TENET HEALTHCARE CORP
Form S-3ASR
November 27, 2012
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As filed with the Securities and Exchange Commission on November 27, 2012

Registration No. 333-

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, DC 20549

FORM S-3

REGISTRATION STATEMENT
UNDER
THE SECURITIES ACT OF 1933

TENET HEALTHCARE CORPORATION

(Exact name of Registrant as specified in its charter)

Nevada	**95-2557091**
(State of Incorporation)	(IRS Employer Identification Number)

1445 Ross Avenue, Suite 1400

Dallas, Texas 75202
(469) 893-2200
(Address, including zip code, and telephone number, including area code, of registrant s principal executive offices)

Paul A. Castanon

Vice President & Deputy General Counsel

TENET HEALTHCARE CORPORATION

1445 Ross Avenue, Suite 1400

Dallas, Texas 75202

(469) 893-2200

(Name, address, including zip code, and telephone number, including area code, of agent for service)

With copies to:

Barbara L. Becker
Andrew L. Fabens

Gibson, Dunn & Crutcher LLP

200 Park Avenue

New York, New York 10166

(212) 351-4034

Approximate date of commencement of proposed sale to the public:

From time to time after this registration statement becomes effective.

If the only securities being registered on this Form are being offered pursuant to dividend or interest reinvestment plans, please check the following box. o

If any of the securities being registered on this Form are to be offered on a delayed or continuous basis pursuant to Rule 415 under the Securities Act of 1933, other than securities offered only in connection with dividend or interest reinvestment plans, check the following box. x

If this Form is filed to register additional securities for an offering pursuant to Rule 462(b) under the Securities Act, please check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. o

If this Form is a post-effective amendment filed pursuant to Rule 462(c) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. o

If this Form is a registration statement pursuant to General Instruction I.D. or a post-effective amendment thereto that shall become effective upon filing with the Commission pursuant to Rule 462(e) under the Securities Act, check the following box. x

If this Form is a post-effective amendment to a registration statement filed pursuant to General Instruction I.D. filed to register additional securities or additional classes of securities pursuant to Rule 413(b) under the Securities Act, check the following box. o

Indicate by check mark whether the Registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or a smaller reporting company (as defined in Rule 12b-2 of the Securities Exchange Act of 1934, as amended).

Large accelerated filer	x	Accelerated filer	o
Non-accelerated filer	o	Smaller reporting company	o

CALCULATION OF REGISTRATION FEE

Title of each class of securities to be registered	**Amount to be registered**	**Proposed maximum offering price per unit**	**Proposed maximum aggregate offering price**	**Amount of registration fee**
Common Stock, par value $0.05 per share	(1)	(1)	(1)	(2)
Preferred Stock, par value $0.15 per share	(1)	(1)	(1)	(2)
Debt Securities	(1)	(1)	(1)	(2)
Warrants	(1)	(1)	(1)	(2)
Purchase Contracts	(1)	(1)	(1)	(2)
Units	(1)	(1)	(1)	(2)

(1) An unspecified amount or aggregate initial offering price of securities of each class is being registered as may be offered from time to time at unspecified prices. Separate consideration may or may not be received for securities that are issuable upon exercise, conversion or exchange of other securities.

(2) Deferred in reliance on Rules 456(b) and 457(r) under the Securities Act.

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PROSPECTUS

Tenet Healthcare Corporation

COMMON STOCK
PREFERRED STOCK
DEBT SECURITIES
WARRANTS
PURCHASE CONTRACTS
UNITS

This prospectus is part of a registration statement that we have filed with the Securities and Exchange Commission using an automatic shelf registration process. This means:

- we may offer and sell common stock, preferred stock, debt securities, warrants, purchase contracts or units in any combination from time to time in one offering or multiple offerings (and the preferred stock, debt securities, warrants, purchase contracts and units may be convertible into or exercisable or exchangeable for common stock, preferred stock or other securities); and

- we will provide specific information about the terms of the specific securities that we offer and sell in a supplement that also may add, update or change information contained in this prospectus.

You should read this prospectus and any applicable prospectus supplement carefully before you invest.

Investing in our securities involves risks. We refer you to Risk Factors on page 2 of this prospectus and any similar section contained in the applicable prospectus supplement for a discussion of the factors you should consider before deciding to purchase our securities.

The securities offered by this prospectus may be offered directly, through agents designated from time to time by us, or to or through underwriters or dealers. If any agents or underwriters are involved in the sale of any of the securities offered by this prospectus, their names, and any applicable purchase price, fee, commission or discount arrangement between or among us and them, will be set forth, or will be calculable from the information set forth, in the applicable prospectus supplement. None of the securities offered by this prospectus may be sold without delivery of the applicable prospectus supplement describing the method and terms of the offering of those securities.

Our common stock trades on the New York Stock Exchange under the symbol THC.

Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of these securities or passed upon the adequacy or accuracy of this prospectus. Any representation to the contrary is a criminal offense.

The date of this prospectus is November 27, 2012

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ABOUT THIS PROSPECTUS

This prospectus is part of an automatic shelf registration statement that we filed with the U.S. Securities and Exchange Commission, or the SEC, as a well-known seasoned issuer (as defined in Rule 405 under the Securities Act of 1933, as amended, or the Securities Act). By using a shelf registration statement, we may sell any amount and combination of the securities described in this prospectus in any combination from time to time in one offering or multiple offerings. Each time we sell securities, we will supplement this prospectus with specific information about the terms of the offering and the securities being offered. Each supplement may also add, update or change information contained in this prospectus. Before purchasing any securities, you should carefully read both this prospectus and any accompanying prospectus supplement, as well as any free writing prospectus or pricing supplement prepared by us or on our behalf, together with the documents we have incorporated by reference in this prospectus described under the heading Incorporation by Reference and the additional information described under the heading Where You Can Find More Information.

The exhibits to the registration statement contain the full text of certain contracts and other important documents we have summarized in this prospectus. You should review the full text of these documents because these summaries may not contain all the information that you may find important in deciding whether to purchase the securities we offer. The registration statement, including the exhibits, can be read at the SEC s website or at the SEC s offices mentioned under the heading Where You Can Find More Information.

You should rely only on the information contained or incorporated by reference in this prospectus, in the accompanying prospectus supplement or in any free writing prospectus or pricing supplement we file with the SEC, in addition to the information contained in the documents we refer to under the heading Incorporation by Reference. We have not authorized any person to provide you with different information. If anyone provides you with different or inconsistent information, you should not rely on it. We are not making an offer to sell these securities in any jurisdiction where the offer or sale is not permitted. You should not assume that the information contained or incorporated by reference in this prospectus, any accompanying prospectus supplement or any free writing prospectus prepared by us or on our behalf is accurate as of any date other than the respective date on its cover page. Our business, financial condition, results of operations, liquidity and prospects may have subsequently changed.

References in this prospectus to Tenet, we, us and our are to Tenet Healthcare Corporation, a Nevada corporation, and its consolidated subsidiaries unless the context otherwise requires.

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THE COMPANY

Tenet Healthcare Corporation (together with our subsidiaries, referred to as Tenet, the Company, we or us) is an investor-owned health care services company whose subsidiaries and affiliates own and operate acute care hospitals and related health care facilities. At September 30, 2012, our subsidiaries operated 49 hospitals with a total of 13,216 licensed beds, primarily serving urban and suburban communities, as well as 112 free-standing and provider-based outpatient centers. In addition to providing health care services, we also offer revenue cycle management, health care information management and patient communications services, and we own a management services business that provides network development, utilization management, claims processing and contract negotiation services to physician organizations and hospitals that assume managed care risk.

We were incorporated in the State of Nevada in 1975. Our executive offices are located at 1445 Ross Avenue, Suite 1400, Dallas, Texas 75202. Our telephone number is (469) 893-2200. We can be found on the worldwide web at www.tenethealth.com. Information on our website is not part of this prospectus.

RISK FACTORS

Investment in any securities offered pursuant to this prospectus involves risks and uncertainties. You should carefully consider the risk factors incorporated herein by reference to our most recent Annual Report on Form 10-K and our subsequent Quarterly Reports on Form 10-Q or Current Reports on Form 8-K, along with the other information contained in this prospectus, as updated by our subsequent filings under the Securities Exchange Act of 1934, as amended, or the Exchange Act, and the risk factors and other information contained in the applicable prospectus supplement, before acquiring any such securities. For more information, see the section entitled Where You Can Find More Information. If one or more of the events discussed in these risks factors were to occur, our business, financial condition, results of operations or liquidity, as well as the value of an investment in our securities, could be materially adversely affected.

FORWARD-LOOKING STATEMENTS

This prospectus, the applicable prospectus supplement and the documents incorporated by reference herein and therein contain forward-looking statements within the meaning of Section 27A of the Securities Act and Section 21E of the Exchange Act. All statements, other than statements of historical or present facts, that address activities, events, outcomes, business strategies and other matters that we plan, expect, intend, assume, believe, budget, predict, forecast, project, estimate or anticipate (and other similar expressions) will, should or may occur in the future are forward-looking statements. These forward-looking statements represent management s current belief, based on currently available information, as to the outcome and timing of future events. They involve known and unknown risks, uncertainties and other factors many of which we are unable to predict or control that may cause our actual results, performance or achievements, or health care industry results, to be materially different from those expressed or implied by forward-looking statements. Such factors include, but are not limited to, the risks described in Item 1A Risk Factors in our Annual Report on Form 10-K and the following:

- Our ability to identify and execute on measures designed to save or control costs or streamline operations;
- Changes in our business strategies or development plans;

- Technological and pharmaceutical improvements that increase the cost of providing, or reduce the demand for, health care services;
- Various factors that may increase supply costs;
- The soundness of our investments in marketable securities and other instruments;
- Adverse fluctuations in interest rates and other risks related to interest rate swaps or any other hedging activities we undertake;
- Our ability to integrate new businesses with our existing operations;
- National, regional and local economic and business conditions;
- Demographic changes; and
- Other factors and risk factors referenced in this report and our other public filings.

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When considering forward-looking statements, a reader should keep in mind the risk factors and other cautionary statements included or incorporated by reference in this prospectus and the applicable prospectus supplement. These risks and uncertainties are discussed in detail in Item 1 Business and Item 1A Risk Factors in our Annual Report on Form 10-K, Item 7 Management s Discussion and Analysis of Financial Condition and Results of Operations in Exhibit 99.1 to our Current Report on Form 8-K filed on October 1, 2012 and elsewhere in other reports we file with the SEC, which are incorporated by reference herein. You may obtain copies of these documents as described under Where You Can Find More Information below. Should one or more risks and uncertainties occur, or should underlying assumptions prove incorrect, our actual results and plans could differ materially from those expressed in any forward-looking statements. We specifically disclaim any obligation to update any information contained in a forward-looking statement or any forward-looking statement in its entirety and, therefore, disclaim any resulting liability for potentially related damages. All forward-looking statements attributable to us are expressly qualified in their entirety by this cautionary statement.

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SELECTED FINANCIAL DATA

The following tables present selected historical consolidated financial data for Tenet Healthcare Corporation and its wholly owned and majority-owned subsidiaries. The consolidated statements of operations and consolidated statements of cash flow data for the years ended December 31, 2011, 2010 and 2009 and the consolidated balance sheet data as of December 31, 2011 and 2010 have been derived from our audited consolidated financial statements, which are included in our Current Report on Form 8-K filed on October 1, 2012, which is incorporated by reference in this prospectus, except for basic earnings (loss) per share attributable to Tenet Healthcare Corporation common shareholders from continuing operations and diluted earnings (loss) per share attributable to Tenet Healthcare Corporation common shareholders from continuing operations, which have been updated as a result of a reverse stock split.

The consolidated operating results for the years ended December 31, 2008 and 2007 have been derived from unaudited consolidated financial information not included or incorporated by reference in this prospectus, except for basic earnings (loss) per share attributable to Tenet Healthcare Corporation common shareholders from continuing operations and diluted earnings (loss) per share attributable to Tenet Healthcare Corporation common shareholders from continuing operations which have been updated as a result of a reverse stock split. All periods presented have been reclassified in accordance with the provisions of Accounting Standards Update (ASU) 2011-07, Health Care Entities (Topic 954): Presentation and Disclosure of Patient Service Revenue, Provision for Bad Debts, and the Allowance for Doubtful Accounts for Certain Health Care Entities. The consolidated cash flow data for the years ended December 31, 2008 and 2007 and the consolidated balance sheet data as of December 31, 2009, 2008 and 2007 have been derived from unaudited consolidated financial statements not included or incorporated by reference in this prospectus.

The consolidated operating results and consolidated cash flow data for the nine months ended September 30, 2012 and 2011, and the consolidated balance sheet data as of September 30, 2012, have been derived from our unaudited condensed consolidated financial statements included in our Form 10-Q for the fiscal quarter ended September 30, 2012, which is incorporated by reference in this prospectus. The consolidated balance sheet data as of September 30, 2011 has been derived from our unaudited condensed consolidated financial statements included in our Form 10-Q for the fiscal quarter ended September 30, 2011, which is not included or incorporated by reference herein. The unaudited consolidated financial statements were prepared in accordance with accounting principles generally accepted in the United States of America (GAAP) for interim financial reporting. We believe all adjustments, including normal recurring adjustments, considered necessary for a fair presentation of the results of the interim periods have been included.

The following information should be read in conjunction with the information under the caption Risk Factors contained herein and incorporated by reference herein from our Annual Report. The following information should also be used in conjunction with the information under the caption Management s Discussion and Analysis of Financial Condition and Results of Operations and our consolidated financial statements, both included in our Current Report on Form 8-K filed on October 1, 2012, and both included in our Form 10-Q for the fiscal quarter ended September 30, 2012, each of which has been incorporated by reference in this prospectus.

The operating results data presented below are not necessarily indicative of our future results of operations. Reasons for this include, but are not limited to: overall revenue and cost trends, particularly the timing and magnitude of price changes; fluctuations in contractual allowances and cost report and commercial contract settlements and valuation allowances; managed care contract negotiations, settlements or terminations and payer consolidations; changes in Medicare and Medicaid regulations; Medicaid funding levels set by the states in which we operate; the timing of approval by the Centers for Medicare & Medicaid Services of Medicaid provider fee revenue programs; trends in patient accounts receivable collectability and associated provisions for doubtful accounts; fluctuations in interest rates; levels of malpractice insurance expense and settlement trends; the timing of when we meet the criteria to recognize electronic health record incentives; impairment of long-lived assets and goodwill; restructuring charges; losses, costs and insurance recoveries related to natural disasters; litigation and investigation costs; acquisitions and dispositions of facilities and other assets; income tax rates and deferred tax asset valuation allowance activity; changes in estimates of accruals for annual incentive compensation; the timing and amounts of stock option and restricted stock unit grants to employees and directors; gains or losses from early

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extinguishment of debt; and changes in occupancy levels and patient volumes. Factors that affect patient volumes and, thereby, our results of operations at our hospitals and related health care facilities include, but are not limited to: the business environment, economic conditions and demographics of local communities; the number of uninsured and underinsured individuals in local communities treated at our hospitals; seasonal cycles of illness; climate and weather conditions; physician recruitment, retention and attrition; advances in technology and treatments that reduce length of stay; local health care competitors; managed care contract negotiations or terminations; any unfavorable publicity about us, which impacts our relationships with physicians and patients; changes in health care regulation; and the timing of elective procedures. These considerations apply to year-to-year comparisons as well.

OPERATING RESULTS

	Years Ended December 31,					Nine Months Ended September 30,	
	2011	2010	2009	2008	2007	2012	2011
	(In Millions, Except Per-Share Amounts)						
Net operating revenues:							
Net operating revenues before provision for doubtful accounts	$ 9,371	$ 8,992	$ 8,785	$ 8,368	$ 7,874	$ 7,373	$ 7,018
Less provision for doubtful accounts	717	727	684	618	547	585	536
Net operating revenues	**8,654**	**8,265**	**8,101**	**7,750**	**7,327**	**6,788**	**6,482**
Operating expenses:							
Salaries, wages and benefits	4,015	3,830	3,781	3,707	3,546	3,166	3,001
Supplies	1,548	1,542	1,534	1,477	1,364	1,164	1,167
Other operating expenses, net	2,020	1,857	1,831	1,852	1,781	1,604	1,526
Electronic health record incentives	(55)					(13)	(50)
Depreciation and amortization	398	380	373	357	324	314	298
Impairment of long-lived assets and goodwill, and restructuring charges, net	20	10	27	16	36	12	18
Hurricane insurance recoveries, net of costs					(3)		
Litigation and investigation costs, net of insurance recoveries	55	12	31	41	12	3	24
Operating income	**653**	**634**	**524**	**300**	**267**	**538**	**498**
Interest expense	(375)	(424)	(445)	(418)	(419)	(303)	(275)
Gain (loss) from early extinguishment of debt	(117)	(57)	97				
Investment earnings	3	5		22	47	2	3
Net gain on sales of investments			15	139			
Income (loss) from continuing operations, before income taxes	**164**	**158**	**191**	**43**	**(105)**	**237**	**226**
Income tax benefit (expense)	(61)	977	23	25	59	(90)	(73)
Income (loss) from continuing operations, before discontinued operations	**$ 103**	**$ 1,135**	**$ 214**	**$ 68**	**$ (46)**	**$ 147**	**$ 153**
Basic earnings (loss) per share attributable to Tenet Healthcare Corporation common shareholders from continuing operations	**$ 0.58***	**$ 9.09***	**$ 1.67***	**$ 0.54***	**$ (0.41)***	**$ 1.25***	**$ 1.06***
Diluted earnings (loss) per share attributable to Tenet Healthcare Corporation common shareholders from continuing operations	**$ 0.56***	**$ 8.03***	**$ 1.63***	**$ 0.54***	**$ (0.41)***	**$ 1.21***	**$ 1.03***

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* On September 27, 2012, our Board of Directors approved a decrease to the number of authorized shares of our Common Stock by a ratio equal to one-for-four (1:4) (the Reverse Split Ratio) and a proportionate decrease, by a ratio equal to the Reverse Split Ratio, to the number of issued and outstanding shares of our Common Stock, each simultaneously effective at 5:00 p.m., Eastern Time, on October 10, 2012. The diluted and basic earnings per share data presented herein

have been adjusted to reflect this, as if such change occurred at the beginning of the respective period. On October 1, 2012, 46,300 shares of our 7% mandatory convertible preferred stock automatically converted to 1,978,633 shares of our Common Stock; such conversion did not have a material effect on our financial condition and as a result pro-forma adjustments for such conversion have not been presented herein.

