements with our mortgage investors. In order for us to incur a loss, a mortgage buyer must demonstrate either (i) a material error on our part in issuing the mortgage or (ii) consumer fraud. In addition, the amount of any such loss would be reduced by any proceeds received on the disposition of the collateral associated with the mortgage.

The Dodd-Frank Wall Street Reform and Consumer Protection Act provides for a number of new requirements relating to residential mortgage lending practices, many of which require implementation by regulatory rule making. These include, among others, minimum standards for mortgages and related lender practices, the definitions and parameters of a Qualified Mortgage and a Qualified Residential Mortgage, future risk retention requirements, limitations on certain fees, prohibition of certain tying arrangements, and remedies for borrowers in foreclosure proceedings in the event that a lender violates fee limitations or minimum standards. The ultimate effect of such provisions on lending institutions, including our mortgage subsidiary, will depend on the rules that are ultimately promulgated.

Competition

The home building business is highly competitive and fragmented. We compete with numerous home builders of varying sizes, ranging from local to national in scope, some of which have greater sales and financial resources than we do. Sales of existing homes, whether by a homeowner or by a financial institution that has acquired a home through a foreclosure, also provide competition. We compete primarily on the basis of price, location, design, quality, service and reputation; however, we believe our financial stability, relative to most others in our industry, has become an increasingly favorable competitive factor as more home buyers focus on builder solvency.

We continue to see reduced competition from the small and mid-sized private builders that had been our primary competitors in the luxury market. We believe that many of these builders are no longer in business and that access to capital by the remaining ones is already severely constrained. We envision that there will be fewer and more selective lenders serving our industry as the market rebounds and those lenders likely will gravitate to the home building companies that offer them the greatest security, the strongest balance sheets and the broadest array of potential business opportunities. While some builders may re-emerge with new capital, the scarcity of attractive land is a further impediment to their re-emergence. We believe that this reduced competition, combined with attractive long-term demographics, will reward those well-capitalized builders that can persevere through the current challenging environment.

We believe that geographic and product diversification, access to lower-cost capital and strong demographics benefit those builders, like us, who can control land and persevere through the increasingly difficult regulatory approval process. We believe that these factors favor a large publicly traded home building company with the capital and expertise to control home sites and gain market share. We also believe that over the past five years, many builders and land developers reduced the number of home sites that were taken through the approval process. The process continues to be difficult and lengthy, and the political pressure from no-growth proponents continues to increase, but we believe our expertise in taking land through the approval process and our already-approved land positions will allow us to grow in the years to come as market conditions improve.

Regulation and Environmental Matters

We are subject to various local, state and federal statutes, ordinances, rules and regulations concerning zoning, building design, construction and similar matters, including local regulations that impose restrictive zoning and density requirements in order to limit the number of homes that can eventually be built within the boundaries of a particular property or locality. In a number of our markets, there has been an increase in state and local legislation authorizing the acquisition of land as dedicated open space, mainly by governmental, quasi-public and non-profit entities. In addition, we are subject to various licensing, registration and filing requirements in connection with the construction, advertisement and sale of homes in our communities. The impact of these laws has been to increase our overall costs, and may have delayed the opening of communities or caused us to conclude that development of particular communities would not be economically feasible, even if any or all necessary governmental approvals were obtained. See “Land Policy” in this Item 1. We also may be subject to periodic delays or may be precluded entirely from developing communities due to building moratoriums in one or more of the areas in which we operate. Generally, such moratoriums relate to insufficient water or sewage facilities or inadequate road capacity.

In order to secure certain approvals in some areas, we may be required to provide affordable housing at below market rental or sales prices. The impact on us depends on how the various state and local governments in the areas in which we engage, or intend to engage, in development implement their programs for affordable housing. To date, these restrictions have not had a material impact on us.

We also are subject to a variety of local, state and federal statutes, ordinances, rules and regulations concerning protection of public health and the environment ("environmental laws"). The particular environmental laws that apply to any given community vary greatly according to the location and environmental condition of the site and the present and former uses of the site. Complying with these environmental laws may result in delays, may cause us to incur substantial compliance and other costs, and/or may prohibit or severely restrict development in certain environmentally sensitive regions or areas.

We maintain a policy of engaging independent environmental consultants to evaluate land for the potential of hazardous or toxic materials, wastes or substances before consummating an acquisition. Because we generally have obtained such assessments for the land we have purchased, we have not been significantly affected to date by the presence of such materials.

Our mortgage subsidiary is subject to various state and federal statutes, rules and regulations, including those that relate to licensing, lending operations and other areas of mortgage origination and financing. The impact of those statutes, rules and regulations can increase our home buyers' cost of financing, increase our cost of doing business, as well as restrict our home buyers' access to some types of loans.

Employees

At October 31, 2012, we employed 2,396 persons full-time. At October 31, 2012, we were subject to one collective bargaining agreement that covered approximately 2% of our employees. We consider our employee relations to be good.

Available Information

Our principal internet address is www.tollbrothers.com. We make our annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, and any amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934 available on our web site, free of charge, as soon as reasonably practicable after we electronically file such material with, or furnish it to, the Securities and Exchange Commission ("SEC"). The contents of our web site are not, however, a part of this Form 10-K.

Code of Ethics

The Company has adopted a Code of Ethics for Principal Executive Officer and Senior Financial Officers ("Code of Ethics") that applies to the Company's principal executive officer, principal financial officer, principal accounting officer, controller and persons performing similar functions designated by the Company's Board of Directors. The Code of Ethics is available on the Company's internet website at www.tollbrothers.com under "Investor Relations: Company Information: Corporate Governance." If the Company were to amend or waive any provision of its Code of Ethics, the Company intends to satisfy its disclosure obligations with respect to any such waiver or amendment by posting such information on its internet website set forth above rather than by filing a Form 8-K.

FORWARD-LOOKING STATEMENTS

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

From time to time, forward-looking statements also are included in other periodic reports on Forms 10-Q and 8-K, in press releases, in presentations, on our website and in other materials released to the public. Any or all of the forward-looking statements included in this report and in any other reports or public statements made by us are not guarantees of future performance and may turn out to be inaccurate. This can occur as a result of incorrect assumptions or as a consequence of known or unknown risks and uncertainties. Many factors mentioned in this report or in other reports or public statements made by us, such as government regulation and the competitive environment, will be important in determining our future performance. Consequently, actual results may differ materially from those that might be anticipated from our forward-looking statements.

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

For a discussion of factors that we believe could cause our actual results to differ materially from expected and historical results see “Item 1A — Risk Factors” below. This discussion is provided as permitted by the Private Securities Litigation Reform Act of 1995, and all of our forward-looking statements are expressly qualified in their entirety by the cautionary statements contained or referenced in this section.

EXECUTIVE OFFICERS OF THE REGISTRANT

Information about our executive officers is incorporated by reference from Part III, Item 10 of this annual report.

ITEM 1A. RISK FACTORS

The home building industry has been in an extended period of slowdown. A further slowdown in the home building industry would likely further adversely affect our business, results of operations and financial condition.

The downturn in the home building industry, which we believe began in the fourth quarter of our fiscal 2005, has been one of the most severe in U.S. history. We believe we have seen the beginning of the recovery in fiscal 2012. The downturn, which we believe started with a decline in consumer confidence, a decline in home prices and an oversupply of homes available for sale, was exacerbated by, among other things, a decline in the overall economy, high unemployment, fear of job loss, volatility in the securities markets, the number of homes that are or will be available for sale due to foreclosures, an inability of home buyers to sell their current homes, a tightening of standards in the credit markets, and the direct and indirect impact of the turmoil in the mortgage loan market. All of these factors have contributed to the significant decline in the demand for new homes. Moreover, it is still unclear whether the government’s legislative and administrative measures aimed at restoring liquidity to the credit markets and providing relief to homeowners facing foreclosure have helped or will help to effectively stabilize prices and home values, or restore consumer confidence and increase demand in the home building industry.

As a result of this downturn, our sales and results of operations were adversely affected, we incurred significant inventory impairments and other write-offs, our gross margins declined significantly from historical levels, and we incurred substantial losses from operations, after write-offs, during fiscal 2011, 2010, 2009 and 2008. We cannot predict the continuation of the recovery, nor can we provide assurance that should the recovery not continue, our responses, or the government’s attempts to address the poor economic conditions will be successful. If the recovery does not continue or the poor economic conditions persist or worsen, they may adversely affect our results of operations and financial condition.

Adverse changes in economic conditions in markets where we conduct our operations and where prospective purchasers of our homes live could reduce the demand for homes and, as a result, could continue to adversely affect our results of operations and financial condition.