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BALANCE SHEET DATA

	As of December 31,					As of September 30,	
	2011	2010	2009	2008	2007	2012	2011
				(In Millions)			
Working capital (current assets minus current liabilities)	$ 542	$ 586	$ 689	$ 760	$ 512	$ 655	$ 497
Total assets	8,462	8,500	7,953	8,174	8,393	8,470	8,293
Long-term debt, net of current portion*	4,294	3,997	4,272	4,778	4,771	4,508	3,966
Total equity	1,492	1,819	697	147	88	1,269	1,761

* On October 16, 2012, we completed a private offering of $500,000,000 in aggregate principal amount of 4.75% senior secured notes due 2020 and $300,000,000 in aggregate principal amount of 6.75% senior unsecured notes due 2020. On November 1, 2012, we completed a tender offer to purchase for cash any and all of our outstanding 7.375% senior notes due 2013 and $55,305,000 of such notes remains outstanding.

CASH FLOW DATA

	Years Ended December 31,					Nine Months Ended September 30,	
	2011	2010	2009	2008	2007	2012	2011
				(In Millions)			
Net cash provided by operating activities	$ 497	$ 472	$ 425	$ 208	$ 326	$ 337	$ 324
Net cash used in investing activities	(503)	(420)	(125)	(274)	(520)	(346)	(324)
Net cash provided by (used in) financing activities	(286)	(337)	(117)	1	(18)	(21)	(220)

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CONSOLIDATED RATIO OF EARNINGS TO FIXED CHARGES AND PREFERRED DIVIDENDS

The following table contains our consolidated ratio of earnings to fixed charges and our consolidated ratio of earnings to combined fixed charges and preferred dividends for the periods indicated. In the calculation of these ratios, earnings consist of income before income taxes and noncontrolling interest plus fixed charges. Fixed charges consist of interest expense, including amortization of debt discounts and issuance costs, capitalized interest and the imputed interest component of rental expense. Preferred dividends consist of pre-tax earnings that are required to pay dividends on outstanding preferred securities.

This information should be read in conjunction with the consolidated financial statements and the accompanying notes incorporated by reference in this prospectus. See Where You Can Find More Information and Incorporation By Reference.

	Years Ended December 31,					Nine Months Ended September 30,	
	2011	2010	2009	2008	2007	2012	2011
				(Dollars in Millions)			
Consolidated ratio of earnings to fixed charges	1.4x	1.3x					

net of

Three months ended:	communities tested	Number of communities	impairment charges	Impairment charges
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
Fiscal 2009:				
January 31	289	41	$ 216,227	$ 108,300
April 30	288	36	$ 181,790	67,410
July 31	288	14	$ 67,713	46,822
October 31	254	21	$ 116,379	44,873
				$ 267,405

Variable Interest Entities: We have a significant number of land purchase contracts and several investments in unconsolidated entities which we evaluate in accordance with GAAP. We analyze our land purchase contracts and the unconsolidated entities in which we have an investment to determine whether the land sellers and unconsolidated entities are variable interest entities (VIEs) and, if so, whether we are the primary beneficiary. If we are determined to be the primary beneficiary of the VIE, we must consolidate it. A VIE is an entity with insufficient equity investment or in which the equity investors lack some of the characteristics of a controlling financial interest. In determining whether we are the primary beneficiary, we consider, among other things, whether we have the power to direct the activities of the VIE that most significantly impact the entity s economic performance, including, but not limited to, determining or limiting the scope or purpose of the VIE, selling or transferring property owned or controlled by the VIE, or arranging financing for the VIE. We also consider whether we have the obligation to absorb losses of the VIE or the right to receive benefits from the VIE. At October 31, 2011, the Company had determined that 48 land purchase contracts, with an aggregate purchase price of $453.0 million, on which we had made aggregate deposits totaling $24.2 million, were VIEs, and that we were not the primary beneficiary of any VIE related to these land purchase contracts.

Income Taxes Valuation Allowance

Significant judgment is required in estimating valuation allowances for 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 periodically 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. This assessment considers, among other matters, the nature, frequency 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. We base our estimate of deferred tax assets and liabilities on current tax laws and rates and, in certain cases, on business plans and other expectations about future outcomes. 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), it is possible that actual results could differ from the estimates used in our historical analyses. Our assumptions require significant judgment because the residential homebuilding 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 positive verifiable evidence to support the likely realization of our deferred tax assets, a valuation allowance would be required to reduce or eliminate our deferred tax assets.

Since the beginning of fiscal 2007, we recorded significant deferred tax assets. These deferred tax assets were generated primarily 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 is more likely than not that some portion or all of the deferred tax assets would not be realized. We believe that the continued downturn in the housing market, the uncertainty as to its length and magnitude, our continued recognition of impairment charges, and our cumulative operating losses in recent years are significant evidence of the need for a valuation allowance against our net deferred tax assets. We have recorded valuation allowances against all of our net deferred tax assets.

We are allowed to carry forward tax losses for 20 years and apply such tax losses to future taxable income to realize federal deferred tax assets. In addition, we will be able to reverse previously recognized valuation allowances during any future period in which we report book income before taxes. We will continue to review our deferred tax assets in accordance with GAAP.

On November 6, 2009, the Worker, Homeownership, and Business Assistance Act of 2009 (the Act) was enacted into law. The Act amended Section 172 of the Internal Revenue Code to allow net operating losses realized in a tax year ending after December 31, 2007 and beginning before January 1, 2010 to be carried back for up to five years (such losses were previously limited to a two-year carryback). This change allowed us to carry back our fiscal 2010 taxable losses to prior years and receive a tax refund of $154.3 million which was received in the second quarter of fiscal 2011. We had recorded an expected refund of $141.6 million in our October 31, 2010 consolidated financial statements.

For state tax purposes, due to past losses and projected future losses in certain jurisdictions where we do not have carryback potential and/or cannot sufficiently forecast future taxable income, we recognized net cumulative valuation allowances against our state deferred tax assets of $74.0 million as of October 31, 2011 and $45.0 million as of October 31, 2010. Future valuation allowances in these jurisdictions may continue to be recognized if we believe we will not generate sufficient future taxable income to utilize future state deferred tax assets.

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. 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 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, 2011, we had investments in and advances to these entities, net of impairment charges recognized, of $126.4 million, and were committed to invest or advance $11.8 million to these entities if they require additional funding.

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 joint ventures operate, that there was an other than temporary impairment of our investments in these joint ventures. Based on this determination, we recognized $40.9 million of impairment charges against the carrying value of our investments.

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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 which are parties to the agreement, and the resolution of all claims between members of the lending syndicate representing 99% of the outstanding amounts due under the loan, the bankruptcy trustee and the members of South Edge which are parties to the agreement. We believe we have made adequate provision at October 31, 2011 for the settlement, including the accrual for our share of the cash payments required under the agreement, any remaining exposure to lenders which are not parties to the agreement and recording impairments to reflect the estimated fair value of land to be acquired. In November 2011, we made a payment of $57.6 million as our share of the settlement.

Our investments in these entities are accounted for using the equity method.

RESULTS OF OPERATIONS

The following table compares certain items in our statement of operations for fiscal 2011, 2010 and 2009 ($ amounts in millions):

	2011		2010		2009	
	$	%	$	%	$	%
Revenues	1,475.9		1,494.8		1,755.3	
Cost of revenues	1,260.8	85.4	1,376.6	92.1	1,951.3	111.2
Selling, general and administrative	261.4	17.7	263.2	17.6	313.2	17.8
Interest expense	1.5	0.1	22.8	1.5	7.9	0.5
	1,523.6	103.2	1,662.5	111.2	2,272.5	129.5
Loss from operations	(47.7)		(167.8)		(517.2)	
Other						
(Loss) income from unconsolidated entities	(1.2)		23.5		(7.5)	
Interest and other income	23.4		28.3		41.9	
Expenses related to early retirement of debt	(3.8)		(1.2)		(13.7)	
Loss before income taxes	(29.4)		(117.2)		(496.5)	
Income tax (benefit) provision	(69.2)		(113.8)		259.4	
Net income (loss)	39.8		(3.4)		(755.8)	

Note: Amounts may not add due to rounding.

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FISCAL 2011 COMPARED TO FISCAL 2010

REVENUES AND COST OF REVENUES

Revenues for fiscal 2011 were lower than those for fiscal 2010 by approximately $18.9 million, or 1.3%. This decrease was primarily due to a decrease in the number of homes delivered. The decrease in the number of homes delivered in fiscal 2011, as compared to fiscal 2010, was primarily due to the lower number of homes in backlog at the beginning of fiscal 2011, as compared to the beginning of fiscal 2010.

Cost of revenues as a percentage of revenues was 85.4% in fiscal 2011, as compared to 92.1% in fiscal 2010. In fiscal 2011 and 2010, we recognized inventory impairment charges and write-offs of $51.8 million and $115.3 million, respectively. Cost of revenues as a percentage of revenues, excluding impairments, was 81.9% of revenues in fiscal 2011, as compared to 84.4% in fiscal 2010. The decrease in cost of revenues, excluding inventory impairment charges, as a percentage of revenue in fiscal 2011, as compared to fiscal 2010, was due primarily to lower costs, as a percentage of revenues, on the homes delivered in fiscal 2011 than those delivered in fiscal 2010. The lower percentage was primarily due to the delivery of fewer quick-delivery homes in fiscal 2011, as compared to fiscal 2010, as our supply of quick-delivery homes has dwindled, the reduction in costs realized from our new centralized purchasing initiatives, and reduced costs realized in fiscal 2011 because fewer homes were delivered from certain higher cost communities, as compared to fiscal 2010, as these communities delivered their final homes. Generally, the cost, as a percentage of revenues, of a quick-delivery home is higher than our standard contract and build homes (to be built homes). The reduction in costs was offset, in part, by higher interest costs in fiscal 2011, as compared to fiscal 2010. In fiscal 2011 and 2010, interest cost as a percentage of revenues was 5.3% and 5.1%, respectively. The higher interest cost as a percentage of revenue was due to inventory generally being held for a longer period of time and, over the past several years, fewer qualifying assets to which interest can be allocated which resulted in higher amounts of capitalized interest allocated to qualifying inventory.

SELLING, GENERAL AND ADMINISTRATIVE EXPENSES (SG&A)

SG&A decreased by $1.9 million in fiscal 2011, as compared to fiscal 2010. As a percentage of revenues, SG&A was 17.7% in fiscal 2011, as compared to 17.6% in fiscal 2010. The increase in SG&A, as a percentage of revenues, was due primarily to increased compensation costs and increased sales and marketing costs, offset, in part, by an insurance claim recovery and the reversal of previously accrued costs due to changes in estimates. The increased compensation and sales and marketing costs were due primarily to the increased number of communities we had open in fiscal 2011, as compared to fiscal 2010.

INTEREST EXPENSE

Interest incurred on average homebuilding indebtedness in excess of average qualified inventory is charged directly to the statement of operations in the period incurred. Interest expensed directly to the statement of operations in fiscal 2011 and fiscal 2010 was $1.5 million and $22.8 million, respectively. The decrease in the amount of interest expensed directly was due to a higher amount of qualified inventory and a lower amount of debt in fiscal 2011, as compared to fiscal 2010. Due to the increase in qualified inventory and the decrease of our indebtedness in the last six months of fiscal 2011, we did not have any directly expensed interest in that period.

(LOSS) INCOME FROM UNCONSOLIDATED ENTITIES

We are a participant in several joint ventures. We recognize our proportionate share of the earnings and losses from these entities. The trends, uncertainties or other factors that have negatively impacted our business and the industry in general and which are discussed in the Overview section of this MD&A have also impacted the unconsolidated entities in which we have investments. Most of our joint ventures are land development projects or high-rise/mid-rise construction projects and do not generate revenues and earnings for a number of years during the development of the property. Once development is complete, the joint ventures will generally, over a relatively short period of time, generate revenues and earnings until all the assets of the entity are sold. Because there is not a steady flow of revenues and earnings from these entities, the earnings recognized from these entities will vary significantly from year to year. In fiscal 2011, we recognized $1.2 million of losses from unconsolidated entities, as compared to $23.5 million of income in fiscal 2010. The loss in fiscal 2011 included $40.9 million of impairment charges that we recognized on our investments in unconsolidated entities. No impairment charges were recognized in fiscal 2010. See Off-Balance Sheet Arrangements in this MD&A for information related to these impairment charges. The income from unconsolidated entities in fiscal 2011, excluding the impairment charges recognized, was $39.7 million in fiscal 2011, as compared to $23.5 million in fiscal 2010. The increase was due principally to higher income generated in fiscal 2011 from two of our high-rise construction ventures which had significantly more deliveries in fiscal 2011, as compared to fiscal 2010, income generated from our structured asset joint venture and distributions in fiscal 2011 from ventures in excess of our cost basis in the ventures of $7.3 million, offset, in part, by the reversal in fiscal 2010 of $11.0 million of accrued costs related to litigation against us and an unconsolidated entity in which we had an investment, due to settlement of the litigation for an amount that was less than we had previously estimated.

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INTEREST AND OTHER INCOME

For fiscal 2011 and 2010, interest and other income was $23.4 million and $28.3 million, respectively. The decrease in interest and other income in fiscal 2011 was primarily due to a decline of $9.1 million of retained customer deposits in fiscal 2011, as compared to fiscal 2010, offset, in part, by increased management fee income, an increase in interest income and a profit participation received in fiscal 2011 from the sale of a non-core asset in fiscal 2009, as compared to fiscal 2010.

EXPENSES RELATED TO EARLY RETIREMENT OF DEBT

In fiscal 2011, we purchased $55.1 million of our senior notes in the open market at various prices and expensed $3.8 million related to the premium paid on, and other debt redemption costs of, our senior notes.

In fiscal 2010, we purchased $45.5 million of our senior notes in open market purchases at various prices and expensed $1.2 million related to the premium paid and other debt redemption costs of our senior notes and the write-off of the unamortized costs related to our revolving credit facility that was terminated in October 2010.

LOSS BEFORE INCOME TAXES

For fiscal 2011, we reported a loss before income tax benefit of $29.4 million, as compared to a loss before income tax benefit of $117.2 million in fiscal 2010.

INCOME TAX BENEFIT

We recognized a $69.2 million tax benefit in fiscal 2011. Based upon the federal statutory rate of 35%, our tax benefit would have been $10.3 million. The difference between the tax benefit recognized and the tax benefit based on the federal statutory rate was due primarily to the reversal of $52.3 million of previously accrued taxes on uncertain tax positions that were resolved during fiscal 2011, a reversal of prior valuation allowances of $25.7 million that were no longer needed, an increase of deferred tax assets, net, of $25.9 million and a tax benefit for state income taxes, net of federal benefit of $1.0 million, offset, in part, by $43.9 million of net new deferred tax valuation allowance and $3.1 million of accrued interest and penalties.

We recognized a $113.8 million tax benefit in fiscal 2010. Based upon the federal statutory rate of 35%, our tax benefit would have been $41.0 million. The difference between the tax benefit recognized and the tax benefit based on the federal statutory rate was due primarily to the reversal of prior tax provisions of $39.5 million due to the expiration of statutes and settlements, a reversal of prior valuation allowances of $128.6 million that were no longer needed, and a tax benefit for state income taxes, net of federal benefit of $3.8 million offset, in part, by an increase in unrecognized tax benefit of $35.6 million, and a net new deferred tax valuation allowance of $55.5 million and $9.3 million of accrued interest and penalties.

The large reversal of valuation allowances previously recognized in fiscal 2010 was due to our expected recovery of certain deferred tax assets through our ability to carryback fiscal 2010 tax losses to prior years and receive a refund of the applicable federal taxes. The recovery of deferred tax assets principally related to inventory impairments and impairments of investments in and advances to unconsolidated entities recognized for income tax purposes in fiscal 2010 that were recognized for book purposes in prior years. See Critical Accounting Policies Income Taxes Valuation Allowance, above, for information regarding the valuation allowances against our net deferred tax assets.

FISCAL 2010 COMPARED TO FISCAL 2009

RESULTS OF OPERATIONS

In fiscal 2010, we recognized $1.49 billion of revenues and a net loss of $3.4 million, as compared to $1.76 billion of revenues and a net loss of $755.8 million in fiscal 2009. In fiscal 2010 and fiscal 2009, we recognized $115.3 million and $465.4 million of inventory impairments and write-offs, respectively. In fiscal 2010, we recognized an income tax benefit of $113.8 million, as compared to an income tax provision of $259.4 million in fiscal 2009. In addition, we recognized $11.3 million of joint venture impairment charges and write-offs in fiscal 2009.

REVENUES AND COST OF REVENUES

Revenues in fiscal 2010 were lower than those in fiscal 2009 by approximately $260.5 million, or 14.8%. This decrease was attributable to a 10.9% decrease in the number of homes delivered and a 4.4% decrease in the average price of the homes delivered. The decrease in the number of homes delivered in fiscal 2010 was primarily due to a 25.2% decline in the number of homes in backlog at October 31, 2009, as compared to October 31, 2008, offset, in part, by a 6.3% increase in the number of net contracts signed in fiscal 2010, as compared to fiscal 2009. The 4.4% decrease in the average price of the homes delivered in fiscal 2010, as compared to fiscal 2009, was due to a shift in product mix to lower priced product, offset, in part, by a decrease in sales incentives, as a percentage of the homes gross sales price, given on homes closed in fiscal 2010, as compared to fiscal 2009. Average sales incentives given on homes delivered in fiscal 2010 amounted to approximately $82,600 per home or 12.7% of the gross price of the home delivered, as compared to approximately $93,200 per home or 13.6% of the gross price of the home delivered in fiscal 2009. The decrease in per home sales incentives in fiscal 2010, as compared to fiscal 2009, was primarily due to lower sales incentives provided on contracts in backlog at October 31, 2009, as compared to value of sales incentives on contracts in backlog at October 31, 2008, and the decrease in sales incentives given on contracts signed in fiscal 2010 that were delivered in fiscal 2010, as compared to contracts signed in fiscal 2009 and delivered in fiscal 2009.

Cost of revenues as a percentage of revenues was 92.1% in fiscal 2010, as compared to 111.2% in fiscal 2009. In fiscal 2010 and 2009, we recognized inventory impairment charges and write-offs of $115.3 million and $465.4 million, respectively. Interest cost as a percentage of revenues was 5.1% in fiscal 2010, as compared to 4.5% in fiscal 2009. The higher interest cost as a percentage of revenue was due to inventory generally being held for a longer period of time, fewer qualifying assets to which interest can be allocated which resulted in higher amounts of capitalized interest allocated to qualifying inventory, and lower average prices of homes delivered. Cost of revenues as a percentage of revenues, excluding impairments and interest, was 79.7% of revenues in fiscal 2010, as compared to 80.2% in fiscal 2009. This decline was primarily due to lower incentives given on homes delivered and lower overhead and closing costs, offset, in part, by higher cost of land, land improvement and house construction costs.

SELLING, GENERAL AND ADMINISTRATIVE EXPENSES (SG&A)

SG&A expense decreased by $50.0 million, or 16.0%, in fiscal 2010, as compared to fiscal 2009. As a percentage of revenues, SG&A was 17.6% in fiscal 2010, as compared to 17.8% in fiscal 2009. The reduction in SG&A expense in fiscal 2010, as compared to fiscal 2009, was due primarily to lower compensation and related costs, reduced advertising, promotion and model operating costs, reduced insurance costs and a decrease in the write-off of deferred marketing costs related to closed communities.

INTEREST EXPENSE

Interest incurred on average homebuilding indebtedness in excess of average qualified inventory is charged directly to the statement of operations in the period incurred. Interest expensed directly to the statement of operations in fiscal 2010 was $22.8 million, as compared to $7.9 million in fiscal 2009 due to the lower amounts of qualified inventory.

INCOME (LOSS) FROM UNCONSOLIDATED ENTITIES

In fiscal 2010, we recognized $23.5 million of income from unconsolidated entities, as compared to a $7.5 million loss in fiscal 2009. The loss in fiscal 2009 included $11.3 million of impairment charges that we recognized on two of our investments in unconsolidated entities. In the fourth quarter of fiscal 2010, we reversed $11.0 million of accrued costs related to litigation against us and an unconsolidated entity in which we had an investment, due to settlement of the litigation for an amount that was less than we had previously estimated.

INTEREST AND OTHER INCOME

Interest and other income were $28.3 million in fiscal 2010 and $41.9 million in fiscal 2009. The decrease in interest and other income in fiscal 2010, as compared to fiscal 2009, was primarily due to declines in fiscal 2010, as compared to fiscal 2009, of $10.6 million of retained customer deposits and $3.4 million in interest income.

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EXPENSES RELATED TO EARLY RETIREMENT OF DEBT

In fiscal 2010, we purchased $45.5 million of our senior notes in open market purchases at various prices and expensed $1.2 million related to the premium paid and other debt redemption costs of our senior notes and the write-off of the unamortized costs related to our revolving credit facility that was terminated in October 2010.

In fiscal 2009, we redeemed $295.1 million principal amount of senior subordinated notes, conducted a tender offer for $200.0 million principal amount of senior notes and incurred $13.7 million of expenses related to the redemption and the tender offer, representing the call premium, the write-off of unamortized debt issuance costs and costs incurred to complete the tender offer.

LOSS BEFORE INCOME TAX (BENEFIT) PROVISION

In fiscal 2010 and 2009, we reported a loss before income tax (benefit) provision of $117.2 million and $496.5 million, respectively.

INCOME TAX (BENEFIT) PROVISION

In fiscal 2010 and 2009, we recognized an income tax benefit of $113.8 million and an income tax provision of $259.4 million, respectively. Excluding the valuation allowances recognized against our federal and state deferred tax assets in fiscal 2010 and 2009 and recoveries of previously recognized valuation allowances, we recognized a tax benefit in fiscal 2010 and 2009 of $40.7 million and $198.9 million, respectively.

In fiscal 2010 and 2009, we recognized $55.4 million and $458.3 million of valuation allowance, respectively. In addition, in fiscal 2010, we reversed $128.6 million of valuation allowances previously recognized. The decline in the valuation allowances recognized in fiscal 2010, as compared to fiscal 2009, was due primarily to the decline in the amount of inventory impairments and impairments of investments in and advances to unconsolidated entities recognized in fiscal 2010, as compared to fiscal 2009. The reversal of valuation allowances previously recognized in fiscal 2010 is due to our expected recovery of certain deferred tax assets through our ability to carryback fiscal 2010 tax losses to prior years and receive a refund of the applicable federal taxes. The recovery of deferred tax assets principally related to inventory impairments and impairments of investments in and advances to unconsolidated entities recognized for income tax purposes in fiscal 2010 that were recognized for book purposes in prior years. See Critical Accounting Policies Income Taxes Valuation Allowance, above, for information regarding the valuation allowances against our net deferred tax assets.

Excluding valuation adjustments, the difference in the effective tax rate for fiscal 2010, as compared to fiscal 2009, was primarily due to: (a) the reversal in fiscal 2010 of $39.5 million of accruals against potential tax assessments, which were no longer needed due to our settlement of various federal and state audits and the expiration of the applicable statute of limitations for federal and state tax purposes, as compared to $77.3 million in fiscal 2009; (b) the recording of $35.6 million of unrecognized tax benefits in fiscal 2010, as compared to $39.5 million in fiscal 2009; (c) the recognition of $9.3 million of interest and penalties in fiscal 2010, as compared to $6.8 million of interest and penalties recognized in fiscal 2009; (d) the recognition of a $3.8 million state tax benefit, before valuation allowance, in fiscal 2010, as compared to a $14.5 million state tax benefit, before valuation allowance, recognized in fiscal 2009; and (e) the loss of tax credits recognized in years prior to fiscal 2009 that were lost due to the elimination of taxable income in those years as a result of the carryback of fiscal 2009 tax losses. The increase in the interest and penalties recognized is due to the increase in number of tax years open to assessment and potential additional taxes due. The decline in the state tax benefit is due primarily to the decline in the reported loss in fiscal 2010, as compared to fiscal 2009.

CAPITAL RESOURCES AND LIQUIDITY

Funding for our business has been and continues to be provided principally by cash flow from operating activities before inventory additions, unsecured bank borrowings and the public debt and equity markets. Prior to fiscal 2008, we used our cash flow from operating activities before inventory additions, bank borrowings and the proceeds of public debt and equity offerings to acquire additional land for new communities, fund additional expenditures for land development, fund construction costs needed to meet the requirements of our backlog, invest in unconsolidated entities, purchase our stock and repay debt. Between October 31, 2006 and October 31, 2011, we increased our cash position (including marketable securities) by approximately $507.4 million and reduced debt by approximately $692.9 million.

At October 31, 2011, we had $1.14 billion of cash and cash equivalents and marketable securities on hand and approximately $784.7 million available under our $885 million revolving credit facility which extends to October 2014. In fiscal 2011, cash flow provided by operating activities was $52.9 million. Cash provided by operating activities during fiscal 2011 was primarily from our earnings before inventory and joint venture impairments, and depreciation and amortization, the receipt of a $154.3 million federal income tax refund and a decrease in restricted cash, offset, in part, by an increase in inventory. We used $74.5 million of cash in our investing activities in fiscal 2011, primarily for investments made in non-performing loan portfolios and marketable securities and the purchase of property, construction and office equipment, offset, in part, by the return of investments from unconsolidated entities and from our non-performing loan portfolios. We also used $111.1 million of cash in financing activities in fiscal 2011, principally for the $58.8 million redemption of senior notes, the net repayment of $31.4 million of loans payable and the purchase of $49.1 million of treasury stock, offset, in part by proceeds received from our stock-based benefit plans. During November and December of 2011, we used $143.7 million of our available cash for the acquisition of the CamWest assets, $57.6 million to fund the litigation settlement related to South Edge and $70.5 million to fund a new joint venture project in New York City.

At October 31, 2010, we had $1.24 billion of cash and cash equivalents and marketable securities on hand, a decrease of $672.0 million compared to October 31, 2009. In fiscal 2010, cash flow used in operating activities was $146.3 million. Cash used in operating activities during fiscal 2010 was primarily used to acquire inventory, collateralize approximately $54.4 million of letters of credit and fund an increase in mortgage loan originations in excess of mortgage loan sales, offset, in part, by cash flow generated from our earnings before inventory impairments, depreciation and amortization. We used $151.4 million of cash in our investing activities in fiscal 2010, primarily for investments in marketable securities and for investments made in our unconsolidated entities. We also used $471.0 million of cash in financing activities in fiscal 2010, principally for the repayment of our $331.7 million bank term loan, $94.0 million for the redemption of senior and senior subordinated notes, and repayment of $103.2 million of other loans payable, offset, in part, by $45.4 million of net borrowings on our mortgage company warehouse loan, $7.6 million of proceeds from stock-based benefit plans and $5.0 million of tax benefits from stock-based compensation.

In fiscal 2009, our cash and cash equivalents and marketable securities increased by $275.4 million. In fiscal 2009, cash flow provided by operating activities was $283.2 million. Cash provided by operating activities was primarily generated by a reduction in inventory and the receipt of income tax refunds on previously paid taxes, offset, in part, by the payment of accounts payable and accrued liabilities and income tax payments made for the settlement of previously accrued tax audits. The decreases in inventory, accounts payable and accrued liabilities were primarily due to the decline in our business as previously discussed. We used $132.2 million of cash in our investing activities in fiscal 2009, primarily for investments in marketable securities and for investments in our unconsolidated entities. We also generated a net of $23.2 million of cash from financing activities in fiscal 2009, principally from the issuance of an aggregate of $650.0 million principal amount of senior notes in the public debt markets (net proceeds amounted to $635.8 million), $637.0 million of other borrowings (primarily from our mortgage company warehouse loan), and issuance of securities under our stock-based benefit plans and the tax benefits of stock-based compensation, offset, in part, by the redemption of, and tender for, an aggregate of $495.1 million principal amount of senior and senior subordinated notes, $12.0 million of expenses related to such redemption and tender offer, and the repayment of $785.9 million of other borrowings, of which $624.2 million was on our mortgage company warehouse loan.

In general, our cash flow from operating activities assumes that, as each home is delivered, we will purchase a home site to replace it. Because we own several years supply of home sites, we do not need to buy home sites immediately to replace those which we deliver. In addition, we generally do not begin construction of our single-family detached homes until we have a signed contract with the home buyer, although in the past several years, due to the high cancellation rate of customer contracts and the increase in the number of attached-home communities from which we were operating (all of the units of which are generally not sold prior to the commencement of construction), the number of speculative homes in our inventory increased significantly. Should our business remain at its current level or further decline, we believe that our inventory levels would continue to decrease as we complete and deliver the homes under construction but do not commence construction of as many new homes, as we complete the improvements on the land we already own and as we sell and deliver the speculative homes that are currently in inventory, resulting in additional cash flow from operations. In addition, we might continue to delay or curtail our acquisition of additional land, as we have since the second half of fiscal 2006, which would further reduce our inventory levels and cash needs. At October 31, 2011, we owned or controlled through options 37,497 home sites, as compared to 34,852 at October 31, 2010, 31,917 at October 31, 2009 and 91,200 at April 30, 2006, the high point of our home sites owned and controlled. Of the 37,497 home sites owned or controlled through options at October 31, 2011, we owned 30,199; of our owned home sites, significant improvements were completed on approximately 11,693 of them.

At October 31, 2011, the aggregate purchase price of land parcels under option and purchase agreements was approximately $564.4 million (including $12.5 million of land to be acquired from joint ventures in which we have invested). Of the $564.4 million of land purchase commitments, we had paid or deposited $38.0 million and, if we acquire all of these land parcels, we will be required to pay an additional $526.4 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 amounts 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.

During the past several years, we have had a significant amount of cash invested in either short-term cash equivalents or short-term interest-bearing marketable securities. In addition, we have made a number of investments in unconsolidated entities related to the acquisition and development of land for future home sites or in entities that are constructing or converting apartment buildings into luxury condominiums. Our investment activities related to marketable securities and to investments in and distributions of investments from unconsolidated entities are contained in the Consolidated Statements of Cash Flows under Cash flow used in investing activities.

In October 2010, we entered into an $885 million revolving credit facility with 12 banks, which extends to October 2014. The facility replaced a $1.89 billion credit facility consisting of a $1.56 billion unsecured revolving credit facility and a $331.7 million term loan facility with 30 banks, which extended to March 17, 2011. Prior to the closing of the new credit facility, we repaid the term loan under the old credit facility from cash on hand. At October 31, 2011, we had no outstanding borrowings under the new credit facility but had outstanding letters of credit of approximately $100.3 million. At October 31, 2011, interest would have been payable on borrowings under our credit facility at 2.75% (subject to adjustment based upon our debt rating and leverage ratios) above the Eurodollar rate or at other specified variable rates as selected by us from time to time. We are obligated to pay an undrawn commitment fee of 0.50% (subject to adjustment based upon our debt rating and leverage ratios) based on the average daily unused amount of the credit facility. Under the terms of the credit facility, we are not permitted to allow our maximum leverage ratio (as defined in the credit agreement) to exceed 1.75 to 1.00, and we are required to maintain a minimum tangible net worth (as defined in the credit agreement) of approximately $1.87 billion at October 31, 2011. At October 31, 2011, our leverage ratio was approximately 0.18 to 1.00, and our tangible net worth was approximately $2.55 billion. Based upon the minimum tangible net worth requirement, our ability to pay dividends and repurchase our common stock was limited to an aggregate amount of approximately $680 million at October 31, 2011. In addition, at October 31, 2011, we had $13.2 million of letters of credit outstanding with three banks which were not part of our new credit facility; these letters of credit were collateralized by $13.5 million of cash deposits.

We believe that we will be able to continue to fund our current operations and meet our contractual obligations through a combination of existing cash resources and our existing sources of credit. Due to the deterioration of the credit markets and the uncertainties that exist in the economy and for home builders in general, we cannot be certain that we will be able to replace existing financing or find sources of additional financing in the future.

CONTRACTUAL OBLIGATIONS

The following table summarizes our estimated contractual payment obligations at October 31, 2011 (amounts in millions):

	2012	2013 2014	2015 2016	Thereafter	Total
Senior notes (a)	$ 99.3	$ 711.3	$ 413.4	$ 734.8	$ 1,958.8
Loans payable (a)	39.0	26.2	9.4	68.8	143.4
Mortgage company warehouse loan (a)	58.4				58.4
Operating lease obligations	10.4	15.5	9.8	9.0	44.7
Purchase obligations (b)	499.5	200.8	46.8	28.8	775.9
Retirement plans (c)	3.0	13.0	14.6	43.8	74.4
Other	0.6	1.0	0.7		2.3
	$ 710.2	$ 967.8	$ 494.7	$ 885.2	$ 3,057.9

(a) Amounts include estimated annual interest payments until maturity of the debt. Of the amounts indicated, $1.49 billion of the senior notes, $106.6 million of loans payable and $57.4 million of the mortgage company warehouse loan were recorded on the October 31, 2011 Consolidated Balance Sheet.

(b) Amounts represent our expected acquisition of land under options or purchase agreements and the estimated remaining amount of the contractual obligation for land development agreements secured by letters of credit and surety bonds. Amounts do not include the $143.7 million payment to acquire substantially all of the assets of CamWest and the $57.6 million payment made to settle the South Edge litigation.

(c) Amounts represent our obligations under our deferred compensation and supplemental executive retirement plan and our 401(k) salary deferral savings plans. Of the total amount indicated, $49.8 million was recorded on the October 31, 2011 Consolidated Balance Sheet.

INFLATION

The long-term impact of inflation on us is manifested in increased costs for land, land development, construction and overhead. We generally contract for land significantly before development and sales efforts begin. Accordingly, to the extent land acquisition costs are fixed, increases or decreases in the sales prices of homes will affect our profits. Prior to the current downturn in the economy and the decline in demand for homes, the sales prices of our homes generally increased. Because the sales price of each of our homes is fixed at the time a buyer enters into a contract to purchase a home and because we generally contract to sell our homes before we begin construction, any inflation of costs in excess of those anticipated may result in lower gross margins. We generally attempt to minimize that effect by entering into fixed-price contracts with our subcontractors and material suppliers for specified periods of time, which generally do not exceed one year. The slowdown in the homebuilding industry over the past several years and the decline in the sales prices of our homes, without a corresponding reduction in the costs, have had an adverse impact on our profitability.

In general, housing demand is adversely affected by increases in interest rates and housing costs. Interest rates, the length of time that land remains in inventory and the proportion of inventory that is financed affect our interest costs. If we are unable to raise sales prices enough to compensate for higher costs, or if mortgage interest rates increase significantly, affecting prospective buyers ability to adequately finance home purchases, our revenues, gross margins and net income would be adversely affected. Increases in sales prices, whether the result of inflation or demand, may affect the ability of prospective buyers to afford new homes.