Additional adverse changes in economic conditions in markets where we conduct our operations and where prospective purchasers of our homes live have had and may continue to have a negative impact on our business. Adverse changes in employment levels, job growth, consumer confidence, interest rates and population growth, or an oversupply of homes for sale may reduce demand and depress prices for our homes and cause home buyers to cancel their agreements to purchase our homes. This, in turn, could continue to adversely affect our results of operations and financial condition.

Increases in cancellations of existing agreements of sale could have an adverse effect on our business.

Our backlog reflects agreements of sale with our home buyers for homes that have not yet been delivered. We have received a deposit from our home buyer for each home reflected in our backlog, and generally we have the right to retain the deposit if the home buyer does not complete the purchase. In some cases, however, a home buyer may cancel the agreement of sale and receive a complete or partial refund of the deposit for reasons such as state and local law, the home buyer's inability to obtain mortgage financing, his or her inability to sell his or her current home or our inability to complete and deliver the home within the specified time. If the current industry recovery does not continue or a further decline in economic conditions occurs, or if mortgage financing becomes less available, more home buyers may cancel their agreements of sale with us, which would have an adverse effect on our business and results of operations.

The home building industry is highly competitive and if others are more successful or offer better value to our customers, our business could decline.

We operate in a very competitive environment, which is characterized by competition from a number of other home builders in each market in which we operate. We compete with large national and regional home building companies and with smaller local home builders for land, financing, raw materials and skilled management and labor resources. We also compete with the resale, also referred to as the "previously owned or existing," home market, which has increased significantly due to the large number of homes that are vacant, and homes that have been foreclosed on or will be foreclosed on, due to the current economic downturn. An oversupply of homes available for sale and the heavy discounting of home prices by some of our competitors could again adversely affect demand for our homes and the results of our operations. Increased competition could require us to further increase our selling incentives and/or reduce our prices. If we are unable to compete effectively in our markets, our business could decline disproportionately to that of our competitors.

If we are not able to obtain suitable financing, our interest rates are increased or our credit ratings are lowered, our business and results of operations may decline.

Our business and results of operations depend substantially on our ability to obtain financing for the development of our residential communities, whether from bank borrowings or from financing in the public debt markets. Our revolving credit facility matures in October 2014 and $2.09 billion of our senior notes become due and payable at various times from November 2012 through September 2032. We cannot be certain that we will be able to continue to replace existing financing or find additional sources of financing in the future.

If we are not able to obtain suitable financing at reasonable terms or replace existing debt and credit facilities when they become due or expire, our costs for borrowings will likely increase and our revenues may decrease, or we could be precluded from continuing our operations at current levels.

Increases in interest rates can make it more difficult and/or expensive for us to obtain the funds we need to operate our business. The amount of interest we incur on our revolving bank credit facility fluctuates based on changes in short-term interest rates, the amount of borrowings we incur and the ratings that national rating agencies assign to our outstanding debt securities. Increases in interest rates generally and/or any downgrading in the ratings that national rating agencies assign to our outstanding debt securities could increase the interest rates we must pay on any subsequent issuances of debt securities, and any such ratings downgrade could also make it more difficult for us to sell such debt securities.

If we cannot obtain letters of credit and surety bonds, our ability to operate may be restricted.

We use letters of credit and surety bonds to secure our performance under various construction and land development agreements, escrow agreements, financial guarantees and other arrangements. Should banks decline to issue letters of credit or surety companies decline to issue surety bonds, our ability to operate could be significantly restricted and could have an adverse effect on our business and results of operations.

If our home buyers or our home buyers' buyers are not able to obtain suitable financing, our results of operations may decline.

Our results of operations also depend on the ability of our potential home buyers to obtain mortgages for the purchase of our homes. The uncertainties in the mortgage markets and their impact on the overall mortgage market, including the tightening of credit standards, could adversely affect the ability of our customers to obtain financing for a home purchase, thus preventing our potential home buyers from purchasing our homes. Moreover, future increases in the cost of home mortgage financing could prevent our potential home buyers from purchasing our homes. In addition, where our potential home buyers must sell their existing homes in order to buy a home from us, increases in mortgage costs and/or lack of availability of mortgages could prevent the buyers of our potential home buyers' existing homes from obtaining the mortgages they need to complete their purchases, which would result in our potential home buyers' inability to buy a home from us. Similar risks apply to those buyers whose contracts are in our backlog of homes to be delivered. If our home buyers, potential buyers or buyers of our home buyers' current homes cannot obtain suitable financing, our sales and results of operations would be adversely affected.

If our ability to resell mortgages to investors is impaired, our home buyers will be required to find alternative financing.

Generally, when our mortgage subsidiary closes a mortgage for a home buyer at a previously locked-in rate, it already has an agreement in place with an investor to acquire the mortgage following the closing. Due to the deterioration of the credit and financial markets, the number of investors that are willing to purchase our mortgages has decreased and the underwriting standards of the remaining investors have become more stringent. Should the resale market for our mortgages decline or the underwriting standards of our investors become more stringent, our ability to sell future mortgages could be adversely affected and we would either have to commit our own funds to long term investments in mortgage loans, which could, among other things, delay the time when we recognize revenues from home sales on our statements of operations or our home buyers would be required to find an alternative source of financing. If our home buyers cannot obtain another source of financing in order to purchase our homes, our sales and results of operations could be adversely affected.

If land is not available at reasonable prices, our sales and results of operations could decrease.

In the long term, our operations depend on our ability to obtain land at reasonable prices for the development of our residential communities . Due to the recent downturn in our business, our supply of available home sites, both owned and optioned, decreased from a peak of approximately 91,200 home sites controlled at April 30, 2006 to approximately 40,350 at October 31, 2012. In the future, changes in the general availability of land, competition for available land, availability of financing to acquire land, zoning regulations that limit housing density and other market conditions may hurt our ability to obtain land for new residential communities at prices that will allow us to make a reasonable profit. If the supply of land appropriate for development of our residential communities becomes more limited because of these factors, or for any other reason, the cost of land could increase and/or the number of homes that we are able to sell and build could be reduced.

If the market value of our land and homes drops, our results of operations will likely decrease.

The market value of our land and housing inventories depends on market conditions. We acquire land for expansion into new markets and for replacement of land inventory and expansion within our current markets. If housing demand decreases below what we anticipated when we acquired our inventory, we may not be able to make profits similar to what we have made in the past, may experience less than anticipated profits and/or may not be able to recover our costs when we sell and build homes. Due to the significant decline in our business since September 2005, we have recognized significant write-downs of our inventory. If market conditions worsen, we may have to write down our inventories further and/or may have to sell land or homes at a loss.

We participate in certain joint ventures where we may be adversely impacted by the failure of the joint venture or its participants to fulfill their obligations.

We have investments in and commitments to certain joint ventures with unrelated parties. These joint ventures may borrow money to help finance their activities. In certain circumstances, the joint venture participants, including ourselves, are required to provide guarantees of certain obligations relating to the joint ventures. As a result of the recent downturn in the home building industry, some of these joint ventures or their participants have or may become unable or unwilling to fulfill their respective obligations. In addition, in many of these joint ventures, we do not have a controlling interest and as a result, we are not able to require these joint ventures or their participants to honor their obligations or renegotiate them on acceptable terms. If the joint ventures or their participants do not honor their obligations, we may be required to expend additional resources or suffer losses, which could be significant.

Government regulations and legal challenges may delay the start or completion of our communities, increase our expenses or limit our home building activities, which could have a negative impact on our operations.

The approval of numerous governmental authorities must be obtained in connection with our development activities, and these governmental authorities often have broad discretion in exercising their approval authority. We incur

substantial costs related to compliance with legal and regulatory requirements. Any increase in legal and regulatory requirements may cause us to incur substantial additional costs, or in some cases cause us to determine that the property is not feasible for development.
Various local, state and federal statutes, ordinances, rules and regulations concerning building, zoning, sales and similar matters apply to and/or affect the housing industry. Governmental regulation affects construction activities as well as sales activities,

mortgage lending activities and other dealings with home buyers. The industry also has experienced an increase in state and local legislation and regulations that limit the availability or use of land. Municipalities may also restrict or place moratoriums on the availability of utilities, such as water and sewer taps. In some areas, municipalities may enact growth control initiatives, which will restrict the number of building permits available in a given year. In addition, we may be required to apply for additional approvals or modify our existing approvals because of changes in local circumstances or applicable law. If municipalities in which we operate take actions like these, it could have an adverse effect on our business by causing delays, increasing our costs or limiting our ability to operate in those municipalities. Further, we may experience delays and increased expenses as a result of legal challenges to our proposed communities, whether brought by governmental authorities or private parties.

Our mortgage subsidiary is subject to various state and federal statutes, rules and regulations, including those that relate to licensing, lending operations and other areas of mortgage origination and financing. The impact of those statutes, rules and regulations can increase our home buyers' cost of financing, increase our cost of doing business, as well as restrict our home buyers' access to some types of loans.