GEOGRAPHIC SEGMENTS

We operate in four geographic segments around the United States: the North, consisting of Connecticut, Illinois, Massachusetts, Michigan, Minnesota, New Jersey and New York; the Mid-Atlantic, consisting of Delaware, Maryland, Pennsylvania and Virginia; the South, consisting of Florida, North Carolina, South Carolina and Texas; and the West, consisting of Arizona, California, Colorado and Nevada. In fiscal 2010, we discontinued the sale of homes in West Virginia and Georgia. The operations of West Virginia and Georgia were immaterial to the Mid-Atlantic and South geographic segments, respectively.

The following tables summarize information related to revenues, gross contracts signed, contract cancellations, net contracts signed, total revenues and (loss) income before income taxes by geographic segment for fiscal years 2011, 2010 and 2009, and information related to backlog at October 31, 2011, 2010 and 2009 and assets by geographic segment at October 31, 2011 and 2010. (Note: Amounts in tables may not add due to rounding)

Units Delivered and Revenues:

	2011	2010	2009	2011	2010	2009
	Units	Units	Units	(In millions)	(In millions)	(In millions)
North	718	774	983	$ 381.6	$ 407.7	$ 585.3
Mid-Atlantic	887	876	862	499.7	488.4	492.7

South	522	498	544		285.0		264.3		288.2
West	484	494	576		309.6		334.4		389.1
	2,611	2,642	2,965	$	1,475.9	$	1,494.8	$	1,755.3

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Gross Contracts Signed:

	2011 Units	2010 Units	2009 Units	2011 (In millions)	2010 (In millions)	2009 (In millions)
North	817	813	847	$ 466.6	$ 418.6	$ 442.8
Mid-Atlantic	936	902	899	524.1	502.5	498.7
South	713	551	559	416.6	297.1	281.6
West	499	523	598	300.3	352.1	402.8
	2,965	2,789	2,903	$ 1,707.6	$ 1,570.3	$ 1,625.9

Contracts Cancelled:

	2011 Units	2010 Units	2009 Units	2011 (In millions)	2010 (In millions)	2009 (In millions)
North	67	68	184	$ 37.0	$ 35.2	$ 136.4
Mid-Atlantic	37	44	102	19.8	23.4	74.7
South	45	39	87	28.1	21.1	50.5
West	32	33	80	17.9	18.6	59.6
	181	184	453	$ 102.8	$ 98.3	$ 321.2

Net Contracts Signed:

	2011 Units	2010 Units	2009 Units	2011 (In millions)	2010 (In millions)	2009 (In millions)
North	750	745	663	$ 429.6	$ 383.4	$ 306.4
Mid-Atlantic	899	858	797	504.3	479.1	424.0
South	668	512	472	388.5	276.0	231.1
West	467	490	518	282.4	333.5	343.2
	2,784	2,605	2,450	$ 1,604.8	$ 1,472.0	$ 1,304.7

Contract Cancellation Rates:
(as a percentage of gross contracts signed, based on units and dollars)

	2011 Units	2010 Units	2009 Units	2011 $	2010 $	2009 $
North	8.2%	8.4%	21.7%	7.9%	8.4%	30.8%
Mid-Atlantic	4.0%	4.9%	11.3%	3.8%	4.7%	15.0%
South	6.3%	7.1%	15.6%	6.8%	7.1%	17.9%
West	6.4%	6.3%	13.4%	6.0%	5.3%	14.8%
Total	6.1%	6.6%	15.6%	6.0%	6.3%	19.8%

Backlog at October 31:

	2011	2010	2009	2011	2010	2009

	Units	Units	Units	(In millions)	(In millions)	(In millions)
North	553	521	550	$ 307.4	$ 259.3	$ 283.6
Mid-Atlantic	487	475	493	288.9	284.4	293.6
South	442	296	282	263.2	159.7	148.0
West	185	202	206	121.6	148.7	149.6
	1,667	1,494	1,531	$ 981.1	$ 852.1	$ 874.8

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Revenues and (Loss) Income Before Taxes:

The following table summarizes by geographic segment total revenues and (loss) income before income taxes for each of the years ended October 31, 2011, 2010 and 2009 ($ amounts in millions):

	Revenues			(Loss) income before income taxes		
	2011	2010	2009	2011	2010	2009
North	$ 381.6	$ 407.7	$ 585.3	$ 42.5	$ (2.3)	$ (103.3)
Mid-Atlantic	499.7	488.4	492.7	57.6	33.9	(25.0)
South	285.0	264.3	288.2	(25.9)	(35.2)	(49.4)
West	309.6	334.4	389.1	(27.1)	(11.9)	(209.0)
Corporate and other				(76.5)	(101.7)	(109.8)
Total	$ 1,475.9	$ 1,494.8	$ 1,755.3	$ (29.4)	$ (117.2)	$ (496.5)

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

Total Assets:

Total assets for each of the Company s geographic segments at October 31, 2011 and 2010 are shown in the table below ($ amounts in millions).

	2011	2010
North	$ 1,060.2	$ 961.3
Mid-Atlantic	1,235.9	1,161.5
South	760.1	693.8
West	650.8	712.4
Corporate and other	1,348.2	1,642.6
Total	$ 5,055.2	$ 5,171.6

Corporate and other is comprised principally of cash and cash equivalents, marketable securities, income tax refund recoverable and the assets of the Company s manufacturing facilities and mortgage subsidiary.

FISCAL 2011 COMPARED TO FISCAL 2010

North

Revenues in fiscal 2011 were lower than those for fiscal 2010 by $26.1 million, or 6.4%. The decrease in revenues was primarily attributable to a 7.2% decrease in the number of homes delivered. The decrease in the number of homes delivered in the fiscal 2011 period, as compared to the fiscal 2010 period, was primarily due to a lower backlog at October 31, 2010, as compared to October 31, 2009 and a reduction in the number of units closed at several of our high-rise communities where unit availability has dwindled.

The value of net contracts signed in fiscal 2011 was $429.6 million, a 12.1% increase from the $383.4 million of net contracts signed during fiscal 2010. This increase was primarily due to an 11.3% increase in the average value of each net contract. The increase in the average sales price of net contracts signed in fiscal 2011, as compared to fiscal 2010, was primarily attributable to a shift in the number of contracts signed to more expensive areas and/or products in fiscal 2011, as compared fiscal 2010.

For the year ended October 31, 2011, we reported income before income taxes of $42.5 million, as compared to a $2.3 million loss for fiscal 2010. The increase in income in fiscal 2011 was primarily attributable to a decrease in impairment charges in fiscal 2011 of $25.6 million, as compared to fiscal 2010, an increase in income from unconsolidated entities of $19.5 million in fiscal 2011, as compared to fiscal 2010, and lower costs on homes delivered in fiscal 2011 than those delivered in fiscal 2010, offset, in part, by higher SG&A expenses and a decline in retained customer deposits in fiscal 2011, as compared to fiscal 2010. In fiscal 2011 and 2010, we recognized inventory impairment charges of $3.8 million and $29.4 million, respectively. The increase in income from unconsolidated entities in fiscal 2011 was due principally to income generated from two of our high-rise construction joint ventures which commenced delivery of units in the second and third quarters of fiscal 2010 and the recovery of an investment in an unconsolidated entity that we had previously impaired.

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Mid-Atlantic

Revenues in fiscal 2011 were higher than those of fiscal 2010 by $11.3 million, or 2.3%. This increase was attributable to a 1.3% increase in the number of homes delivered and a 1.1% increase in the average price of the homes delivered. The increase in the number of homes delivered in fiscal 2011, as compared to fiscal 2010, was primarily due a higher number of net contracts signed in the first six-months of fiscal 2011, as compared to the first six months of fiscal 2010, offset, in part, by a lower backlog at October 31, 2010, as compared to October 31, 2009. The increase in the average price of the homes delivered in the fiscal 2011 period, as compared to the fiscal 2010 period, was primarily related to a shift in the number of homes delivered to more expensive products and/or locations.

The value of net contracts signed in fiscal 2011 increased by $25.2 million, or 5.3%, from the value of net contracts signed in fiscal 2010. The increase was due to a 4.8% increase in the number of contracts signed and a 0.5% increase in the average value of each net contract signed. The increase in the number of net contracts signed in fiscal 2011, as compared to fiscal 2010, was primarily due to an increase of 22.3% in the number of net contracts signed, primarily in Virginia, in the three months ended October 31, 2011, as compared to the three months ended October 31, 2010.

We reported income before income taxes for fiscal 2011 and 2010 of $57.6 million and $33.9 million, respectively. The increase in the income before income taxes was primarily due to a decrease in the cost of revenues in fiscal 2011, as compared to fiscal 2010. The decrease in the cost of revenues was primarily due to lower costs of the homes delivered in fiscal 2011 than those delivered in fiscal 2010 and lower impairment charges in fiscal 2011, as compared to fiscal 2010. The lower costs were due to the delivery of fewer quick-delivery homes in the fiscal 2011 period, as compared to the fiscal 2010 period, as our supply of such homes has dwindled, and to reduced sales incentives in general on the homes delivered in fiscal 2011, as compared to fiscal 2010. Generally, we give higher sales incentives on quick-delivery homes than on our to-be-built homes. In addition, reduced costs were realized in the fiscal 2011 period because fewer homes were delivered from certain higher cost communities in fiscal 2011, as compared to the fiscal 2010 period, as these communities closed out. We recognized inventory impairment charges of $4.3 million and $11.0 million for fiscal 2011 and 2010, respectively.

South

Revenues in fiscal 2011 were higher than those in fiscal 2010 by $20.7 million, or 7.8%. This increase was attributable to a 4.8% increase in the number of homes delivered and a 2.9% increase in the average price of the homes delivered. The increase in the number of homes delivered in fiscal 2011, as compared to fiscal 2010, was primarily due to the increased number of communities that we were delivering from in fiscal 2011, as compared to fiscal 2010. The increase in the average price of the homes delivered in fiscal 2011, as compared to fiscal 2010, was primarily attributable to a shift in the number of homes delivered, to more expensive areas and/or products in fiscal 2011, as compared to fiscal 2010.

In fiscal 2011, the value of net contracts signed increased by $112.5 million, or 40.8%, as compared to fiscal 2010. The increase was attributable to increases of 30.5% and 7.9% in the number and average value of net contracts signed, respectively. The increase in the number of net contracts signed in fiscal 2011, as compared to fiscal 2010, was primarily due to an increase in the number of selling communities in fiscal 2011, as compared to fiscal 2010. The increase in the average sales price of net contracts signed was primarily due to a shift in the number of contracts signed to more expensive areas and/or products in fiscal 2011, as compared to fiscal 2010.

For fiscal 2011 and 2010, we reported losses before income taxes of $25.9 million and $35.2 million, respectively. The decline in the loss before income taxes was primarily due to lower impairment charges in fiscal 2011 of $16.3 million, as compared to fiscal 2010, and lower costs on homes delivered in fiscal 2011 than those delivered in fiscal 2010, offset, in part, by an increase in the loss from unconsolidated entities of $15.6 million in fiscal 2011, as compared to fiscal 2010. Cost of revenues as a percentage of revenues, excluding impairments, was 78.2% of revenues in fiscal 2011, as compared to 80.4% in fiscal 2010. This decrease in fiscal 2011, as compared to fiscal 2010, was due primarily to lower sales incentives, primarily on quick-delivery homes, in fiscal 2011, as compared to fiscal 2010. The increase in the loss from unconsolidated entities was primarily due to $15.2 million of impairment charges that we recognized on one of our investments.

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West

Revenues in fiscal 2011 were lower than those in fiscal 2010 by $24.8 million, or 7.4%. The decrease in revenues was attributable to a 5.5% decrease in the average sales price of the homes delivered and a 2.0% decrease in the number of homes delivered. The decrease in the average price of the homes delivered was primarily due to a shift in the number of homes delivered to less expensive products and/or locations, primarily in Arizona and Nevada, in fiscal 2011, as compared to fiscal 2010.

The value of net contracts signed during fiscal 2011 decreased $51.1 million, or 15.3%, as compared to fiscal 2010. This decrease was due to an 11.2% decrease in the average value of each net contract signed and a 4.7% decrease in the number of net contracts signed. The decrease in the average sales price of net contracts signed was primarily due to a shift in the number of contracts signed to less expensive areas and/or products in fiscal 2011, as compared to fiscal 2010. The decrease in the number of net contracts signed was due to an 11.5% decline in the number of selling communities in fiscal 2011, as compared to fiscal 2010, offset, in part, by an increase in housing demand in Arizona in fiscal 2011, as compared to fiscal 2010.

We reported losses before income taxes for fiscal 2011 and 2010 of $27.1 million and $11.9 million, respectively. The increase in the loss before income taxes was primarily due to a decrease in income from unconsolidated entities of $35.9 million in fiscal 2011, as compared to fiscal 2010, offset, in part, by lower inventory impairment charges and lower cost of revenues, excluding impairments, in fiscal 2011, as compared to fiscal 2010. The increase in the loss from unconsolidated entities was primarily due to $25.7 million of impairment charges that we recognized on one of our investments in unconsolidated entities in fiscal 2011 and the reversal of $11.0 million in fiscal 2010 of accrued costs related to litigation against us and an unconsolidated entity in which we had an investment, due to settlement of the litigation for an amount that was less than we previously estimated. In fiscal 2011 and fiscal 2010, we recognized inventory impairment charges and write-offs of $22.9 million and $37.7 million, respectively. Cost of revenues as a percentage of revenues, excluding impairments, was 75.9% in fiscal 2011, as compared to 78.4% in fiscal 2010. The decrease in cost of revenues, excluding inventory impairment charges, as a percentage of revenue in fiscal 2011, as compared to fiscal 2010, was due primarily to the delivery of fewer quick-delivery homes in fiscal 2011, as compared to fiscal 2010, as our supply of such homes has dwindled, and to reduced sales incentives on quick-delivery homes delivered in fiscal 2011, as compared to fiscal 2010. Generally, we give higher sales incentives on quick-delivery homes than on our to-be-built homes.

Other

For fiscal 2011 and 2010, other loss before income taxes was $76.5 million and $101.7 million, respectively. The decrease in the loss in fiscal 2011, as compared to fiscal 2010, was primarily due to a decrease of $21.2 million of interest directly expensed in fiscal 2011, as compared to fiscal 2010, and an increase of $7.2 million of income recognized from our Gibraltar operations in fiscal 2011, as compared to fiscal 2010, offset, in part, by an increase of $2.6 million of costs related to the repurchase of our senior notes in open market transactions, in fiscal 2011, as compared to fiscal 2010.

FISCAL 2010 COMPARED TO FISCAL 2009

North

Revenues for the year ended October 31, 2010 were lower than those for the year ended October 31, 2009 by $177.6 million, or 30.3%. The decrease in revenues was attributable to a 21.3% decrease in the number of homes delivered and a 11.5% decrease in the average price of the homes delivered. The decrease in the number of homes delivered in fiscal 2010, as compared to fiscal 2009, was primarily due to our lower backlog at October 31, 2009, as compared to October 31, 2008. The decline in backlog at October 31, 2009, as compared to October 31, 2008, was due primarily to an 11.2% decrease in the number of net contracts signed in fiscal 2009 over fiscal 2008. The decrease in the average price of the homes delivered in the year ended October 31, 2010, as compared to fiscal 2009, was primarily due to a shift in the number of homes delivered to less expensive products and/or locations and higher sales incentives given on the homes delivered in fiscal 2010 as compared to fiscal 2009.

The value of net contracts signed in the year ended October 31, 2010 was $383.4 million, a 25.1% increase from the $306.4 million of net contracts signed during the year ended October 31, 2009. This increase was primarily due to a 12.4% increase in the number of net contracts signed and an 11.4% increase in the average value of each net contract.

The increase in the number of net contracts signed in fiscal 2010, as compared to fiscal 2009, was primarily due to a decrease in the number of contracts cancelled in the year ended October 31, 2010, as compared to the year ended October 31, 2009, and an improvement in housing demand in the first two quarters of fiscal 2010, as compared to fiscal 2009. The increase in the average sales price of net contracts signed in fiscal 2010, as compared to fiscal 2009, was primarily attributable to a decrease in cancellations in fiscal 2010 at one of our high-rise communities located in a New Jersey urban market, which had higher average prices than our typical home. The average sales price of gross contracts signed in the year ended October 31, 2010 was $514,800, a 1.5% decrease from the $522,800 average sales price of gross contracts signed during the year ended October 31, 2009.

We reported losses before income taxes of $2.3 million in the year ended October 31, 2010, as compared to $103.3 million in fiscal 2009. The decrease in the loss was primarily due to lower cost of revenues as a percentage of revenues, lower selling, general and administrative expenses in the year ended October 31, 2010, as compared to the year ended October 31, 2009, and $12.7 million of income recognized from unconsolidated entities in fiscal 2010, as compared to $2.5 million of loss recognized from unconsolidated entities in fiscal 2009. Cost of revenues before interest as a percentage of revenues was 89.4% in fiscal 2010, as compared to 104.7% in fiscal 2009. The lower cost of revenues was primarily the result of lower impairment charges in fiscal 2010, as compared to fiscal 2009, partially offset by increased sales incentives given to home buyers on the homes delivered. We recognized inventory impairment charges of $29.4 million in fiscal 2010, as compared to $145.4 million in fiscal 2009. As a percentage of revenues, higher sales incentives increased cost of revenues by approximately 2.1% in the year ended October 31, 2010, as compared to fiscal 2009. The loss from unconsolidated entities in fiscal 2009 included a $6.0 million impairment charge related to one of the unconsolidated entities.

Mid-Atlantic

For the year ended October 31, 2010, revenues were lower than those for fiscal 2009 by $4.3 million, or 0.9%, primarily due to a 2.5% decrease in the average sales price of the homes delivered, offset, in part, by a 1.6% increase in the number of homes delivered. The decrease in the average price of the homes delivered in fiscal 2010, as compared to fiscal 2009, was primarily related to a shift in the number of homes delivered to less expensive products and/or locations. The increase in the number of homes delivered in the year ended October 31, 2010, as compared to the year ended October 31, 2009, was primarily due to a 41.7% increase in the number of gross contracts signed and a decline of 75.8% in the number of contracts canceled in the first three months of fiscal 2010, as compared to the comparable period of fiscal 2009. The increased number of contracts signed early in fiscal 2010 and the reduced number of contracts canceled from that year s beginning backlog allowed us to deliver more units in fiscal 2010 than in fiscal 2009.

The value of net contracts signed during the year ended October 31, 2010 increased by $55.1 million, or 13.0%, from the year ended October 31, 2009. The increase was due to a 7.7% increase in the number of net contracts signed and a 5.0% increase in the average value of each net contract signed. The increase in the number of net contracts signed was due primarily to a decrease in the number of contracts cancelled in fiscal 2010, as compared to fiscal 2009. The increase in the average value of each net contract signed was primarily due to cancellations of higher priced homes in fiscal 2009, as compared to cancellations of lower priced homes in fiscal 2010.

We reported income before income taxes for the year ended October 31, 2010 of $33.9 million as compared to a loss before income taxes in fiscal 2009 of $25.0 million. The increase in the income before income taxes was primarily due to lower impairment charges and lower selling, general and administrative expenses, in the twelve months ended October 31, 2010, as compared to the twelve months ended October 31, 2009. We recognized inventory impairment charges of $11.0 million in fiscal 2010, as compared to $59.7 million in fiscal 2009.

South

Revenues during the year ended October 31, 2010 were lower than those in fiscal 2009 by $23.9 million, or 8.3%. This decrease was attributable to an 8.5% decrease in the number of homes delivered, offset, in part, by a 0.2% increase in the average price of the homes delivered. The decrease in the number of homes delivered in fiscal 2010, as compared to fiscal 2009, was primarily due to lower backlog at October 31, 2009, as compared to October 31, 2008. The decline in backlog at October 31, 2009, as compared to October 31, 2008, was due primarily to a 28.2% decrease in the number of net contracts signed in fiscal 2009 over fiscal 2008.

In fiscal 2010, the value of net contracts signed increased by $45.0 million, or 19.5%, as compared to fiscal 2009. The increase was attributable to increases of 8.5% and 10.1% in the number and average value of net contracts signed, respectively. The increase in the number of net contracts signed in fiscal 2010, as compared to fiscal 2009, was primarily due to a decrease in the number of contract cancellations from 87 in fiscal 2009 to 39 in fiscal 2010. The increase in the average sales price of net contracts signed was primarily due to a decrease in the number of cancellations in fiscal 2010, as compared to fiscal 2009, which had a higher average sales price, and to a shift in the number of contracts signed to more expensive areas and/or products in fiscal 2010, as compared to fiscal 2009.

We reported losses before income taxes for the years ended October 31, 2010 and 2009 of $35.2 million and $49.4 million, respectively. The decline in the loss before income taxes was primarily due to lower impairment charges and lower selling, general and administrative costs in fiscal 2010, as compared to fiscal 2009, offset, in part, by lower revenues in fiscal 2010, as compared to fiscal 2009. Impairment charges decreased from $52.8 million in the year ended October 31, 2009 to $37.2 million in the year ended October 31, 2010.

West

Revenues in the year ended October 31, 2010 were lower than those in the year ended October 31, 2009 by $54.8 million, or 14.1%. The decrease in revenues was attributable to a 14.2% decrease in the number of homes delivered, offset in part, by a 0.2% increase in the average price of homes delivered. The decrease in the number of homes delivered in fiscal 2010 was primarily attributable to lower backlog at October 31, 2009, as compared to October 31, 2008. The increase in the average price of the homes delivered was primarily due to lower sales incentives given on the homes delivered in fiscal 2010, as compared to fiscal 2009, partially offset, by a shift in the number of homes delivered to less expensive products and/or locations in fiscal 2010, as compared to fiscal 2009.

The value of net contracts signed during the twelve months ended October 31, 2010 decreased $9.7 million, or 2.8%, as compared to fiscal 2009. This decrease was due to a 5.4% decrease in the number of net contracts signed, offset in part, by a 2.7% increase in the average value of each net contract signed. The decrease in the number of net contracts signed was primarily due to a 28% decline in the number of selling communities in fiscal 2010, as compared to fiscal 2009, partially offset by a decrease in the number of contracts canceled in fiscal 2010, as compared to fiscal 2009. The increase in the average sales price of net contracts signed was primarily due to a shift in the number of contracts signed in more expensive areas and/or product in fiscal 2010, as compared to fiscal 2009.

We reported losses before income taxes in fiscal 2010 of $11.9 million, as compared to $209.0 million in fiscal 2009. The decrease in the loss before income taxes was primarily due to lower impairment charges, lower selling, general and administrative expenses and decreased sales incentives given to home buyers on homes delivered in fiscal 2010, as compared to fiscal 2009, and income of $10.7 million recognized from unconsolidated entities in fiscal 2010, as compared to a $5.0 million loss recognized from unconsolidated entities in fiscal 2009, offset, in part, by a shift in product mix of homes delivered to lower margin product or areas. We recognized inventory impairment charges of $37.7 million and $207.5 million in the years ended October 31, 2010 and 2009, respectively. As a percentage of revenues, lower sales incentives decreased cost of revenues by approximately 5.1% in fiscal 2010, as compared to fiscal 2009. The income from unconsolidated entities in fiscal 2010 included a reversal of $11.0 million of accrued costs related to litigation against us and an unconsolidated entity in which we had an investment, due to settlement of the litigation for an amount that was less than we had previously estimated. The loss from unconsolidated entities in fiscal 2009 included a $5.3 million impairment charge related to one of the unconsolidated entities.

Corporate and Other

Other loss before income taxes for the year ended October 31, 2010 was $101.7 million, a decrease of $8.1 million from the $109.8 million loss before income taxes reported for the year ended October 31, 2009. This decrease was primarily the result of lower unallocated selling, general and administrative expenses of $14.9 million in fiscal 2010, as compared to fiscal 2009, and $13.7 million of expenses related to the early retirement of debt in fiscal 2009, as compared to $1.2 million in fiscal 2010, offset, in part, by a $14.9 million increase in interest directly expensed in fiscal 2010, as compared to fiscal 2009, and a $3.3 million decline in interest income in fiscal 2010, as compared to fiscal 2009. Interest expensed directly was $22.8 million and $7.9 million in fiscal 2010 and 2009, respectively. See Fiscal 2010 Compared to Fiscal 2009 -Interest Expense for additional information on interest directly expensed.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

We are exposed to market risk primarily due to fluctuations in interest rates. We utilize both fixed-rate and variable-rate debt. For fixed-rate debt, changes in interest rates generally affect the fair market value of the debt instrument, but not our earnings or cash flow. Conversely, for variable-rate debt, changes in interest rates generally do not affect the fair market value of the debt instrument but do affect our earnings and cash flow. We do not have the obligation to prepay fixed-rate debt prior to maturity and, as a result, interest rate risk and changes in fair market value should not have a significant impact on such debt until we are required to refinance such debt.

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At October 31, 2011, our debt obligations, principal cash flows by scheduled maturity, weighted-average interest rates and estimated fair value were as follows ($ amounts in thousands):

	Fixed-Rate Debt		Variable-Rate Debt (a)	
Fiscal Year of Maturity	Amount	Weighted-Average Interest Rate (%)	Amount	Weighted-Average Interest Rate (%)
2012	$ 35,268	3.51	$ 57,559	3.49
2013	294,592	6.29	150	0.27
2014	271,819	4.94	150	0.27
2015	301,722	5.15	150	0.27
2016	1,805	5.84	150	0.27
Thereafter	687,876	7.94	12,095	0.18
Discount	(8,399)			
Total	$ 1,584,683	6.50	$ 70,254	2.90
Fair value at October 31, 2011	$ 1,700,115		$ 70,254	

(a) Based upon the amount of variable-rate debt outstanding at October 31, 2011 and holding the variable-rate debt balance constant, each 1% increase in interest rates would increase the interest incurred by us by approximately $0.7 million per year.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

Reference is made to the financial statements, listed in Item 15(a)(1)), which appear at pages F-1 through F-50 of this report and which are incorporated herein by reference.

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

Not applicable.

ITEM 9A. CONTROLS AND PROCEDURES

Conclusion Regarding the Effectiveness of Disclosure Controls and Procedures

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

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

Management s Annual Report on Internal Control Over Financial Reporting and Attestation Report of the Independent Registered Public Accounting Firm

Management s Annual Report on Internal Control Over Financial Reporting and the report of our independent registered public accounting firm on internal control over financial reporting are incorporated herein from pages F-1 and F-2, respectively.

Changes in Internal Control Over Financial Reporting

There has not been any change in our internal control over financial reporting (as that term is defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) during our quarter ended October 31, 2011 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

ITEM 9B. OTHER INFORMATION

Not applicable.

PART III

ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE

The following table includes information with respect to all persons serving as executive officers as of the date of this Form 10-K. All executive officers serve at the pleasure of our Board of Directors.

Name	Age	Positions
Robert I. Toll	70	Executive Chairman of the Board and Director
Douglas C. Yearley, Jr.	51	Chief Executive Officer and Director
Zvi Barzilay	65	President, Chief Operating Officer and Director
Martin P. Connor	47	Senior Vice President, Chief Financial Officer and Treasurer

Robert I. Toll, with his brother Bruce E. Toll, the Vice Chairman of the Board and a Director of Toll Brothers, Inc., co-founded our predecessors operations in 1967. Robert I. Toll served as Chairman of the Board and Chief Executive Officer from our inception until June 2010, when he assumed the new position of Executive Chairman of the Board.

Douglas C. Yearley, Jr. joined us in 1990 as assistant to the Chief Executive Officer with responsibility for land acquisitions. He has been an officer since 1994, holding the position of Senior Vice President from January 2002 until November 2005, the position of Regional President from November 2005 until November 2009, and the position of Executive Vice President from November 2009 until June 2010 when he was promoted to his current position of Chief Executive Officer. Mr. Yearley was elected a Director of Toll Brothers, Inc. in June 2010.

Zvi Barzilay joined us as a project manager in 1980 and has been an officer since 1983. Mr. Barzilay was elected a Director of Toll Brothers, Inc. in 1994. He has held the position of Chief Operating Officer since May 1998 and the position of President since November 1998. Effective December 31, 2011, Mr. Barzilay will be retiring from his position of President and Chief Operating Officer and resigning as a Director of Toll Brothers, Inc.

Martin P. Connor joined the Company as Vice President and Assistant Chief Financial Officer in December 2008 and was elected a Senior Vice President in December 2009. Mr. Connor was appointed to his current position of Senior Vice President, Chief Financial Officer and Treasurer in September 2010. From June 2008 to December 2008, Mr. Connor was President of Marcon Advisors LLC, a finance and accounting consulting firm which he founded. From October 2006 to June 2008, Mr. Connor was Chief Financial Officer and Director of Operations for O Neill Properties, a diversified commercial real estate developer in the Mid-Atlantic area. Prior to October 2006, he spent over 20 years at Ernst & Young LLP as an Audit and Advisory Business Services Partner, responsible for the real estate practice for Ernst & Young LLP in the Philadelphia marketplace. During the period from 1998 to 2005, he served on the Toll Brothers, Inc. engagement.

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Richard T. Hartman, currently one of our Regional Presidents, has been appointed to the positions of Executive Vice President and Chief Operating Officer, effective January 1, 2012. Mr. Hartman, age 54, joined us in 1980 and served in various positions with us, including as Regional President since 2005.

The other information required by this item will be included in the Election of Directors and Corporate Governance sections of our Proxy Statement for the 2012 Annual Meeting of Stockholders (the 2012 Proxy Statement) and is incorporated herein by reference.

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.

ITEM 11. EXECUTIVE COMPENSATION

The information required by this item will be included in the Executive Compensation section of our 2012 Proxy Statement and is incorporated herein by reference.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS

Except as set forth below, the information required in this item will be included in the Voting Securities and Beneficial Ownership section of our 2012 Proxy Statement and is incorporated herein by reference.

The following table provides information as of October 31, 2011 with respect to compensation plans (including individual compensation arrangements) under which our equity securities are authorized for issuance.

Equity Compensation Plan Information

Plan Category	**Number of securities to be issued upon exercise of outstanding options, warrants and rights (in thousands)** (a)	**Weighted-average exercise price of outstanding options, warrants and rights** (b)	**Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a)) (in thousands)** (c)
Equity compensation plans approved by security holders	12,868	$ 20.94	6,712
Equity compensation plans not approved by security holders			
Total	12,868	$ 20.94	6,712

ITEM 13. CERTAIN RELATIONSHIPS, RELATED TRANSACTIONS AND DIRECTOR INDEPENDENCE

The information required in this item will be included in the Corporate Governance and Certain Transactions sections of our 2012 Proxy Statement and is incorporated herein by reference.

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ITEM 14. PRINCIPAL ACCOUNTING FEES AND SERVICES

The information required in this item will be included in the Ratification of the Re-Appointment of Independent Registered Public Accounting Firm section of the 2012 Proxy Statement and is incorporated herein by reference.

PART IV

ITEM 15. EXHIBITS, FINANCIAL STATEMENT SCHEDULES

(a) Financial Statements and Financial Statement Schedules

2. Financial Statement Schedules

None

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

(b) Exhibits

The following exhibits are included with this report or incorporated herein by reference:

Exhibit Number	Description
3.1	Second Restated Certificate of Incorporation of the Registrant, dated September 8, 2005, is hereby incorporated by reference to Exhibit 3.1 of the Registrant s Form 10-Q for the quarter ended July 31, 2005.
3.2	Certificate of Amendment of the Second Restated Certificate of Incorporation of the Registrant, filed with the Secretary of State of the State of Delaware, is hereby incorporated by reference to Exhibit 3.1 of the Registrant s Current Report on Form 8-K filed with the Securities and Exchange Commission on March 22, 2010.
3.3	Certificate of Amendment of the Second Restated Certificate of Incorporation of the Registrant dated as of March 16, 2011 is hereby incorporated by reference to Exhibit 3.1 of the Registrant s Current Report on Form 8-K filed with the Securities and Exchange Commission on March 18, 2011.

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Exhibit Number	Description
3.4	By-laws of the Registrant, as Amended and Restated June 11, 2008, are hereby incorporated by reference to Exhibit 3.1 of the Registrant s Current Report on Form 8-K filed with the Securities and Exchange Commission on June 13, 2008.
3.5	Amendment to the By-laws of the Registrant, dated as of September 24, 2009, is hereby incorporated by reference to Exhibit 3.1 of the Registrant s Current Report on Form 8-K filed with the Securities and Exchange Commission on September 24, 2009.
3.6	Amendment to the By-laws of the Registrant, dated as of June 15, 2011 is hereby incorporated by reference to Exhibit 3.1 of the Registrant s Current Report on Form 8-K filed with the Securities and Exchange Commission on June 16, 2011.
4.1	Specimen Stock Certificate is hereby incorporated by reference to Exhibit 4.1 of the Registrant s Form 10-K for the fiscal year ended October 31, 1991.
4.2	Indenture dated as of November 22, 2002 among Toll Brothers Finance Corp., as issuer, the Registrant, as guarantor, and Bank One Trust Company, NA, as Trustee, including form of guarantee, is hereby incorporated by reference to Exhibit 4.1 of the Registrant s Current Report on Form 8-K filed with the Securities and Exchange Commission on November 27, 2002.
4.3	Authorizing Resolutions, dated as of November 15, 2002, relating to $300,000,000 principal amount of 6.875% Senior Notes of Toll Brothers Finance Corp. due 2012, guaranteed on a senior basis by the Registrant and certain subsidiaries of the Registrant is hereby incorporated by reference to Exhibit 4.2 of the Registrant s Form 8-K filed with the Securities and Exchange Commission on November 27, 2002.
4.4	Authorizing Resolutions, dated as of September 3, 2003, relating to $250,000,000 principal amount of 5.95% Senior Notes of Toll Brothers Finance Corp. due 2013, guaranteed on a senior basis by the Registrant and certain subsidiaries of the Registrant is hereby incorporated by reference to Exhibit 4.1 of the Registrant s Form 8-K filed with the Securities and Exchange Commission on September 29, 2003.
4.5	Authorizing Resolutions, dated as of March 9, 2004, relating to $300,000,000 principal amount of 4.95% Senior Notes of Toll Brothers Finance Corp. due 2014, guaranteed on a senior basis by the Registrant and certain subsidiaries of the Registrant is hereby incorporated by reference to Exhibit 4.1 of the Registrant s Current Report on Form 8-K filed with the Securities and Exchange Commission on April 1, 2004.
4.6	Authorizing Resolutions, dated as of May 26, 2005, relating to $300,000,000 principal amount of 5.15% Senior Notes of Toll Brothers Finance Corp. due 2015, guaranteed on a senior basis by the Registrant and certain subsidiaries of the Registrant is hereby incorporated by reference to Exhibit 4.1 of the Registrant s Current Report on Form 8-K filed with the Securities and Exchange Commission on June 8, 2005.