Increases in taxes or government fees could increase our costs, and adverse changes in tax laws could reduce demand for our homes.

Increases in real estate taxes and other local government fees, such as fees imposed on developers to fund schools, open space, road improvements, and/or provide low and moderate income housing, could increase our costs and have an adverse effect on our operations. In addition, increases in local real estate taxes could adversely affect our potential home buyers who may consider those costs in determining whether to make a new home purchase and decide, as a result, not to purchase one of our homes. In addition, any changes in the income tax laws that would reduce or eliminate tax deductions or incentives to homeowners, such as a change limiting the deductibility of real estate taxes or interest on home mortgages, could make housing less affordable or otherwise reduce the demand for housing, which in turn could reduce our sales and hurt our results of operations.

Adverse weather conditions, natural disasters and other conditions could disrupt the development of our communities, which could harm our sales and results of operations.

Adverse weather conditions and natural disasters, such as hurricanes, tornadoes, earthquakes, floods and fires, can have serious effects on our ability to develop our residential communities. We also may be affected by unforeseen engineering, environmental or geological conditions or problems. Any of these adverse events or circumstances could cause delays in the completion of, or increase the cost of, developing one or more of our residential communities and, as a result, could harm our sales and results of operations.

If we experience shortages or increased costs of labor and supplies or other circumstances beyond our control, there could be delays or increased costs in developing our communities, which could adversely affect our operating results.

Our ability to develop residential communities may be adversely affected by circumstances beyond our control, including: work stoppages, labor disputes and shortages of qualified trades people, such as carpenters, roofers, electricians and plumbers; changes in laws relating to union organizing activity; lack of availability of adequate utility infrastructure and services; our need to rely on local subcontractors who may not be adequately capitalized or insured; and shortages, delays in availability, or fluctuations in prices of building materials. Any of these circumstances could give rise to delays in the start or completion of, or could increase the cost of, developing one or more of our residential communities. We may not be able to recover these increased costs by raising our home prices because the price for each home is typically set months prior to its delivery pursuant to the agreement of sale with the home buyer. If that happens, our operating results could be harmed.

We are subject to one collective bargaining agreement that covers approximately 2% of our employees. We have not experienced any work stoppages due to strikes by unionized workers, but we cannot assure you that there will not be any work stoppages due to strikes or other job actions in the future. We use independent contractors to construct our homes. At any given point in time, those subcontractors, who are not yet represented by a union, may be unionized.

Product liability claims and litigation and warranty claims that arise in the ordinary course of business may be costly, which could adversely affect our business.

As a home builder, we are subject to construction defect and home warranty claims arising in the ordinary course of business. These claims are common in the home building industry and can be costly. In addition, the costs of insuring against construction defect and product liability claims are high, and the amount of coverage offered by insurance companies is currently limited. There can be no assurance that this coverage will not be further restricted and become more costly. If the limits or coverages of our current and former insurance programs prove inadequate, or we are not able to obtain adequate, or reasonably priced, insurance against these types of claims in the future, or the amounts currently provided for future warranty or insurance claims are inadequate, we may experience losses that could negatively impact our financial results.

Our cash flows and results of operations could be adversely affected if legal claims are brought against us and are not resolved in our favor.

Claims have been brought against us in various legal proceedings that have not had, and are not expected to have, a material adverse effect on our business or financial condition. Should such claims be resolved in an unfavorable manner or should additional claims be filed in the future, it is possible that our cash flows and results of operations could be adversely affected.

We could be adversely impacted by the loss of key management personnel.

Our future success depends, to a significant degree, on the efforts of our senior management. Our operations could be adversely affected if key members of senior management leave our employ. As a result of a decline in our stock price, previous retention mechanisms, such as equity awards, have diminished in value and, therefore, may become less effective as incentives for our senior management to continue to remain employed with us.

Changes in tax laws or the interpretation of tax laws may negatively affect our operating results.

We believe that our recorded tax balances are adequate. However, it is not possible to predict the effects of possible changes in the tax laws or changes in their interpretation and whether they could have a material adverse impact on our operating results. We have filed claims for refunds of taxes paid in prior years based upon certain filing positions we believe are appropriate. If the Internal Revenue Service disagrees with these filing positions, we may have to return some of the refunds we have received.

We may not be able to realize all of our deferred tax assets.

At October 31, 2012, we had $415.1 million of deferred tax assets against which we have recognized valuation allowances of $57.0 million. Losses for federal income tax purposes can generally be carried forward for a period of 20 years. We also 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 carry forward of losses while others allow for carry forwards for 5 years to 20 years. In order to realize our net deferred tax assets, we must generate sufficient taxable income within the periods allowed by statute to carryfoward losses.

In addition, our ability to utilize net operating losses (“NOLs”), built-in losses, and tax credit carryforwards to offset our future taxable income and/or to recover previously paid taxes would be limited if we were to undergo an “ownership change,” as determined under Internal Revenue Code Section 382 (“Section 382”). A Section 382 ownership change occurs if a stockholder or a group of stockholders who are deemed to own at least 5% of our common stock increase their ownership by more than 50 percentage points over their lowest ownership percentage within a rolling three-year period. If an ownership change occurs, Section 382 would impose an annual limit on the amount of NOLs we can use to reduce our taxable income equal to the product of the total value of our outstanding equity immediately prior to the ownership change (reduced by certain items specified in Section 382) and the federal long-term tax-exempt interest rate in effect for the month of the ownership change. A number of special rules apply to calculating this annual limit. While the complexity of Section 382’s provisions and the limited knowledge any public company has about the ownership of its publicly traded stock make it difficult to determine whether an ownership change has occurred, we currently believe that an ownership change has not occurred. However, if an ownership change were to occur, the annual limitation under Section 382 could result in a material amount of our NOLs expiring unused. This would significantly impair the value of our NOL asset and, as a result, have a negative impact on our financial position and results of operations.

During 2010, our stockholders approved an amendment to our second restated certificate of incorporation that is designed to deter transfers of our common stock that could result in an ownership change. However, these measures cannot guarantee complete protection against an ownership change and it remains possible that one may occur.

Our business is seasonal in nature, so our quarterly operating results may fluctuate.

Our quarterly operating results fluctuate with the seasons; normally, a significant portion of our agreements of sale are entered into with customers in the winter and spring months. Construction of a customer’s home typically proceeds after signing the agreement of sale and can require 12 months or more to complete. Weather-related problems may occur in the late winter and early spring, delaying starts or closings or increasing costs and reducing profitability. In addition, delays in opening new communities or new sections of existing communities could have an adverse impact on home sales and revenues. Expenses are not incurred and recognized evenly throughout the year. Because of these factors, our quarterly operating results may be uneven and may be marked by lower revenues and earnings in some quarters than in others.

We invest in distressed loans and real estate related assets at significant discounts; however, if the real estate markets deteriorate significantly, we could suffer losses.

We formed Gibraltar Capital and Asset Management to invest in distressed real estate opportunities. Our investments have involved acquisitions of portfolios or interests in portfolios of distressed loans, some of which have been converted to real estate owned. However, these investments present many risks in addition to those inherent in normal lending activities, including the risk that the recovery of the United States real estate markets will not take place for many years and that the value of our investments are not recoverable. There is also the possibility that, if we cannot liquidate our investments as expected, we would be required to reduce the value at which they are carried on our financial statements.

Decreases in the market value of our investments in marketable securities could have an adverse impact on our results of operations.

We have a significant amount of funds invested in marketable securities during the year, the market value of which is subject to changes from period to period. Decreases in the market value of our marketable securities could have an adverse impact on our results of operations.

Future terrorist attacks against the United States or increased domestic or international instability could have an adverse effect on our operations.

Adverse developments in the war on terrorism, future terrorist attacks against the United States or any foreign country, or increased domestic or international instability could significantly reduce the number of new contracts signed, increase the number of cancellations of existing contracts and/or increase our operating expenses which could adversely affect our business.

ITEM 1B. UNRESOLVED STAFF COMMENTS

Not applicable.

ITEM 2. PROPERTIES

Headquarters

Our corporate office, which we lease from an unrelated third party, contains approximately 200,000 square feet and is located in Horsham, Pennsylvania.

Manufacturing/Distribution Facilities

We own a manufacturing facility of approximately 300,000 square feet located in Morrisville, Pennsylvania, a manufacturing facility of approximately 186,000 square feet located in Emporia, Virginia, and a manufacturing facility of approximately 134,000 square feet in Knox, Indiana. We lease, from an unrelated third party, a facility of approximately 56,000 square feet located in Fairless Hills, Pennsylvania. At these facilities, we manufacture open wall panels, roof and floor trusses, and certain interior and exterior millwork to supply a portion of our construction needs. These facilities supply components used in our North, Mid-Atlantic and South geographic segments. These operations also permit us to purchase wholesale lumber, plywood, windows, doors, certain other interior and exterior millwork and other building materials to supply to our communities. We believe that increased efficiencies, cost savings and productivity result from the operation of these plants and from the wholesale purchase of materials.