Exhibit Number	Description
4.7	First Supplemental Indenture dated as of May 1, 2003 by and among the parties listed on Schedule A thereto, and Bank One Trust Company, National Association, as Trustee, is hereby incorporated by reference to Exhibit 4.4 of the Registrant s Registration Statement on Form S-4/A filed with the Securities and Exchange Commission on June 16, 2003, File Nos. 333-103931, 333-103931-01, 333-103931-02, 333-103931-03 and 333-103931-04.
4.8	Second Supplemental Indenture dated as of November 3, 2003 by and among the parties listed on Schedule A thereto, and Bank One Trust Company, National Association, as Trustee, is hereby incorporated by reference to Exhibit 4.5 of the Registrant s Registration Statement on Form S-4/A filed with the Securities and Exchange Commission on November 5, 2003, File Nos. 333-109604, 333-109604-01, 333-109604-02, 333-109604-03 and 333-109604-04.
4.9	Third Supplemental Indenture dated as of January 26, 2004 by and among the parties listed on Schedule A thereto, and J.P. Morgan Trust Company, National Association, as successor Trustee, is hereby incorporated by reference to Exhibit 4.1 of the Registrant s Form 10-Q for the quarter ended January 31, 2004.
4.10	Fourth Supplemental Indenture dated as of March 1, 2004 by and among the parties listed on Schedule A thereto, and J.P. Morgan Trust Company, National Association, as successor Trustee, is hereby incorporated by reference to Exhibit 4.2 of the Registrant s Form 10-Q for the quarter ended January 31, 2004.
4.11	Fifth Supplemental Indenture dated as of September 20, 2004 by and among the parties listed on Schedule A thereto, and J.P. Morgan Trust Company, National Association, as successor Trustee, is hereby incorporated by reference to Exhibit 4.9 of the Registrant s Form 10-K for the fiscal year ended October 31, 2004.
4.12	Sixth Supplemental Indenture dated as of October 28, 2004 by and among the parties listed on Schedule A thereto, and J.P. Morgan Trust Company, National Association, as successor Trustee, is hereby incorporated by reference to Exhibit 4.10 of the Registrant s Form 10-K for the fiscal year ended October 31, 2004.
4.13	Seventh Supplemental Indenture dated as of October 31, 2004 by and among the parties listed on Schedule A thereto, and J.P. Morgan Trust Company, National Association, as successor Trustee, is hereby incorporated by reference to Exhibit 4.11 of the Registrant s Form 10-K for the fiscal year ended October 31, 2004.
4.14	Eighth Supplemental Indenture dated as of January 31, 2005 by and among the parties listed on Schedule A thereto, and J.P. Morgan Trust Company, National Association, as successor Trustee, is hereby incorporated by reference to Exhibit 4.1 of the Registrant s Form 10-Q for the quarter ended April 30, 2005.
4.15	Ninth Supplemental Indenture dated as of June 6, 2005 by and among the parties listed on Schedule A thereto, and J.P. Morgan Trust Company, National Association, as successor Trustee, is hereby incorporated by reference to Exhibit 4.1 of the Registrant s Form 10-Q for the quarter ended July 31, 2005.

4.16 Tenth Supplemental Indenture dated as of August 1, 2005 by and among the parties listed on Schedule A thereto, and J.P. Morgan Trust Company, National Association, as successor Trustee, is hereby incorporated by reference to Exhibit 4.13 of the Registrant s Registration Statement on Form S-4 filed with the Securities and Exchange Commission on September 29, 2005, File Nos. 333-128683, 333-128683-01, 333-128683-02, 333-128683-03 and 333-128683-04.

Exhibit Number	Description
4.17	Eleventh Supplemental Indenture dated as of January 31, 2006 by and among the parties listed on Schedule I thereto, and J.P. Morgan Trust Company, National Association, as successor Trustee, is hereby incorporated by reference to Exhibit 4.1 of the Registrant s Form 10-Q for the quarter ended April 30, 2006.
4.18	Twelfth Supplemental Indenture dated as of April 30, 2006 by and among the parties listed on Schedule I thereto, and J.P. Morgan Trust Company, National Association, as successor Trustee, is hereby incorporated by reference to Exhibit 4.1 of the Registrant s Form 10-Q for the quarter ended July 31, 2006.
4.19	Thirteenth Supplemental Indenture dated as of July 31, 2006 by and among the parties listed on Schedule I thereto, and J.P. Morgan Trust Company, National Association, as successor Trustee, is hereby incorporated by reference to Exhibit 4.16 of the Registrant s Form 10-K for the year ended October 31, 2006.
4.20	Fourteenth Supplemental Indenture dated as October 31, 2006 by and among the parties listed on Schedule I thereto, and The Bank of New York Trust Company, N.A. as successor Trustee, is hereby incorporated by reference to Exhibit 4.1 of the Registrant s Form 10-Q for the quarter ended April 30, 2007.
4.21	Fifteenth Supplemental Indenture dated as of June 25, 2007 by and among the parties listed on Schedule I thereto, and The Bank of New York Trust Company, N.A. as successor Trustee, is hereby incorporated by reference to Exhibit 4.1 of the Registrant s Form 10-Q for the quarter ended July 31, 2007.
4.22	Sixteenth Supplemental Indenture dated as of June 27, 2007 by and among the parties listed on Schedule I thereto, and The Bank of New York Trust Company, N.A. as successor Trustee, is hereby incorporated by reference to Exhibit 4.2 of the Registrant s Form 10-Q for the quarter ended July 31, 2007.
4.23	Seventeenth Supplemental Indenture dated as of January 31, 2008, by and among the parties listed on Schedule A thereto, and The Bank of New York Trust Company, N.A. as successor Trustee, is hereby incorporated by reference to Exhibit 4.1 of the Registrant s Form 10-Q for the quarter ended April 30, 2009.
4.24	Indenture, dated as of April 20, 2009, among Toll Brothers Finance Corp., the Registrant and the other guarantors named therein and The Bank of New York Mellon, as trustee, is hereby incorporated by reference to Exhibit 4.1 to the Registrant s Current Report on Form 8-K filed with the Securities and Exchange Commission on April 24, 2009.
4.25	Authorizing Resolutions, dated as of April 20, 2009, relating to the $400,000,000 principal amount of 8.910% Senior Notes due 2017 of Toll Brothers Finance Corp. guaranteed on a Senior Basis by the Registrant and certain of its subsidiaries, is hereby incorporated by reference to Exhibit 4.2 to the Registrant s Current Report on Form 8-K filed with the Securities and Exchange Commission on April 24, 2009.
4.26	Form of Global Note for Toll Brothers Finance Corp. s 8.910% Senior Notes due 2017 is hereby incorporated by reference to Exhibit 4.3 to the Registrant s Current Report on Form 8-K filed with the

Securities and Exchange Commission on April 24, 2009.

4.27	Authorizing Resolutions, dated as of September 22, 2009, relating to the $250,000,000 principal amount of 6.750% Senior Notes due 2019 of Toll Brothers Finance Corp. guaranteed on a Senior Basis by the Registrant and certain of its subsidiaries, is hereby incorporated by reference to Exhibit 4.1 to the Registrant s Current Report on Form 8-K filed with the Securities and Exchange Commission on September 22, 2009.
4.28	Form of Global Note for Toll Brothers Finance Corp. s 6.750% Senior Notes due 2019 is hereby incorporated by reference to Exhibit 4.2 to the Registrant s Current Report on Form 8-K filed with the Securities and Exchange Commission on September 22, 2009.

Exhibit Number	Description
4.29	Rights Agreement dated as of June 13, 2007, by and between the Registrant and American Stock Transfer & Trust Company, as Rights Agent, is hereby incorporated by reference to Exhibit 4.1 to the Registrant s Current Report on Form 8-K filed with the Securities and Exchange Commission on June 18, 2007.
10.1	Credit Agreement by and among First Huntingdon Finance Corp., the Registrant and the lenders which are parties thereto dated October 22, 2010, is hereby incorporated by reference to Exhibit 10.1 of the Registrant s Current Report on Form 8-K filed with the Securities and Exchange Commission on October 27, 2010.
10.2*	Toll Brothers, Inc. Employee Stock Purchase Plan (amended and restated effective January 1, 2008) is hereby incorporated by reference to Exhibit 4.31 of the Registrant s Form 10-K for the year ended October 31, 2007.
10.3*	Toll Brothers, Inc. Stock Option and Incentive Stock Plan (1995) is hereby incorporated by reference to Exhibit 10.1 of the Registrant s Form 10-Q for the quarter ended April 30, 1995.
10.4*	Amendment to the Toll Brothers, Inc. Stock Option and Incentive Stock Plan (1995) dated May 29, 1996 is hereby incorporated by reference to Exhibit 10.9 the Registrant s Form 10-K for the fiscal year ended October 31, 1996.
10.5*	Amendment to the Toll Brothers, Inc. Stock Option and Incentive Stock Plan (1995) effective March 22, 2001 is hereby incorporated by reference to Exhibit 10.3 of the Registrant s Form 10-Q for the quarter ended July 31, 2001.
10.6*	Amendment to the Toll Brothers, Inc. Stock Option and Incentive Stock Plan (1995) effective December 12, 2007 is hereby incorporated by reference to Exhibit 10.9 of the Registrant s Form 10-K for the year ended October 31, 2007.
10.7*	Toll Brothers, Inc. Stock Incentive Plan (1998) is hereby incorporated by reference to Exhibit 4 of the Registrant s Registration Statement on Form S-8 filed with the Securities and Exchange Commission on June 25, 1998, File No. 333-57645.
10.8*	Amendment to the Toll Brothers, Inc. Stock Incentive Plan (1998) effective March 22, 2001 is hereby incorporated by reference to Exhibit 10.4 of the Registrant s Form 10-Q for the quarter ended July 31, 2001.
10.9*	Amendment to the Toll Brothers, Inc. Stock Incentive Plan (1998) effective December 12, 2007 is hereby incorporated by reference to Exhibit 10.4 of the Registrant s Current Report on Form 8-K filed with the Securities and Exchange Commission on March 18, 2008.

Exhibit Number	Description
10.10*	Toll Brothers, Inc. Amended and Restated Stock Incentive Plan for Employees (2007) (amended and restated as of September 17, 2008, is hereby incorporated by reference to Exhibit 4.1 of the Registrant s Amendment No. 1 to Toll Brothers, Inc. s Registration Statement on Form S-8 (No. 333-143367) filed with the Securities and Exchange Commission on October 29, 2008.
10.11*	Toll Brothers, Inc. Amended and Restated Stock Incentive Plan for Non-Employee Directors (2007) (amended and restated as of September 17, 2008) is hereby incorporated by reference to Exhibit 4.1 of the Registrant s Amendment No. 1 to Toll Brothers, Inc. s Registration Statement on Form S-8 (No. 333-144230) filed with the Securities and Exchange Commission on October 29, 2008.
10.12*	Form of Non-Qualified Stock Option Grant pursuant to the Toll Brothers, Inc. Stock Incentive Plan for Employees (2007) is hereby incorporated by reference to Exhibit 10.1 of the Registrant s Form 8-K filed with the Securities and Exchange Commission on December 19, 2007.
10.13*	Form of Addendum to Non-Qualified Stock Option Grant pursuant to the Toll Brothers, Inc. Stock Incentive Plan for Employees (2007) is hereby incorporated by reference to Exhibit 10.3 of the Registrant s Form 10-Q for the quarter ended July 31, 2007.
10.14*	Form of Stock Award Grant pursuant to the Toll Brothers, Inc. Stock Incentive Plan for Employees (2007) is hereby incorporated by reference to Exhibit 10.4 of the Registrant s Form 10-Q for the quarter ended July 31, 2007.
10.15*	Form of Restricted Stock Unit Award pursuant to the Toll Brothers, Inc. Amended and Restated Stock Incentive Plan for Employees (2007) is hereby incorporated by reference to Exhibit 10.19 of the Registrant s Form 10-K for the period ended October 31, 2008.
10.16*	Restricted Stock Unit Award to Robert I. Toll, dated December 19, 2008, pursuant to the Toll Brothers, Inc. Amended and Restated Stock Incentive Plan for Employees (2007) is incorporated by reference to Exhibit 10.20 of the Registrant s Form 10-K for the period ended October 31, 2008.
10.17*	Restricted Stock Unit Award to Robert I. Toll, dated December 21, 2009, pursuant to the Toll Brothers, Inc. Amended and Restated Stock Incentive Plan for Employees (2007) is incorporated by reference to Exhibit 10.17 of the Registrant s Form 10-K for the period ended October 31, 2009.
10.18*	Form of Non-Qualified Stock Option Grant pursuant to the Toll Brothers, Inc. Stock Incentive Plan for Non-Employee Directors (2007) is hereby incorporated by reference to Exhibit 10.2 of the Registrant s Current Report on Form 8-K filed with the Securities and Exchange Commission on December 19, 2007.
10.19*	Form of Addendum to Non-Qualified Stock Option Grant pursuant to the Toll Brothers, Inc. Amended and Restated Stock Incentive Plan for Non-Employee Directors (2007) is hereby incorporated by reference to Exhibit 10.6 of the Registrant s Form 10-Q for the quarter ended July 31, 2007.
10.20*	Form of Stock Award Grant pursuant to the Toll Brothers, Inc. Stock Incentive Plan for Non-Employee Directors (2007) is hereby incorporated by reference to Exhibit 10.7 of the Registrant s Form 10-Q for the quarter ended July 31, 2007.

10.21 Form of Stock Award Amendment pursuant to the Toll Brothers, Inc. Amended and Restated Stock Incentive Plan for Non-Employee Directors (2007) is hereby incorporated by reference to Exhibit 10.4 of the Registrant s Form 10-Q for the quarter ended January 31, 2010.

10.22* Toll Brothers, Inc. Cash Bonus Plan (amended and restated as of December 9, 2009) is incorporated by reference to Exhibit 10.21 of the Registrant s Form 10-K for the period ended October 31, 2009.

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Exhibit Number	Description
10.23*	Toll Brothers, Inc. Senior Officer Bonus Plan is hereby incorporated by reference to Addendum C to Toll Brothers, Inc. s definitive proxy statement on Schedule 14A for the Toll Brothers, Inc. 2010 Annual Meeting of Stockholders held on March 17, 2010 filed with the Securities and Exchange Commission on February 1, 2010.
10.24*	Toll Brothers, Inc. Supplemental Executive Retirement Plan (amended and restated effective as of December 12, 2007) is hereby incorporated by reference to Exhibit 10.1 to the Registrant s Form 10-Q for the quarter ended July 31, 2010.
10.25*	Agreement dated March 5, 1998 between the Registrant and Bruce E. Toll regarding Mr. Toll s resignation and related matters is hereby incorporated by reference to Exhibit 10.2 to the Registrant s Form 10-Q for the quarter ended April 30, 1998.
10.26*	Advisory and Non-Competition Agreement between the Registrant and Bruce E. Toll, dated as of November 1, 2010, is incorporated by reference to Exhibit 10.34 of the Registrant s Form 10-K for the period ended October 31, 2010.
10.27*	Toll Bros., Inc. Non-Qualified Deferred Compensation Plan, amended and restated as of November 1, 2008, is incorporated by reference to Exhibit 10.45 of the Registrant s Form 10-K for the period ended October 31, 2008.
10.28*	Amendment Number 1 dated November 1, 2010 to the Toll Bros., Inc. Non-Qualified Deferred Compensation Plan, amended and restated as of November 1, 2008, is incorporated by reference to Exhibit 10.40 of the Registrant s Form 10-K for the period ended October 31, 2010.
10.29	Form of Indemnification Agreement between the Registrant and the members of its Board of Directors, is hereby incorporated by reference to Exhibit 10.1 to the Registrant s Current Report on Form 8-K filed with the Securities and Exchange Commission on March 17, 2009.
10.30*	Restricted Stock Unit Award to Douglas C. Yearley, Jr., dated December 20, 2010, pursuant to the Toll Brothers, Inc. Amended and Restated Stock Incentive Plan for Employees (2007), is incorporated by reference to Exhibit 10.42 of the Registrant s Form 10-K for the period ended October 31, 2010.
10.31*	Restricted Stock Unit Award to Martin P. Connor, dated December 20, 2010, pursuant to the Toll Brothers, Inc. Amended and Restated Stock Incentive Plan for Employees (2007), is incorporated by reference to Exhibit 10.43 of the Registrant s Form 10-K for the period ended October 31, 2010.
10.32*	Restricted Stock Unit Award to Robert I. Toll, dated December 20, 2010, pursuant to the Toll Brothers, Inc. Amended and Restated Stock Incentive Plan for Employees (2007), is incorporated by reference to Exhibit 10.44 of the Registrant s Form 10-K for the period ended October 31, 2010.
10.33**	Form of Performance Based Restricted Stock Unit Award pursuant to the Toll Brothers, Inc. Amended and Restated Stock Incentive Plan for Employees (2007), is filed herewith.
12***	Statement re: Computation of Ratios of Earnings to Fixed Charges.

21***	Subsidiaries of the Registrant.
23.1***	Consent of Ernst & Young LLP, Independent Registered Public Accountant.
23.2***	Consent of WeiserMazars LLP, Independent Registered Public Accountant.

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Exhibit Number	Description
31.1***	Certification of Douglas C. Yearley, Jr. pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2***	Certification of Martin P. Connor pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1***	Certification of Douglas C. Yearley, Jr. pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
32.2***	Certification of Martin P. Connor pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
99.1***	Financial Statements of TMF Kent Partners, LLC.
99.2***	Financial Statements of KTL 303 LLC.
101.INS***	XBRL Instance Document
101.SCH***	XBRL Schema Document
101.CAL***	XBRL Calculation Linkbase Document
101.LAB***	XBRL Labels Linkbase Document
101.PRE***	XBRL Presentation Linkbase Document
101.DEF***	XBRL Definition Linkbase Document

* This exhibit is a management contract or compensatory plan or arrangement required to be filed as an exhibit to this report.

** This exhibit is a management contract or compensatory plan or arrangement required to be filed as an exhibit to this report and is furnished electronically herewith.

*** Furnished electronically herewith.

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SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized, in the Township of Horsham, Commonwealth of Pennsylvania on December 22, 2011.

TOLL BROTHERS, INC.

By: /s/ Douglas C. Yearly, Jr.
Douglas C. Yearley, Jr.
Chief Executive Officer
(Principal Executive Officer)

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the Registrant and in the capacities and on the dates indicated.