Office and Other Facilities

We own or lease from unrelated third parties office and warehouse space and golf course facilities in various locations, none of which are material to our business.

ITEM 3. LEGAL PROCEEDINGS

We are involved in various claims and litigation arising principally in the ordinary course of business.

In January 2006, we received a request for information pursuant to Section 308 of the Clean Water Act from Region 3 of the U.S. Environmental Protection Agency (“EPA”) concerning storm water discharge practices in connection with our home

building projects in the states that comprise EPA Region 3. Thereafter, the U.S. Department of Justice assumed responsibility for the oversight of this matter and alleged that we violated regulatory requirements applicable to storm water discharges. The parties have entered into a consent decree, which has been submitted for approval to the presiding judge in the U.S. District Court for the Eastern District of Pennsylvania. We believe the disposition of this matter will not have a material adverse effect on our results of operations and liquidity or on our financial condition.

On November 4, 2008, a shareholder derivative action was filed in the Chancery Court of Delaware by Milton Pfeiffer against Robert I. Toll, Zvi Barzilay, Joel H. Rassman, Bruce E. Toll, Paul E. Shapiro, Robert S. Blank, Carl B. Marbach, and Richard J. Braemer. The plaintiff purports to bring his claims on behalf of Toll Brothers, Inc. and alleges that the director and officer defendants breached their fiduciary duties to us and our stockholders with respect to their sales of shares of our common stock during the period from December 9, 2004 to November 8, 2005. The plaintiff alleges that such stock sales were made while in possession of non-public, material information about us. The plaintiff seeks contribution and indemnification from the individual director and officer defendants for costs and expenses incurred by us in connection with defending a now-settled related class action. In addition, again purportedly on our behalf, the plaintiff seeks disgorgement of the defendants' profits from their stock sales.

On March 4, 2009, a second shareholder derivative action was brought by Oliverio Martinez in the U.S. District Court for the Eastern District of Pennsylvania. The case was brought against the eleven then-current members of our board of directors and the Company's Chief Accounting Officer. This plaintiff alleges breaches of fiduciary duty, waste of corporate assets, and unjust enrichment during the period from February 2005 to November 2006. The plaintiff further alleges that certain of the defendants sold our stock during this period while in possession of allegedly non-public, material information and plaintiff seeks disgorgement of profits from these sales. The plaintiff also asserts a claim for equitable indemnity for costs and expenses incurred by us in connection with defending a now-settled related class action lawsuit.

On April 1, 2009, a third shareholder derivative action was filed by William Hall, also in the U.S. District Court for the Eastern District of Pennsylvania, against the eleven then-current members of our board of directors and the Company's Chief Accounting Officer. This complaint is identical to the previous shareholder complaint filed in Philadelphia and, on July 14, 2009, the two cases were consolidated. On April 30, 2010, the plaintiffs filed an amended consolidated complaint.

An agreement has been reached by the parties to settle all three shareholder derivative actions, and this agreement has been filed in the Chancery Court of Delaware. The agreement is conditioned on, among other things, final approval by the Chancery Court of Delaware following notice to our shareholders. The agreement provides that, following approval of the settlement and entry of judgment by the Chancery Court of Delaware, the plaintiffs in the two actions pending in the U.S. District Court for the Eastern District of Pennsylvania will seek dismissal of those actions.

ITEM 4. MINE SAFETY DISCLOSURES

Not Applicable

PART II

ITEM 5. MARKET FOR REGISTRANT’S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

Our common stock is traded on the New York Stock Exchange (Symbol: TOL).

The following table sets forth the price range of our common stock on the New York Stock Exchange for each fiscal quarter during the two years ended October 31, 2012.

	Three months ended			
	October 31	July 31	April 30	January 31
2012				
High	$37.07	$31.33	$25.79	$23.67
Low	$28.39	$23.83	$21.78	$16.78
2011				
High	$20.31	$21.93	$22.42	$21.33
Low	$13.16	$19.53	$19.08	$17.36

The closing price of our common stock on the New York Stock Exchange on the last trading day of our fiscal years ended October 31, 2012, 2011 and 2010 was $33.01, $17.44 and $17.94, respectively. At December 16, 2012, there were

approximately 776 record holders of our common stock.
For information regarding securities authorized for issuance under equity compensation plans, see "Equity Compensation Plan Information" in Item 12 of this Form 10-K.
We have not paid any cash dividends on our common stock to date and expect that, for the foreseeable future, we will not do so. Rather, we expect to follow a policy of retaining earnings in order to finance our business and, from time to time, repurchase shares of our common stock. The payment of dividends is within the discretion of our Board of Directors and any decision to pay dividends in the future will depend upon an evaluation of a number of factors, including our results of operations, capital requirements, our operating and financial condition, and any contractual limitation then in effect. Our bank credit agreement requires us to maintain a minimum tangible net worth (as defined in the agreement), which restricts the amount of dividends we may pay. At October 31, 2012, under the most restrictive provisions of our bank credit agreement, we could have paid up to approximately $908.3 million of cash dividends.
Indemnification of Directors and Officers
Our Certificate of Incorporation and Bylaws provide for indemnification of our directors and officers. We have also entered into individual indemnification agreements with each of our directors.
Issuer Purchases of Equity Securities
During the three months ended October 31, 2012, we repurchased the following shares under our repurchase program:

Period	Total number of shares purchased (a)	Average price paid per share	Total number of shares purchased as part of a publicly announced plan or program (b)	Maximum number of shares that may yet be purchased under the plan or program (b)
	(in thousands)		(in thousands)	(in thousands)
August 1 to August 31, 2012	3	$32.07	1	8,769
September 1 to September 30, 2012	2	$36.04	2	8,767
October 1 to October 31, 2012	1	$33.82	1	8,766
Total	6	$33.66	4	

(a) Our stock incentive plans permit participants to exercise non-qualified stock options using a "net exercise" method. In a net exercise, we generally withhold from the total number of shares that otherwise would be issued to the participant 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 remit the remaining shares to the participant. In addition, our stock incentive plans also permit participants to use the fair market value of Company common stock they own to pay for the exercise of stock options ("stock swap method"). During the three months ended October 31, 2012, the net exercise method was employed to exercise options to acquire 34,000 shares of our common stock; we withheld 10,083 of the shares subject to the options to cover $0.4 million of aggregate option exercise price and income tax withholdings and issued the remaining 23,917 shares to the participants. The 10,083 shares withheld under the net exercise method are not included in the total number of shares purchased in the table above. In addition, our stock incentive plans also permit participants to use the fair market value of Company common stock they own to pay for the exercise of stock options ("stock swap method"). During the three months ended October 31, 2012, the Company received 1,775 shares with an average fair market value per share of $32.59 for the exercise of 5,498 options using the stock swap method. The shares used under the stock swap method are included in the total number of shares purchased in the table above.

(b) On March 20, 2003, our Board of Directors authorized the repurchase of up to 20 million shares of our common stock in open market transactions or otherwise, for the purpose of providing shares for our various employee benefit plans. The Board of Directors did not fix an expiration date for the repurchase program.

Except as set forth above, we did not repurchase any of our equity securities during the three-month period ended October 31, 2012.

Stockholder Return Performance Graph

The following graph and chart compares the five-year cumulative total return (assuming an investment of $100 was made on October 31, 2007 and that dividends, if any, were reinvested) from October 31, 2007 to October 31, 2012, for (a) our common stock, (b) the Standard & Poor's homebuilding Index (the "S&P homebuilding Index") and (c) the Standard & Poor's 500 Composite Stock Index (the "S&P 500 Index"):

October 31:	2007	2008	2009	2010	2011	2012
Toll Brothers, Inc.	100.00	100.92	75.60	78.31	76.12	144.09
S&P 500	100.00	63.90	70.17	81.76	88.37	101.81
S&P homebuilding	100.00	56.37	61.40	59.76	57.35	136.06

ITEM 6. SELECTED FINANCIAL DATA

The following tables set forth selected consolidated financial and housing data at and for each of the five fiscal years in the period ended October 31, 2012. It should be read in conjunction with the Consolidated Financial Statements and Notes thereto, listed in Item 15(a)1 of this Form 10-K beginning at page F-1 and Management's Discussion and Analysis of Financial Condition and Results of Operations included in Item 7 of this Form 10-K.