Signature	Title	Date
/s/ Robert I. Toll	Executive Chairman of the Board of Directors	December 22, 2011
Robert I. Toll		
/s/ Bruce E. Toll	Vice Chairman of the Board and Director	December 22, 2011
Bruce E. Toll		
/s/ Douglas C. Yearley, Jr.	Chief Executive Officer and Director (Principal Executive Officer)	December 22, 2011
Douglas C. Yearley, Jr.		
/s/ Zvi Barzilay	President, Chief Operating Officer and Director	December 22, 2011
Zvi Barzilay		
/s/ Martin P. Connor	Senior Vice President, Chief Financial Officer and Treasurer (Principal Financial Officer)	December 22, 2011
Martin P. Connor		
/s/ Joseph R. Sicree	Senior Vice President and Chief Accounting Officer (Principal Accounting Officer)	December 22, 2011
Joseph R. Sicree		
/s/ Robert S. Blank	Director	December 22, 2011
Robert S. Blank		
/s/ Edward G. Boehne	Director	December 22, 2011
Edward G. Boehne		

/s/ Richard J. Braemer	Director	December 22, 2011
Richard J. Braemer		
/s/ Christine N. Garvey	Director	December 22, 2011
Christine N. Garvey		
/s/ Carl B. Marbach	Director	December 22, 2011
Carl B. Marbach		
/s/ Stephen A. Novick	Director	December 22, 2011
Stephen A. Novick		
/s/ Paul E. Shapiro	Director	December 22, 2011
Paul E. Shapiro		

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Management s Annual Report on Internal Control Over Financial Reporting

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

Under the supervision and with the participation of our management, including our principal executive officer and our principal financial officer, we conducted an evaluation of the effectiveness of our internal control over financial reporting based on the framework in *Internal Control Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on this evaluation under the framework in *Internal Control Integrated Framework,* our management concluded that our internal control over financial reporting was effective as of October 31, 2011.

Our independent registered public accounting firm, Ernst & Young LLP, has issued its report, which is included herein, on the effectiveness of our internal control over financial reporting.

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Report of Independent Registered Public Accounting Firm

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

We have audited Toll Brothers, Inc. s internal control over financial reporting as of October 31, 2011, based on criteria established in Internal Control Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (the COSO criteria). Toll Brothers, Inc. s management is responsible for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting included in the accompanying Management s Annual Report on Internal Control Over Financial Reporting. Our responsibility is to express an opinion on the company s internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company s internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company s internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the company s assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, Toll Brothers, Inc. maintained, in all material respects, effective internal control over financial reporting as of October 31, 2011, based on the COSO criteria**.**

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of Toll Brothers, Inc. and subsidiaries as of October 31, 2011 and 2010, and the related consolidated statements of operations, changes in equity, and cash flows for each of the three years in the period ended October 31, 2011 of Toll Brothers, Inc. and subsidiaries and our report dated December 22, 2011 expressed an unqualified opinion thereon.

/s/ Ernst & Young LLP
Philadelphia, Pennsylvania
December 22, 2011

Report of Independent Registered Public Accounting Firm

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

We have audited the accompanying consolidated balance sheets of Toll Brothers, Inc. as of October 31, 2011 and 2010, and the related consolidated statements of operations, changes in equity, and cash flows for each of the three years in the period ended October 31, 2011. These financial statements are the responsibility of the Company s management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Toll Brothers, Inc. at October 31, 2011 and 2010, and the consolidated results of its operations, changes in equity and its cash flows for each of the three years in the period ended October 31, 2011, in conformity with U.S. generally accepted accounting principles.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), Toll Brothers Inc. s internal control over financial reporting as of October 31, 2011, based on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated December 22, 2011 expressed an unqualified opinion thereon.

/s/ Ernst & Young LLP
Philadelphia, Pennsylvania
December 22, 2011

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CONSOLIDATED STATEMENTS OF OPERATIONS
(Amounts in thousands, except per share data)

	Year ended October 31, 2011	2010	2009
Revenues	$ 1,475,881	$ 1,494,771	$ 1,755,310
Cost of revenues	1,260,770	1,376,558	1,951,312
Selling, general and administrative	261,355	263,224	313,209
Interest expense	1,504	22,751	7,949
	1,523,629	1,662,533	2,272,470
Loss from operations	(47,748)	(167,762)	(517,160)
Other:			
(Loss) income from unconsolidated entities	(1,194)	23,470	(7,518)
Interest and other income	23,403	28,313	41,906
Expenses related to early retirement of debt	(3,827)	(1,208)	(13,693)
Loss before income taxes	(29,366)	(117,187)	(496,465)
Income tax (benefit) provision	(69,161)	(113,813)	259,360
Net income (loss)	$ 39,795	$ (3,374)	$ (755,825)
Income (loss) per share:			
Basic	$ 0.24	$ (0.02)	$ (4.68)
Diluted	$ 0.24	$ (0.02)	$ (4.68)
Weighted-average number of shares:			
Basic	167,140	165,666	161,549
Diluted	168,381	165,666	161,549

See accompanying notes

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CONSOLIDATED BALANCE SHEETS
(Amounts in thousands)

	October 31, 2011	October 31, 2010
ASSETS		
Cash and cash equivalents	$ 906,340	$ 1,039,060
Marketable securities	233,572	197,867
Restricted cash	19,760	60,906
Inventory	3,416,723	3,241,725
Property, construction and office equipment, net	99,712	79,916
Receivables, prepaid expenses and other assets	105,576	97,039
Mortgage loans receivable	63,175	93,644
Customer deposits held in escrow	14,859	21,366
Investments in and advances to unconsolidated entities	126,355	198,442
Investments in non-performing loan portfolios and foreclosed real estate	69,174	
Income tax refund recoverable		141,590
	$ 5,055,246	$ 5,171,555
LIABILITIES AND EQUITY		
Liabilities		
Loans payable	$ 106,556	$ 94,491
Senior notes	1,490,972	1,544,110
Mortgage company warehouse loan	57,409	72,367
Customer deposits	83,824	77,156
Accounts payable	96,817	91,738
Accrued expenses	521,051	570,321
Income taxes payable	106,066	162,359
Total liabilities	2,462,695	2,612,542
Equity		
Stockholders equity		
Preferred stock, none issued		
Common stock, 168,675 and 166,413 shares issued at October 31, 2011 and 2010, respectively	1,687	1,664
Additional paid-in capital	400,382	360,006
Retained earnings	2,234,251	2,194,456
Treasury stock, at cost - 2,946 shares and 5 shares at October 31, 2011 and 2010, respectively	(47,065)	(96)
Accumulated other comprehensive loss	(2,902)	(577)
Total stockholders equity	2,586,353	2,555,453
Noncontrolling interest	6,198	3,560
Total equity	2,592,551	2,559,013

	$ 5,055,246	$ 5,171,555

See accompanying notes,

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CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY
(Amounts in thousands)

	Common Stock Shares	Common Stock $	Additional Paid-In Capital $	Retained Earnings $	Treasury Stock $	Accumulated Other Comprehensive Income (Loss) $	Non-Controlling Interest $	Total Equity $
Balance, November 1, 2008	160,369	1,604	282,090	2,953,655	(21)	325		3,237,653
Net loss				(755,825)				(755,825)
Purchase of treasury stock	(79)	(1)	1		(1,473)			(1,473)
Exercise of stock options	4,415	44	22,954		1,322			24,320
Employee benefit plan issuances	26		486					486
Conversion of restricted stock units to stock	1		35		13			48
Stock-based compensation			10,925					10,925
Issuance of restricted stock			27					27
Formation of majority- owned joint venture							3,283	3,283
Other comprehensive loss						(2,962)		(2,962)
Balance, October 31, 2009	164,732	1,647	316,518	2,197,830	(159)	(2,637)	3,283	2,516,482
Net loss				(3,374)				(3,374)
Purchase of treasury stock	(31)				(588)			(588)
Exercise of stock options	1,684	17	33,638		620			34,275
Employee benefit plan issuances	24		435					435
Conversion of restricted stock units to stock	3		61		31			92
Stock-based compensation			9,332					9,332
	1		22					22

Issuance of restricted stock								
Other comprehensive income						2,060		2,060
Capital contribution							277	277
Balance, October 31, 2010	166,413	1,664	360,006	2,194,456	(96)	(577)	3,560	2,559,013
Net income				39,795				39,795
Purchase of treasury stock			(1)		(49,102)			(49,103)
Exercise of stock options	2,236	23	23,156		1,940			25,119
Employee benefit plan issuances	15		285		126			411
Conversion of restricted stock units to stock	10		208		67			275
Stock-based compensation			8,626					8,626
Issuance of restricted stock and stock units	1		8,102					8,102
Other comprehensive loss						(2,325)		(2,325)
Capital contribution							2,638	2,638
Balance, October 31, 2011	168,675	1,687	400,382	2,234,251	(47,065)	(2,902)	6,198	2,592,551

See accompanying notes

CONSOLIDATED STATEMENTS OF CASH FLOWS
(Amounts in thousands)

	Year ended October 31, 2011	2010	2009
Cash flow provided by (used in) operating activities:			
Net income (loss)	$ 39,795	$ (3,374)	$ (755,825)
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:			
Depreciation and amortization	23,142	20,044	23,925
Stock-based compensation	12,768	11,677	10,987
Excess tax benefits from stock-based compensation		(4,954)	(24,817)
Impairments of investments in unconsolidated entities	40,870		11,300
Income from unconsolidated entities	(39,676)	(23,470)	(3,782)
Distributions of earnings from unconsolidated entities	12,081	10,297	816
Income from non-performing loan portfolios	(5,113)		
Change in deferred tax asset	(18,188)	60,697	(52,577)
Deferred tax valuation allowances	18,188	(60,697)	458,280
Inventory impairments	51,837	115,258	465,411
Change in fair value of mortgage loans receivable and derivative instruments	475	(970)	
Expenses related to early retirement of debt	3,827	1,208	13,693
Changes in operating assets and liabilities			
(Increase) decrease in inventory	(215,738)	(140,344)	489,213
Origination of mortgage loans	(630,294)	(628,154)	(571,158)
Sale of mortgage loans	659,610	579,221	577,263
Decrease (increase) in restricted cash	41,146	(60,906)	
(Increase) decrease in receivables, prepaid expenses and other assets	(11,521)	(3,115)	20,045
Increase (decrease) in customer deposits	13,175	(15,182)	(45,706)
Decrease in accounts payable and accrued expenses	(28,899)	(38,598)	(149,065)
Decrease (increase) in income tax refund recoverable	141,590	20,250	(161,840)
(Decrease) increase in current income taxes payable	(56,225)	14,828	(22,972)
Net cash provided by (used in) operating activities	52,850	(146,284)	283,191
Cash flow used in investing activities:			
Purchase of property and equipment net	(9,553)	(4,830)	(2,712)
Purchase of marketable securities	(452,864)	(157,962)	(101,324)
Sale and redemption of marketable securities	408,831	60,000	
Investment in and advances to unconsolidated entities	(132)	(58,286)	(31,342)
Return of investments in unconsolidated entities	43,309	9,696	3,205
Investment in non-performing loan portfolios and foreclosed real estate	(66,867)		
Return of investments in non-performing loan portfolios and foreclosed real estate	2,806		
Net cash used in investing activities	(74,470)	(151,382)	(132,173)

Cash flow (used in) provided by financing activities:			
Net proceeds from issuance of senior notes			635,765
Proceeds from loans payable	921,251	927,233	636,975
Principal payments of loans payable	(952,621)	(1,316,514)	(785,883)
Redemption of senior subordinated notes		(47,872)	(296,503)
Redemption of senior notes	(58,837)	(46,114)	(210,640)
Proceeds from stock-based benefit plans	25,531	7,589	22,147
Excess tax benefits from stock-based compensation		4,954	24,817
Purchase of treasury stock	(49,102)	(588)	(1,473)
Change in noncontrolling interest	2,678	320	(2,000)
Net cash (used in) provided by financing activities	(111,100)	(470,992)	23,205
Net (decrease) increase in cash and cash equivalents	(132,720)	(768,658)	174,223
Cash and cash equivalents, beginning of year	1,039,060	1,807,718	1,633,495
Cash and cash equivalents, end of year	$ 906,340	$ 1,039,060	$ 1,807,718

See accompanying notes

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Notes to Consolidated Financial Statements

1. Significant Accounting Policies

Basis of Presentation

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

Use of Estimates

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

Cash and Cash Equivalents

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

Marketable Securities

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

Restricted Cash

Restricted cash primarily represent cash deposits collateralizing outstanding letters of credit with three banks that were in the Company s prior bank revolving credit facility that chose not to participate in the Company s new revolving credit facility and cash deposited into a voluntary employee benefit association to fund certain future employee benefits. As the Company replaces the letters of credit with new letters of credit issued under its new revolving credit facility, the restricted cash related to the replaced letters of credit will be returned to the Company.

Inventory

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

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

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

Current Communities: When the profitability of a current community deteriorates, the sales pace declines significantly, or some other factor indicates a possible impairment in the recoverability of the asset, the asset is reviewed for impairment by comparing the estimated future undiscounted cash flow for the community to its carrying value. If the estimated future undiscounted cash flow is less than the community s carrying value, the carrying value is written down to its estimated fair value. Estimated fair value is primarily determined by discounting the estimated future cash flow of each community. The impairment is charged to cost of revenues in the period in which the impairment is determined. In estimating the future undiscounted cash flow of a community, the Company uses various estimates such as: (a) the expected sales pace in a community, based upon general economic conditions that will have a short-term or long-term impact on the market in which the community is located and on competition within the market, including the number of home sites available and pricing and incentives being offered in other communities owned by the Company or by other builders; (b) the expected sales prices and sales incentives to be offered in a community; (c) costs expended to date and expected to be incurred in the future, including, but not limited to, land and land development, home construction, interest and overhead costs; (d) alternative product offerings that may be offered in a community that will have an impact on sales pace, sales price, building cost or the number of homes that can be built on a particular site; and (e) alternative uses for the property such as the possibility of a sale of the entire community to another builder or the sale of individual home sites.

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

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

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

Property, Construction and Office Equipment

Property, construction and office equipment are recorded at cost and are stated net of accumulated depreciation of $153.3 million and $146.3 million at October 31, 2011 and 2010, respectively. Depreciation is recorded using the straight-line method over the estimated useful lives of the assets.

Mortgage Loans Receivable

Residential mortgage loans held for sale are measured at fair value in accordance with the provisions of ASC 825, Financial Instruments (ASC 825). The Company believes the use of ASC 825 improves consistency of mortgage loan valuations between the date the borrower locks in the interest rate on the pending mortgage loan and the date of the mortgage loan sale. At the end of the reporting period, the Company determines the fair value of its mortgage loans held for sale and the forward loan commitments it has entered into as a hedge against the interest rate risk of its mortgage loans using the market approach to determine fair value. The evaluation is based on the current market pricing of mortgage loans with similar terms and values as of the reporting date and by applying such pricing to the mortgage loan portfolio. The Company recognizes the difference between the fair value and the unpaid principal balance of mortgage loans held for sale as a gain or loss. In addition, the Company recognizes the fair value of its forward loan commitments as a gain or loss. Interest income on mortgage loans held for sale is calculated based upon the stated interest rate of each loan. In addition, the recognition of net origination costs and fees associated with residential mortgage loans originated are expensed as incurred. These gains and losses, interest income and origination costs and fees are recognized in interest and other income in the accompanying Consolidated Statements of Operations.

Investments in and Advances to Unconsolidated Entities

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

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

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

In fiscal 2010, the Company formed Gibraltar Capital and Asset Management LLC (Gibraltar) to invest in distressed real estate opportunities. Through Gibraltar, the Company has invested in a structured asset joint venture.

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

Investments in Non-Performing Loan Portfolios and Foreclosed Real Estate

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

Since, at the acquisition date, the Company expected to collect less than the contractual amounts due under the terms of the loans based, at least in part, on the assessment of the credit quality of the borrowers, the loans are accounted for in accordance with ASC Topic 310-30, Loans and Debt Securities Acquired with Deteriorated Credit Quality (ASC 310-30). Under ASC 310-30, the accretable yield, or the amount by which the cash flows expected to be collected at the acquisition date exceeds the estimated fair value of the loan, is recognized in interest and other income over the estimated remaining life of the loan using a level yield methodology provided the Company does not presently have the intention to utilize real estate secured by the loans for use in its operations or significantly improving the collateral for resale. The difference between the contractually required payments of the loan as of the acquisition date and the total cash flows expected to be collected, or nonaccretable difference, is not recognized.

Pursuant to ASC 310-30, the Company aggregated loans with common risk characteristics into pools for purposes of recognizing interest income and evaluating changes in estimated cash flows. Loan pools are evaluated as a single loan for purposes of placing the pool on nonaccrual status or evaluating loan impairment. Generally, a loan pool is classified as nonaccrual when management is unable to reasonably estimate the timing or amount of cash flows expected to be collected from the loan pool or has serious doubts about further collectability of principal or interest. Proceeds received on nonaccrual loan pools generally are either applied against principal or reported as interest and other income, depending on management s judgment as to the collectability of principal. For the year ended October 31, 2011, none of the Company s loan pools were on nonaccrual status.

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

The Company periodically re-evaluates cash flows expected to be collected for each loan pool based upon all available information as of the measurement date. Subsequent increases in cash flows expected to be collected are recognized prospectively through an adjustment to the loan pool s yield over its remaining life, which may result in a reclassification from nonaccretable difference to accretable yield. Subsequent decreases in cash flows expected to be collected are evaluated to determine whether a provision for loan loss should be established. If decreases in expected cash flows result in a decrease in the estimated fair value of the loan pool below its amortized cost, the loan pool is deemed to be impaired and the Company will record a provision for loan losses to write the loan pool down to its estimated fair value. For the year ended October 31, 2011, the Company did not record a provision for loan losses.

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

Real Estate Owned (REO)

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

Loan Sales

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

Fair Value Disclosures

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

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

The fair value hierarchy is summarized below:

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

Treasury Stock

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

Revenue and Cost Recognition

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

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

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

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

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

Advertising Costs

The Company expenses advertising costs as incurred. Advertising costs were $11.1 million, $9.2 million and $11.5 million for the years ended October 31, 2011, 2010 and 2009, respectively.