20

Summary Consolidated Statements of Operations and Balance Sheets (amounts in thousands, except per share data):

Year ended October 31:	2012	2011	2010	2009	2008
Revenues	$1,882,781	$1,475,881	$1,494,771	$1,755,310	$3,148,166
Income (loss) before income taxes	$112,942	$(29,366)	$(117,187)	$(496,465)	$(466,787)
Net income (loss)	$487,146	$39,795	$(3,374)	$(755,825)	$(297,810)
Earnings (loss) per share:					
Basic	$2.91	$0.24	$(0.02)	$(4.68)	$(1.88)
Diluted	$2.86	$0.24	$(0.02)	$(4.68)	$(1.88)
Weighted average number of shares outstanding:					
Basic	167,346	167,140	165,666	161,549	158,730
Diluted	170,154	168,381	165,666	161,549	158,730
At October 31:	2012	2011	2010	2009	2008
Cash, cash equivalents and marketable securities	$1,217,892	$1,139,912	$1,236,927	$1,908,894	$1,633,495
Inventory	$3,761,187	$3,416,723	$3,241,725	$3,183,566	$4,127,475
Total assets	$6,181,044	$5,055,246	$5,171,555	$5,634,444	$6,586,836
Debt:					
Loans payable	$99,817	$106,556	$94,491	$472,854	$613,594
Senior debt	2,080,463	1,490,972	1,544,110	1,587,648	1,143,445
Senior subordinated debt				47,872	343,000
Mortgage company loan facility	72,664	57,409	72,367	27,015	37,867
Total debt	$2,252,944	$1,654,937	$1,710,968	$2,135,389	$2,137,906
Equity	$3,127,871	$2,592,551	$2,559,013	$2,516,482	$3,237,653

Housing Data

Year ended October 31:	2012	2011	2010	2009	2008
Closings (1):					
Number of homes	3,286	2,611	2,642	2,965	4,743
Value (in thousands)	$1,882,781	$1,475,881	$1,494,771	$1,755,310	$3,106,293
Revenues — percentage of completion (in thousands)					$41,873
Net contracts signed:					
Number of homes	4,159	2,784	2,605	2,450	2,927
Value (in thousands)	$2,557,917	$1,604,827	$1,472,030	$1,304,656	$1,608,191
At October 31:	2012	2011	2010	2009	2008
Backlog:					
Number of homes	2,569	1,667	1,494	1,531	2,046
Value (in thousands)	$1,669,857	$981,052	$852,106	$874,837	$1,325,491
Number of selling communities	224	215	195	200	273
Home sites:					
Owned	31,327	30,199	28,891	26,872	32,081
Controlled	9,023	7,298	5,961	5,045	7,703
Total	40,350	37,497	34,852	31,917	39,784

(1) Excludes 88 units delivered in fiscal 2008 which were accounted for using the percentage of completion accounting method with an aggregate delivered value of $86.1 million.

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

This discussion and analysis is based on, should be read with, and is qualified in its entirety by, the Consolidated Financial Statements and Notes thereto included in Item 8 of this Form 10-K, beginning at page F-1. It also should be read in conjunction with the disclosure under "Forward-Looking Statement" in Part 1 of this Form 10-K.

Unless otherwise stated in this report, net contracts signed represents a number or value equal to the gross number or value of contracts signed during the relevant period, less the number or value of contracts canceled during the relevant period, which includes contracts that were signed during the relevant period and in prior periods.

OVERVIEW

Our Business

We design, build, market and arrange financing for detached and attached homes in luxury residential communities. We are also involved, directly and through joint ventures, in projects where we are building or converting existing rental apartment buildings into, high-, mid- and low-rise luxury homes. We are also developing, through joint ventures, a high-rise luxury condominium/hotel project and a for-rent luxury apartment complex. We cater to move-up, empty-nester, active-adult, age-qualified and second-home buyers in the United States. At October 31, 2012, we were operating in 19 states. In the five years ended October 31, 2012, we delivered 16,247 homes from 530 communities, including 3,286 homes from 280 communities in fiscal 2012. In addition, we invest in distressed real estate opportunities through our subsidiary, Gibraltar Capital and Asset Management LLC ("Gibraltar").

Fiscal 2012 Financial Highlights

In the twelve-month period ended October 31, 2012, we recognized \$1.88 billion of revenues and net income of \$487.1 million, as compared to \$1.48 billion of revenues and net income of \$39.8 million in fiscal 2011. The fiscal 2012 net income included an income tax benefit of \$394.7 million related to the reversal of deferred tax asset valuation allowances and \$14.7 million of inventory impairment charges and write-offs. Fiscal 2011 income included \$51.8 million of inventory impairments and write-offs, \$40.9 million of impairment charges related to our investments in unconsolidated entities, \$3.8 million of expenses related to repurchases of our debt, and an income tax benefit of \$69.2 million.

At October 31, 2012, we had \$1.22 billion of cash, cash equivalents and marketable securities on hand and approximately \$814.9 million available under our \$885.0 million revolving credit facility that matures in October 2014. During fiscal 2012, we issued \$587.5 million of senior notes and exchanged \$119.9 million of senior notes maturing in 2022 for \$117.6 million of senior notes maturing in fiscal 2013.

Our Challenging Business Environment and Current Outlook

We believe that, in fiscal 2012, the housing market began to recover from the significant slowdown that started in the fourth quarter of our fiscal year ended October 31, 2005. During fiscal 2012, we, and many of the other public home builders, have seen a strong recovery in the number of new sales contracts signed. Our net contracts signed in fiscal 2012, as compared to fiscal 2011, increased nearly 50% in the number of net contracts signed and 59% in the value of net contracts signed. Although the number and value of our net contracts signed increased in fiscal 2012 over fiscal 2011, they were still significantly below what we recorded in fiscal 2005.

We believe that, as the unemployment rate has declined and confidence has improved, pent-up demand has begun to be released. Additionally, rising home prices, reduced inventory, and low mortgage rates have resulted in increased demand, although still below historical levels. We believe that the key to a full recovery in our business depends on these factors as well as a sustained stabilization of financial markets and the economy in general.

We are still impacted by the slowdown, which we believe started with a decline in consumer confidence, an overall softening of demand for new homes and an oversupply of homes available for sale. The slowdown was exacerbated by, among other things, a decline in the overall economy, increased unemployment, the large number of homes that were vacant, homes that had been foreclosed on due to the economic downturn, a fear of job loss, a decline in home prices and the resulting reduction in home equity, the inability of some of our home buyers, or some prospective buyers of their homes, to sell their current homes, the deterioration in the credit markets, and the direct and indirect impact of the turmoil in the mortgage loan market.

22

We believe that the demographics of the move-up, empty-nester, active-adult, age-qualified and second-home upscale markets will provide us with the potential for growth in the coming decade. According to the U.S. Census Bureau, the number of households earning $100,000 or more (in constant 2011 dollars) at September 2012 stood at 25.4 million, or approximately 17.3% of all U.S. households. This group has grown at three times the rate of increase of all U.S. households since 1980. According to Harvard University's June 2012 "The State of the Nations Housing", the growth and aging of the current population, assuming the economic recovery is sustained over the next few years, supports the addition of about one million new household formations per year during the next decade.

According to the U.S. Census Bureau, during the period 1970 through 2007, total housing starts in the United States averaged approximately 1.26 million per year, while in the period 2008 through 2011, total housing starts averaged approximately 0.66 million per year. In addition, based on the trend of household formations in relation to population growth during the period 2000 through 2007, the number of households formed in the four-year period of 2008 through 2011 was approximately 2.3 million fewer than would have been expected.

We believe many of our target customers generally have remained employed during this downturn; however, we believe many deferred their home buying decisions because of concerns over the direction of the economy, the direction of home prices, and their ability to sell their existing home. Additionally, rising home prices, reduced inventory, and low mortgage rates have resulted in increased demand, although still below historical levels. We believe that a full recovery in our business depends on these factors as well as a sustained stabilization of financial markets and the economy in general.

In many markets, the pipeline of approved and improved home sites has dwindled as builders and developers have lacked both the capital and the economic benefit for bringing sites through approvals. Therefore, we believe that as demand continues to strengthen, builders and developers with approved land in well-located markets will be poised to benefit. We believe that this will be particularly true for us because our land portfolio is heavily weighted in the metro-Washington, DC to metro-Boston corridor where land is scarce, approvals are more difficult to obtain and overbuilding has been relatively less prevalent than in the Southeast and Western regions.

We continue to believe that many of our communities are in desirable locations that are difficult to replace and in markets where approvals have been increasingly difficult to achieve. We believe that many of these communities have substantial embedded value that may be realized in the future as the housing recovery strengthens.

Competitive Landscape

Based on our experience during prior downturns in the housing industry, we believe that attractive land acquisition opportunities arise in difficult times for those builders that have the financial strength to take advantage of them. In the current environment, we believe our strong balance sheet, liquidity, access to capital, broad geographic presence, diversified product line, experienced personnel and national brand name all position us well for such opportunities now and in the future.

We continue to see reduced competition from the small and mid-sized private builders that had been our primary competitors in the luxury market. We believe that many of these builders are no longer in business and that access to capital by the remaining private builders is already severely constrained. We envision that there are fewer and more selective lenders serving our industry as the market rebounds and that those lenders likely will gravitate to the home building companies that offer them the greatest security, the strongest balance sheets and the broadest array of potential business opportunities. While some builders may re-emerge with new capital, the scarcity of attractive land is a further impediment to their re-emergence. We believe that reduced competition, combined with attractive long-term demographics, will reward those well-capitalized builders that can persevere through the current challenging environment.

We believe that geographic and product diversification, access to lower-cost capital and strong demographics benefit those builders, like us, who can control land and persevere through the increasingly difficult regulatory approval process. We believe that these factors favor a large publicly traded home building company with the capital and expertise to control home sites and gain market share. We also believe that over the past five years, many builders and land developers reduced the number of home sites that were taken through the approval process. The process continues to be difficult and lengthy, and the political pressure from no-growth proponents continues to increase, but we believe our expertise in taking land through the approval process and our already-approved land positions will allow us to grow in the years to come as market conditions improve.

Land Acquisition and Development

Because of the length of time that it takes to obtain the necessary approvals on a property, complete the land improvements on it and deliver a home after a home buyer signs an agreement of sale, we are subject to many risks. In certain cases, we attempt to reduce some of these risks by utilizing one or more of the following methods: controlling land for future development through options (also referred to herein as “land purchase contracts” or “option and purchase agreements”), thus allowing the necessary governmental approvals to be obtained before acquiring title to the land; generally commencing construction of a detached home only after executing an agreement of sale and receiving a substantial down payment from the buyer; and using subcontractors to perform home construction and land development work on a fixed-price basis.

In response to the decline in market conditions over the past several years, we re-evaluated and renegotiated or canceled many of our land purchase contracts. In addition, we sold, and may continue to sell, certain parcels of land that we identified as non-strategic. As a result, we reduced our land position from a high of approximately 91,200 home sites at April 30, 2006 to a low of approximately 31,700 home sites at January 31, 2010. Based on our belief that the housing market has begun to recover, the increased attractiveness of land available for purchase and the revival of demand in certain areas, we have begun to increase our land positions. During fiscal 2012 and 2011, we acquired control of approximately 6,100 home sites (net of options terminated) and 5,300 home sites (net of options terminated), respectively. In addition, in November 2012, we entered into an agreement with one of our joint venture partners to acquire approximately 800 lots from the joint venture. Of the 6,100 home sites we acquired control of in fiscal 2012, approximately 1,500 home sites were from the CamWest asset purchase. At October 31, 2012, we controlled approximately 40,350 home sites of which we owned approximately 31,300. Significant improvements were completed on approximately 12,700 of the 31,300 home sites. At October 31, 2012, we were selling from 224 communities, compared to 215 at October 31, 2011 and 195 communities at October 31, 2010. Our November 2011 acquisition of CamWest assets increased our selling community count by 15.

We expect to be selling from 225 to 255 communities at October 31, 2013. At October 31, 2012, we had 50 communities that were temporarily closed due to market conditions.

Availability of Customer Mortgage Financing

We maintain relationships with a widely diversified group of mortgage financial institutions, many of which are among the largest and, we believe, most reliable in the industry. We believe that regional and community banks continue to recognize the long-term value in creating relationships with high-quality, affluent customers such as our home buyers, and these banks continue to provide such customers with financing.

We believe that our home buyers generally are, and should continue to be, better able to secure mortgages due to their typically lower loan-to-value ratios and attractive credit profiles as compared to the average home buyer. Nevertheless, in recent years, tightened credit standards have shrunk the pool of potential home buyers and hindered accessibility of or eliminated certain loan products previously available to our home buyers. Our home buyers continue to face stricter mortgage underwriting guidelines, higher down payment requirements and narrower appraisal guidelines than in the past. In addition, some of our home buyers continue to find it more difficult to sell their existing homes as prospective buyers of their homes may face difficulties obtaining a mortgage. In addition, other potential buyers may have little or negative equity in their existing homes and may not be able or willing to purchase a larger or more expensive home.

While the range of mortgage products available to a potential home buyer is not what it was in the period 2005 through 2007, we have seen improvements over the past two years. Indications from industry participants, including commercial banks, mortgage banks, mortgage real estate investment trusts and mortgage insurance companies are that availability, parameters and pricing of jumbo loans are all improving. We believe that improvement should not only enhance financing alternatives for existing jumbo buyers, but also help to offset the reduction in Fannie Mae/Freddie Mac-eligible loan amounts in some markets. Based on the mortgages provided by our mortgage subsidiary, we do not expect the change in the Fannie Mae/Freddie Mac-eligible loan amounts to have a significant impact on our business.

There has been significant media attention given to mortgage put-backs, a practice by which a buyer of a mortgage loan tries to recoup losses from the loan originator. We do not believe this is a material issue for our mortgage subsidiary. Of the approximately 15,700 loans sold by our mortgage subsidiary since November 1, 2004, only 31 have been the subject of either actual indemnification payments or take-backs or contingent liability loss provisions related thereto. We believe that this is due to (i) our typical home buyer's financial position and sophistication, (ii) on average, our home buyers who use mortgage financing to purchase a home pay approximately 30% of the purchase price in cash, (iii) our general practice of not originating certain loan types such as option adjustable rate mortgages and down payment assistance products, and our origination of few sub-prime and high loan-to-value/no documentation loans, (iv) our elimination of “early payment default” provisions from each of our agreements with our mortgage investors several years ago, and (v) the quality of our controls, processes and personnel in our mortgage subsidiary.

The Dodd-Frank Wall Street Reform and Consumer Protection Act provides for a number of new requirements relating to residential mortgage lending practices, many of which are subject to further potential rulemaking. These include, among others, minimum standards for mortgages and related lender practices, the definitions and parameters of a Qualified Mortgage and a

Qualified Residential Mortgage, future risk retention requirements, limitations on certain fees, prohibition of certain tying arrangements and remedies for borrowers in foreclosure proceedings in the event that a lender violates fee limitations or minimum standards. The ultimate effect of such provisions on lending institutions, including our mortgage subsidiary, will depend on the rules that are ultimately promulgated.

Gibraltar

We continue to look for distressed real estate opportunities through Gibraltar. Gibraltar continues to selectively review a steady flow of new opportunities, including bank portfolios and other distressed real estate investments. In fiscal 2012, Gibraltar acquired 12 non-performing loans with an unpaid principal balance of approximately $56.6 million. The loans acquired included non-performing loans primarily secured by commercial land and buildings in various stages of completion. The portfolios that Gibraltar previously acquired were primarily residential acquisition, development, and construction loans secured by properties in various stages of completion.

At October 31, 2012, Gibraltar had direct investments in loan portfolios, real estate owned and participations in a loan portfolio and real estate owned of approximately $95.5 million and an investment in a structured asset joint venture of $37.3 million. At October 31, 2012, Gibraltar, directly and through a loan participation, controlled 109 loans and properties with a net unpaid principal of the loans or estimated fair value of the properties of approximately $195.9 million.

During the fiscal years ended October 31, 2012 and 2011, we recognized income of $7.2 million and $6.9 million from the Gibraltar operations, respectively, including its equity in the earnings from its investment in a structured asset joint venture.

CONTRACTS AND BACKLOG

The aggregate value of gross sales contracts signed increased 56.1% in fiscal 2012, as compared to fiscal 2011, and 8.7% in fiscal 2011, as compared to fiscal 2010. The value of gross sales contracts signed was $2.67 billion (4,341 homes) in fiscal 2012, $1.71 billion (2,965 homes) in fiscal 2011 and $1.57 billion (2,789 homes) in fiscal 2010. The increase in the aggregate value of gross contracts signed in fiscal 2012, as compared to fiscal 2011, was the result of a 46.4% increase in the number of gross contracts signed, and a 6.6% increase in the average value of each contract signed. The increase in the number of gross contracts signed in fiscal 2012, as compared to fiscal 2011, was primarily due to the beginning of the recovery in the U.S. housing market in fiscal 2012, reduced competition from the small and mid-sized private builders that had been our primary competitors in the luxury market, and a 10% increase in the average number of selling communities in fiscal 2012, as compared to fiscal 2011.

The increase in the aggregate value of gross contracts signed in fiscal 2011, as compared to fiscal 2010, was the result of a 6.3% increase in the number of gross contracts signed, and a 2.3% increase in the average value of each contract signed. The increase in the number of gross contracts signed in fiscal 2011, as compared to fiscal 2010, was primarily due to the increase in the number of selling communities in fiscal 2011.

In fiscal 2012, 2011, 2010 and 2009, home buyers canceled $107.3 million (182 homes), $102.8 million (181 homes), $98.3 million (184 homes) and $321.2 million (453 homes) of signed contracts, respectively. As a percentage of the number of gross contracts signed in fiscal 2012, 2011, 2010 and 2009, home buyers canceled 4.2%, 6.1%, 6.6% and 15.6%, in those respective years, and 4.0%, 6.0%, 6.3%, and 19.8% of the value of gross contracts signed in those respective years. Our contract cancellation rates in fiscal 2012, 2011 and 2010 were comparable to the cancellation rates prior to fiscal 2006.

The aggregate value of net contracts signed increased 59.4% in fiscal 2012, as compared to fiscal 2011. The value of net contracts signed was $2.56 billion (4,159 homes) in fiscal 2012 and $1.60 billion (2,784 homes) in fiscal 2011. The increase in fiscal 2012, as compared to fiscal 2011, was the result of a 49.4% increase in the number of net contracts signed, and a 6.7% increase in the average value of each contract signed. The increase in the number of net contracts signed in fiscal 2012, as compared to fiscal 2011, was the result of the higher number of gross contracts signed in fiscal 2012 and the reduced rate of contract cancellations in fiscal 2012, as compared to fiscal 2011.

The aggregate value of net contracts signed increased 9.0% in fiscal 2011, as compared to fiscal 2010. The value of net contracts signed was $1.60 billion (2,784 homes) in fiscal 2011, $1.47 billion (2,605 homes) in fiscal 2010 and $1.30 billion (2,450 homes) in fiscal 2009. The increase in fiscal 2011, as compared to fiscal 2010, was the result of a 6.9% increase in the number of net contracts signed, and a 2.0% increase in the average value of each contract signed.

The increase in the number of contracts signed in fiscal 2011 was primarily due to the increased number of communities that we had open for sale in fiscal 2011, as compared to fiscal 2010.

Backlog consists of homes under contract but not yet delivered to our home buyers. The value of our backlog at October 31, 2012, 2011 and 2010 was $1.67 billion (2,569 homes), $981.1 million (1,667 homes) and $852.1 million (1,494 homes), respectively.

The 70.2% and 54.1% increase in the value and number of homes in backlog at October 31, 2012, as compared to October 31, 2011, was due to the increase in the number and the average value of net contracts signed in fiscal 2012, as compared to fiscal 2011 and the higher value and number of homes in backlog at October 31, 2011 as compared to October 31, 2010, offset, in part, by the increase in the aggregate value and number of our deliveries in fiscal 2012, as compared to the aggregate value and number of deliveries in fiscal 2011.

The 15.1% and 11.6% increase in the value and number of homes in backlog at October 31, 2011 as compared the October 31, 2010, was due to the increase in the number and average value of net contracts signed in fiscal 2011, as compared to fiscal 2010 and the decrease in the aggregate value and number of our deliveries in fiscal 2011, as compared to the aggregate value and number of deliveries in fiscal 2010, offset, in part, by the lower value of our backlog at October 31, 2010, as compared to our backlog at October 31, 2009.

The decrease in backlog at October 31, 2010, as compared to the backlog at October 31, 2009, was primarily attributable to the continued decline in the new home market and the decrease in the value and number of net contracts signed in fiscal 2010, as compared to fiscal 2009, offset, in part, by lower deliveries in fiscal 2010, as compared to fiscal 2009.

For more information regarding revenues, gross contracts signed, contract cancellations and net contracts signed by geographic segment, see “Geographic Segments” in this MD&A.

CRITICAL ACCOUNTING POLICIES

We believe the following critical accounting policies reflect the more significant judgments and estimates used in the preparation of our consolidated financial statements.

Inventory

Inventory is stated at cost unless an impairment exists, in which case it is written down to fair value in accordance with GAAP. In addition to direct land acquisition, land development 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 periods 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 the community’s inventory until it re-opens, and other carrying costs are expensed as incurred. Once a parcel of land has been approved for development and we open the community, it can typically take four or more years to fully develop, sell and deliver all the homes in that 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. Our master planned communities, consisting of several smaller communities, may take up to ten years or more to complete. Because our inventory is considered a long-lived asset under GAAP, we are required to regularly review the carrying value of each of our communities and write down the value of those communities when we believe 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, we use 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 us 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 costs, home construction costs, interest costs 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 in a particular community; 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: We evaluate all land held for future communities or future sections of current communities, whether owned or optioned, to determine whether or not we expect 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 in which the land is located and the estimated probability of obtaining the necessary approvals, the estimated time and cost it will take to obtain those 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, we decide (i) as to land under contract to be purchased, whether the contract will likely be terminated or renegotiated, and (ii) as to land we own, whether the land will likely be developed as contemplated or in an alternative manner, or should be sold. We then further determine 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 us at the time such estimates are made and our expectations of future operations and economic conditions. Should the estimates or expectations used in determining estimated fair value deteriorate in the future, we may be required to recognize additional impairment charges and write-offs related to current and future communities.

We provided for inventory impairment charges and the expensing of costs that we 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).

	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

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

Three months ended:	Number of communities tested	Impaired operating communities: Number of communities	Fair value of communities, net of impairment charges	Impairment charges
Fiscal 2012:				
January 31	113	8	$49,758	$6,425
April 30	115	2	$22,962	2,560
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

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. We assess the need for valuation allowances for deferred tax assets based on GAAP's “more-likely-than-not” realization threshold criteria. In our 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, our experience with operating loss and tax credit carryforwards being used before expiration, and tax planning alternatives.

Our assessment of the need for a valuation allowance on our deferred tax assets includes assessing the likely future tax consequences of events that have been recognized in our consolidated financial statements or tax returns. Changes in existing tax laws or rates could affect our actual tax results and our future business results may affect the amount of our deferred tax liabilities or the valuation of our deferred tax assets over time. Our accounting for deferred tax assets represents our 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 our analysis. Our assumptions require significant judgment because the residential home building industry is cyclical and is highly sensitive to changes in economic conditions. If our results of operations are less than projected and there is insufficient objectively verifiable positive evidence to support the “more-likely-than-not” realization of our deferred tax assets, a valuation allowance would be required to reduce or eliminate our deferred tax assets.

Our deferred tax assets consist principally of the recognition of losses primarily driven by inventory impairments and impairments of investments in and advances to unconsolidated entities. In accordance with GAAP, we assessed whether a valuation allowance should be established based on our determination of whether it was “more likely than not” that some portion or all of the deferred tax assets would not be realized. In fiscal 2009, we recorded valuation allowances against

28

substantially all of our deferred tax assets. We believed that the continued downturn in the housing market, the uncertainty as to its length and magnitude, our continued recognition of impairment charges, and our recent operating losses were significant negative evidence of the need for a valuation allowance against our deferred tax assets.

For federal income tax purposes, we are allowed to carry forward tax losses for 20 years and apply such tax losses to future taxable income to realize our federal deferred tax assets. At October 31, 2012, we estimate that we will have federal tax loss carryfowards 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 carry forward of losses while others allow for carry forwards for 5 years to 20 years.

At October 31, 2012, we re-evaluated the evidence related to the need for our deferred tax asset valuation allowances and determined that the valuation allowance on our federal deferred tax assets and certain state valuation allowances were no longer needed because of sufficient positive objective evidence. That evidence principally consisted of (i) an indication that the events and conditions that gave rise to significant reported losses in recent years were unlikely to recur in the foreseeable future, (ii) a return to profitability in 2012, (iii) strong backlog evidencing that profitability will likely increase in 2013, and (iv) long net operating loss carryfoward periods that provide evidence that even without significant growth these deferred tax assets will more likely than not be realized. Some of the evidence considered was as follows:

- We incurred pre-tax losses from 2008 through 2011 totaling $1.1 billion. These losses were driven primarily by impairments of land, options, inventory and joint ventures which aggregated approximately $1.53 billion during that period. The impairment charges were triggered by the most severe and longest downturn in the U.S. housing industry.
- We generated pre-tax income of $132.1 million since May 2011. This included generating pre-tax income in five out of the past six consecutive quarters. Our operations have been profitable in each of the last ten quarters excluding impairment charges.
- Impairment charges in fiscal 2012 decreased to $14.7 million due to the strength of the recovery in the housing industry and the lower carrying value of our inventories and joint venture investments as a result of the significant writedowns recognized on them over the period from 2005 through 2011.
- The value of new contracts signed in fiscal 2012 increased 59% over fiscal 2011. Our cancellation rate of 4.2% in units and 4.0% in value is the lowest it has been since before 2006.
- We are expecting significant revenue and pre-tax income growth in fiscal 2013 which is supported by our backlog as well as the continued improvement in housing industry trends. Our backlog at October 31, 2012, which totaled $1.67 billion, is the highest it has been since 2008. Our backlog is a strong indicator of our next eight months of operations as we require a signed agreement of sale and a significant cash deposit for a sale to be included in backlog. We have objective and verifiable positive evidence, summarized more fully below, that we will continue to be profitable in fiscal 2013 due to our backlog. That positive evidence in tandem with other positive evidence provides the basis for overcoming the negative evidence. Even without growth in our profits over 2012 levels of profitability, we would realize our federal deferred tax assets in less than 10 years.
- Based on our belief that the recovery in the housing market will be sustained, we expect to continue to grow revenues and be profitable beyond fiscal 2013.
- Housing market indices have shown positive gains over the past year. Unemployment rates continue to decrease from October 2010, consumer confidence has shown continued improvement and housing affordability is at near record levels. The October 2012 seasonally adjusted annual rate of housing starts was 894,000, as compared to 630,000 in October 2011 which represents an increase of 42%. The improvement in the housing market has been experienced by all the major public home builders. The financial community and economists are optimistic regarding the housing trends going into 2013.
- There is significant pent-up demand for housing that we believe will support a prolonged recovery. According to the U.S. Census Bureau, during the period 1970 through 2007, total housing starts in the United States averaged approximately 1.26 million per year, while in the period 2008 through 2011, total housing starts averaged approximately 0.66 million per year. In addition, based on the trend of household formations in relation to population

growth during the period 2000 through 2007, the number of household formations in the four year period of 2008 through 2011 was approximately 2.3 million less than would have been expected.

- We believe that the demographics of the move-up, empty-nester, active-adult, age-qualified and second-home upscale markets will provide us with the potential for growth in the coming decade. According to the U.S. Census Bureau, the number of households earning $100,000 or more (in constant 2011 dollars) at September 2011 stood at 25.4 million, or approximately 17.3% of all U.S. households. This group has grown at three times the rate of increase of all U.S. households since 1980. According to Harvard University's June 2012 "The State of the Nation's Housing", the growth and aging of the current population and assuming the economic recovery is sustained over the next few years supports the addition of about one million new household formations per year during the next decade.
- We have emerged from the downturn with reduced competition and thus an increased market share. We believe that many home builders in the areas in which we operate are no longer in business and that access to capital by the remaining ones is already severely constrained. The seasonally adjusted annual rate of housing starts in October 2012 increased 42% over the October 2011 rate, whereas the increase in the number of our signed contracts in fiscal 2012 was 49%. The excess of our contracts signed versus the housing starts evidence the additional market share we have gained over the past year.

Revenue and Cost Recognition

The construction time of our 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 detached homes, closing normally occurs shortly after construction is substantially completed.

For our 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, 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 are recognized in other income-net in our Consolidated Statements of Operations in the period in which we determine that the customer will not complete the purchase of the home and we have the right to retain the deposit.

Sales Incentives: In order to promote sales of our homes, we grant our 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 we pay 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 we receive the sales proceeds.

OFF-BALANCE SHEET ARRANGEMENTS

We have investments in and advances to various unconsolidated entities. At October 31, 2012, we had investments in and advances to these entities of $330.6 million, and were committed to invest or advance $97.0 million to these entities if they require additional funding. In addition, we have guaranteed approximately $9.8 million of payments under a ground lease for one of the unconsolidated entities. Our investments in these entities are accounted for using the equity method.

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 we have investments. We review each of our investments on a quarterly basis for indicators of impairment. A series of operating losses of an investee, the inability to recover our invested capital, or other factors may indicate that a loss in value of our investment in the unconsolidated entity has occurred. If a loss exists, we further review to determine if the loss is other than temporary, in which case, we write down the investment to its fair value. The evaluation of our 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 we do. See "Critical Accounting Policies — Inventory" in this MD&A for more detailed disclosure on our evaluation of inventory. If a valuation adjustment is recorded by an unconsolidated entity related to its assets, our proportionate share is reflected in (loss) income from unconsolidated entities with a corresponding decrease to our investment in unconsolidated entities. During fiscal 2011, based upon our evaluation of the fair value of our investments in unconsolidated entities, we determined, due to the continued deterioration of the market in which some of our unconsolidated entities operate, that there was an other than temporary impairment of our investments in these unconsolidated entities. Based on this determination, we recognized $40.9 million of impairment charges against the carrying value of our investments in fiscal 2011.

On October 27, 2011, a bankruptcy court issued an order confirming a plan of reorganization for South Edge, LLC ("South Edge"), a Nevada land development joint venture, which was the subject of an involuntary bankruptcy petition filed in December 2010. Pursuant to the plan of reorganization, South Edge settled litigation regarding a loan made by a syndicate of lenders to South Edge having a principal balance of $327.9 million, for which we had executed certain completion guarantees and conditional repayment guarantees. The confirmed plan of reorganization provided for a cash settlement to the lenders, the acquisition of land by us and the other members of South Edge that are parties to the agreement, and the resolution of all claims among members of the lending syndicate representing 99% of the outstanding amounts due under the loan, the bankruptcy trustee and the members of South Edge that are parties to the agreement. In November 2011, we made a payment of $57.6 million as our share of the settlement. We believe we have made adequate provision at October 31, 2012 for any remaining exposure to lenders that are not parties to the agreement. Our carrying value of our investment in Inspirada Builders, LLC, a successor entity to South Edge, LLC, is carried at nominal value.

In December 2011, we entered into a joint venture to develop a high-rise luxury for-sale/rental project in the metro-New York market. At October 31, 2012, we had $87.3 million invested in this joint venture and were committed to make additional contributions of $37.5 million. Under the terms of the agreement, upon completion of the construction of the building, we will acquire ownership of the top 18 floors of the building to sell, for our own account, luxury condominium units and our partner will receive ownership of the lower floors containing residential for-lease units and retail space.

In the third quarter of fiscal 2012, we acquired a 50% interest in an existing land 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 agreement with our partner in this joint venture to acquire approximately 800 lots. As part of this November 2012 agreement, each partner committed to contribute $10.0 million to the joint venture if needed.

In addition, in the third quarter of fiscal 2012, we invested in a joint venture in which we have a 50% interest that will develop a high-rise luxury condominium/hotel project in the metro-New York market. At October 31, 2012, we had $5.4 million invested in this joint venture and expect 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. We have also guaranteed approximately $9.8 million of payments under a ground lease on this project.

In the fourth quarter of fiscal 2012, we invested in a joint venture in which we have 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.

Pursuant to the Securities and Exchange Commission Regulation S-X, TMF Kent Partners, LLC (“TMF”) and KTL 303 LLC (“KTL”) were deemed significant joint ventures for the fiscal year ended October 31, 2011. We have a 50% ownership interest in TMF and KTL. For fiscal 2012, TMF and KTL were not deemed to be significant joint ventures. TMF was formed to construct and market two luxury condominium buildings comprising a total of 450 residential units and a parking garage located in Brooklyn, New York. Building 1, comprised of 180 units, was completed in fiscal 2008 and was substantially settled out as of October 31, 2010. TMF began construction of Building 2, comprised of 270 units, in fiscal 2008 and commenced settlement of units in October 2010. As of October 31, 2012, five units in Building 2 have not been settled. TMF expects Building 2 to be substantially settled out by the end of the second quarter of fiscal 2013.

KTL was formed to construct and market a luxury condominium building comprising 128 residential units and approximately 14,500 square feet of commercial space located in Manhattan, New York. KTL began construction of the building in fiscal 2008 and commenced settling units in fiscal 2010. As of October 31, 2012, KTL had no remaining units to settle.

RESULTS OF OPERATIONS

The following table compares certain items in our Consolidated Statement of Operations for fiscal 2012, 2011 and 2010 ($ amounts in millions):

	2012		2011		2010	
	$	%	$	%	$	%
Revenues	1,882.8		1,475.9		1,494.8	
Cost of revenues	1,532.1	81.4	1,260.8	85.4	1,376.6	92.1
Selling, general and administrative	287.3	15.3	261.4	17.7	263.2	17.6
Interest expense	—	—	1.5	0.1	22.8	1.5
	1,819.4	96.6	1,523.6	103.2	1,662.5	111.2
Income (loss) from operations	63.4		(47.7)		(167.8)	
Other:						
Income (loss) from unconsolidated entities	23.6		(1.2)		23.5	
Other income - net	25.9		23.4		28.3	
Expenses related to early retirement of debt			(3.8)			