Warranty Costs

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

Insurance Costs

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

Stock-Based Compensation

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

Income Taxes

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

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

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

The inability of the Company to determine that a tax position meets the more-likely-than-not recognition threshold does not mean that the Internal Revenue Service (IRS) or any other taxing authority will disagree with the position that the Company has taken.

If a tax position does not meet the more-likely-than-not recognition threshold, despite the Company s belief that its filing position is supportable, the benefit of that tax position is not recognized in the statements of operations and the Company is required to accrue potential interest and penalties until the uncertainty is resolved. Potential interest and penalties are recognized as a component of the provision for income taxes which is consistent with the Company s historical accounting policy. Differences between amounts taken in a tax return and amounts recognized in the financial statements are considered unrecognized tax benefits. The Company believes that it has a reasonable basis for each of its filing positions and intends to defend those positions if challenged by the IRS or another taxing jurisdiction. If the IRS or other taxing authorities do not disagree with the Company s position, and after the statute of limitations expires, the Company will recognize the unrecognized tax benefit in the period that the uncertainty of the tax position is eliminated.

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Income Taxes Valuation Allowance
Significant judgment is required in estimating valuation allowances for deferred tax assets. In accordance with ASC 740, a valuation allowance is established against a deferred tax asset if, based on the available evidence, it is more likely than not that such asset will not be realized. The realization of a deferred tax asset ultimately depends on the existence of sufficient taxable income in either the carryback or carryforward periods under tax law. The Company periodically assesses the need for valuation allowances for deferred tax assets based on ASC 740 s more-likely-than-not realization threshold criterion. In the Company s assessment, appropriate consideration is given to all positive and negative evidence related to the realization of the deferred tax assets. This assessment considers, among other matters, the nature, frequency and severity of current and cumulative income and losses, forecasts of future profitability, the duration of statutory carryback or carryforward periods, its experience with operating loss and tax credit carryforwards being used before expiration, and tax planning alternatives.

The Company s assessment of the need for a valuation allowance on its deferred tax assets includes assessing the likely future tax consequences of events that have been recognized in its consolidated financial statements or tax returns. The Company bases its estimate of deferred tax assets and liabilities on current tax laws and rates and, in certain cases, on business plans and other expectations about future outcomes. Changes in existing tax laws or rates could affect actual tax results and future business results may affect the amount of deferred tax liabilities or the valuation of deferred tax assets over time. The Company s accounting for deferred tax assets represents its best estimate of future events using the guidance provided by ASC 740.

Due to uncertainties in the estimation process, particularly with respect to changes in facts and circumstances in future reporting periods (carryforward period assumptions), it is reasonably possible that actual results could differ from the estimates used in the Company s historical analyses. The Company s assumptions require significant judgment because the residential homebuilding industry is cyclical and is highly sensitive to changes in economic conditions. If the Company s results of operations are less than projected and there is insufficient objectively verifiable evidence to support the likely realization of its deferred tax assets, a valuation allowance would be required to reduce or eliminate its deferred tax assets.

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

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

North:	Connecticut, Illinois, Massachusetts, Michigan, Minnesota, New Jersey, and New York
Mid-Atlantic:	Delaware, Maryland, Pennsylvania and Virginia
South:	Florida, North Carolina, South Carolina and Texas
West:	Arizona, California, Colorado and Nevada

In fiscal 2010, the Company discontinued the sale of homes in West Virginia and Georgia. At October 31, 2010, the Company had no backlog in West Virginia and Georgia. The operations in West Virginia and Georgia were immaterial to the Mid-Atlantic and South geographic segments, respectively.

Related Party Transactions
See Note 3. Investments and Advances to Unconsolidated Entities for information regarding Toll Brothers Realty Trust.

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Recent Accounting Pronouncements

In June 2009, the FASB revised its authoritative guidance in ASC 860, Transfers and Servicing (ASC 860). The amendment eliminated the concept of a qualifying special-purpose entity, created more stringent conditions for reporting a transfer of a portion of a financial asset as a sale, clarified other sale-accounting criteria, and changed the initial measurement of a transferor s interest in transferred financial assets. The amendment was adopted by the Company for its fiscal year beginning November 1, 2010. The adoption has not had a material impact on the Company s consolidated financial position, results of operations or cash flows.

In June 2009, the FASB revised its authoritative guidance for determining the primary beneficiary of a VIE. In December 2009, the FASB issued Accounting Standards Update No. 2009-17, Improvements to Financial Reporting by Enterprises Involved with Variable Interest Entities (ASU 2009-17), which amended provisions of ASC 810 to reflect the revised guidance for consolidation purposes. The amendments to ASC 810 replace the quantitative-based risk and rewards calculation for determining which reporting entity, if any, has a controlling interest in a VIE with an approach focused on identifying which reporting entity has the power to direct the activities of a VIE that most significantly impact the entity s economic performance and has either the obligation to absorb losses of or the right to receive benefits from the entity. The Company adopted the amended provisions for its fiscal year beginning November 1, 2010. The adoption of the amended provisions of ASC 810 has not had a material effect on the Company s consolidated financial position, results of operations or cash flows.

In May 2011, the FASB issued Accounting Standards Update 2011-04, Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRS, (ASU 2011-04) which amends ASC 820 to clarify existing guidance and minimize differences between GAAP and International Financial Reporting Standards (IFRS). ASU 2011-04 requires entities to provide information about valuation techniques and unobservable inputs used in Level 3 fair value measurements and provide a narrative description of the sensitivity of Level 3 measurements to changes in unobservable inputs. ASU 2011-04 will be effective for the Company s fiscal quarter beginning February 1, 2012 and is not expected to have a material impact on the Company s consolidated financial position, results of operations or cash flows.

In June 2011, the FASB issued Accounting Standards Update No. 2011-05, Statement of Comprehensive Income (ASU 2011-05), which requires entities to present net income and other comprehensive income in either a single continuous statement or in two separate, but consecutive, statements of net income and other comprehensive income. The adoption of this guidance, which relates to presentation only, is not expected to have a material impact on the Company s consolidated financial position, results of operations or cash flows. ASU 2011-05 will be effective for the Company s fiscal year beginning November 1, 2012.

Reclassification

In order to provide attractive mortgage financing to its home buyers, the Company s homebuilding operations subsidize the Company s mortgage subsidiary. In fiscal 2011, the Company determined that the amount of subsidies in fiscal 2010 were in excess of the mortgage company s costs and reclassified the excess from interest and other income to cost of revenues. The table below provides information regarding the changes made to the previously reported fiscal 2010 statement of operations (amounts in thousands).

	Cost of revenues	Interest and other income
As reported	$ 1,383,075	$ 34,830
Reclassified	1,376,558	28,313
Increase (decrease)	$ (6,517)	$ 6,517

The above reclassifications of cost of revenues resulted in a decrease in the Company s loss from operations. Certain other prior period amounts have been reclassified to conform to the fiscal 2011 presentation.

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2. Inventory

Inventory at October 31, 2011 and 2010 consisted of the following (amounts in thousands):

	2011	2010
Land controlled for future communities	$ 46,581	$ 31,899
Land owned for future communities	979,145	923,972
Operating communities	2,390,997	2,285,854
	$ 3,416,723	$ 3,241,725

During fiscal 2010 and 2009, the Company sold non-strategic inventory for $22.5 million and $47.7 million, respectively, and recognized income of $0.9 million in fiscal 2010 and a loss of $0.1 million in fiscal 2009. The Company did not sell any non-strategic inventory in fiscal 2011. The net gain/loss, including the related capitalized interest, is included in interest and other income in the Company s Consolidated Statements of Operations for fiscals 2010 and 2009.

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

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

Information regarding the classification, number and carrying value of these temporarily closed communities at October 31, 2011, 2010 and 2009 is provided in the table below ($ amounts in thousands).

	2011	2010	2009
Land owned for future communities:			
Number of communities	43	36	16
Carrying value (in thousands)	$ 256,468	$ 212,882	$ 75,942
Operating communities:			
Number of communities	2	13	16
Carrying value (in thousands)	$ 11,076	$ 78,100	$ 91,477

The Company provided for inventory impairment charges and the expensing of costs that it believed not to be recoverable in each of the three fiscal years ended October 31, 2011, 2010 and 2009 as shown in the table below (amounts in thousands).

	2011	2010	2009
Land controlled for future communities	$ 17,752	$ 6,069	$ 28,518
Land owned for future communities	17,000	55,700	169,488
Operating communities	17,085	53,489	267,405
	$ 51,837	$ 115,258	$ 465,411

The table below provides, for the periods indicated, the number of operating communities that the Company tested for potential impairment, the number of operating communities in which the Company recognized impairment charges, and 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 millions).

		Impaired Communities		
Three months ended:	Number of Communities Tested	Number of Communities	Fair Value of Communities Net of Impairment Charges	Impairment Charges
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
Fiscal 2009:				
January 31	289	41	$ 216,227	$ 108,300
April 30	288	36	$ 181,790	67,410
July 31	288	14	$ 67,713	46,822
October 31	254	21	$ 116,379	44,873
				$ 267,405

At October 31, 2011, the Company evaluated its land purchase contracts to determine if any of the selling entities were VIEs and, if they were, whether the Company was the primary beneficiary of any of them. Under these land purchase contracts, the Company does not possess legal title to the land and its risk is generally limited to deposits paid to the sellers and the creditors of the sellers generally have no recourse against the Company. At October 31, 2011, the Company determined that 48 land purchase contracts, with an aggregate purchase price of $453.0 million, on which it had made aggregate deposits totaling $24.2 million, were VIEs, and that it was not the primary beneficiary of any VIE related to its land purchase contracts.

Interest incurred, capitalized and expensed in each of the three fiscal years ended October 31, 2011, 2010 and 2009 was as follows (amounts in thousands):

	2011	2010	2009
Interest capitalized, beginning of year	$ 267,278	$ 259,818	$ 238,832
Interest incurred	114,761	114,975	118,026
Interest expensed to cost of revenues	(77,623)	(75,876)	(78,661)

Interest directly expensed to statement of operations	(1,504)	(22,751)	(7,949)
Write-off against other income	(1,155)	(8,369)	(10,116)
Interest reclassified to property, construction and office equipment	(3,000)	(519)	
Capitalized interest applicable to inventory transferred to joint ventures			(314)
Interest capitalized, end of year	$ 298,757	$ 267,278	$ 259,818

Inventory impairment charges are recognized against all inventory costs of a community, such as land, land improvements, cost of home construction and capitalized interest. The amounts included in the table directly above reflect the gross amount of capitalized interest without allocation of any impairment charges recognized. The Company estimates that, had inventory impairment charges been allocated on a pro rata basis to the individual components of inventory, capitalized interest at October 31, 2011, 2010 and 2009 would have been reduced by approximately $54.0 million, $53.3 million and $57.5 million, respectively.

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

During fiscal 2010, the Company reclassified $18.7 million of inventory related to two non-equity golf course facilities to property, construction and office equipment. The $18.7 million was reclassified due to the completion of construction of the facilities and the substantial completion of the master planned communities of which the golf facilities are a part.

3. Investments in and Advances to Unconsolidated Entities

The Company has investments in and advances to various unconsolidated entities. In fiscal 2010, the Company formed Gibraltar to invest in distressed real estate opportunities. Through Gibraltar, the Company has invested in a structured asset joint venture.

Development Joint Ventures

The Company has investments in and advances to, a number of joint ventures with unrelated parties to develop land (Development Joint Ventures). Some of these Development Joint Ventures develop land for the sole use of the venture participants, including the Company, and others develop land for sale to the joint venture participants and to unrelated builders. The Company recognizes its share of earnings from the sale of home sites by the Development Joint Ventures to other builders. With regard to home sites the Company purchases from the Development Joint Ventures, the Company reduces its cost basis in those home sites by its share of the earnings on the home sites. At October 31, 2011, the Company had approximately $17.1 million, net of impairment charges, invested in or advanced to the Development Joint Ventures. In addition, the Company has a funding commitment of $3.5 million to one Development Joint Venture should an additional investment in that venture be required.

As of October 31, 2011, the Company had recognized cumulative impairment charges in connection with its current Development Joint Ventures of $97.5 million. These impairment charges are attributable to investments in certain Development Joint Ventures where the Company determined there were losses in value in the investments that were other than temporary. In fiscal 2011 and 2009, the Company recognized impairment charges in connection with its Development Joint Ventures of $25.7 million and $5.3 million, respectively. The Company did not recognize any impairment charges in connection with the Development Joint Ventures in fiscal 2010.

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 it having a principal balance of $327.9 million, for which the Company 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 the Company and the other members of South Edge which are parties to the agreement, and the resolution of all claims between members of the lending syndicate representing 99% of the outstanding amounts due under the loan, the bankruptcy trustee and the members of South Edge which are parties to the agreement. The Company believes it had made adequate provision at October 31 2011, for the settlement, including accruing for its share of the cash payments required under the agreement, for any remaining exposure to lenders which are not parties to the agreement and recording impairments to reflect the estimated fair value of land to be acquired. The Company paid $57.6 million in November 2011 to settle this matter. The disposition of the above matter did not have a material adverse effect on the Company s results of operations and liquidity or on its financial condition.

Planned Community Joint Venture

The Company is a participant in a joint venture with an unrelated party to develop a single master planned community (the Planned Community Joint Venture). At October, 31, 2011, the Company had an investment of $32.0 million in this Planned Community Joint Venture. At October 31, 2011, each participant had agreed to contribute additional funds up to $8.3 million, if required. If a participant fails to make a required capital contribution, the other participant may make the additional contribution and diminish the non-contributing participant s ownership interest. At October 31, 2011, this joint venture did not have any indebtedness. The Company recognized impairment charges in connection with the Planned Community Joint Venture of $15.2 million in fiscal 2011. The Company did not recognize any impairment charges in connection with the Planned Community Joint Venture in fiscal 2010 or fiscal 2009.

Condominium Joint Ventures

At October 31, 2011, the Company had an aggregate of $40.7 million of investments in four joint ventures with unrelated parties to develop luxury for-sale and rental residential units and commercial space (Condominium Joint Ventures). At October 31, 2011, the Condominium Joint Ventures had aggregate loan commitments of $39.0 million, against which approximately $35.9 million had been borrowed. Included in the aggregate loan commitments and amount borrowed was $18.4 million due to the Company.

As of October 31, 2011, the Company had recognized cumulative impairment charges against its investments in the Condominium Joint Ventures and its pro rata share of impairment charges recognized by these Condominium Joint Ventures in the amount of $63.9 million. The Company did not recognize any impairment charges in connection with its Condominium Joint Ventures in fiscal 2011 and 2010; however, it recognized $6.0 million of impairment charges in fiscal 2009. At October 31, 2011, the Company did not have any commitments to make contributions to any Condominium Joint Venture.

Structured Asset Joint Venture

In July 2010, the Company, through Gibraltar, invested $29.1 million in a joint venture in which it is a 20% participant with two unrelated parties to purchase a 40% interest in an entity that owns and controls a portfolio of loans and real estate (Structured Asset Joint Venture). At October 31, 2011, the Company had an investment of $34.7 million in this Structured Asset Joint Venture. At October 31, 2011, the Company did not have any commitments to make additional contributions to the joint venture and has not guaranteed any of the joint venture s liabilities. If the joint venture needs additional capital and a participant fails to make a requested capital contribution, the other participants may make a contribution in consideration for a preferred return or may make the additional capital contribution and diminish the non-contributing participant s ownership interest.

Toll Brothers Realty Trust and Trust II

In fiscal 2005, the Company, together with the Pennsylvania State Employees Retirement System (PASERS), formed Toll Brothers Realty Trust II (Trust II) to be in a position to invest in commercial real estate opportunities. Trust II is owned 50% by the Company and 50% by an affiliate of PASERS. At October 31, 2011, the Company had an investment of $1.5 million in Trust II. Prior to the formation of Trust II, the Company formed Toll Brothers Realty Trust (the Trust) in 1998 to invest in commercial real estate opportunities. The Trust is effectively owned one-third by the Company; one-third by Robert I. Toll, Bruce E. Toll (and members of his family), Zvi Barzilay (and members of his family), Douglas C. Yearley, Jr. and former members of the Company s senior management; and one-third by an affiliate of PASERS (collectively, the Shareholders). As of October 31, 2011, the Company had a net investment in the Trust of $0.4 million. The Company provides development, finance and management services to the Trust and recognized fees under the terms of various agreements in the amounts of $2.9 million, $3.1 million and $2.1 million in fiscal 2011, 2010 and 2009, respectively. The Company believes that the transactions between itself and the Trust were on terms no less favorable than it would have agreed to with unrelated parties.

General

At October 31, 2011, the Company had accrued $60.1 million of aggregate exposure with respect to its estimated obligations to unconsolidated entities in which it has an investment. The Company s investments in these entities are accounted for using the equity method. The Company recognized $40.9 million and $11.3 million of impairment charges related to its investments in and advances to unconsolidated entities in fiscal 2011 and 2009. The Company did not recognize any impairment charges related to its investments in and advances to unconsolidated entities in fiscal 2010. Impairment charges related to these entities are included in (Loss) income from unconsolidated entities in the Company s consolidated statements of operations.

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The condensed balance sheets as of October 31, 2011 and 2010 and condensed statements of operations for the years ended October 31, 2011, 2010 and 2009 for unconsolidated entities, aggregated by type of business, are as follows (in thousands):

Condensed Balance Sheets:

	October 31, 2011				
	Develop-ment Joint Ventures	Home Building Joint Ventures	Toll Brothers Realty Trust I and II	Structured Asset Joint Venture	Total
Cash and cash equivalents	$ 14,190	$ 10,663	$ 11,726	$ 48,780	$ 85,359
Inventory	37,340	170,239	5,501		213,080
Non-performing loan portfolio				295,044	295,044
Rental properties			178,339		178,339
Real estate owned			1,087	230,872	231,959
Other assets (1)	331,315	20,080	9,675	159,143	520,213
Total assets	$ 382,845	$ 200,982	$ 206,328	$ 733,839	$ 1,523,994
Debt (1)	$ 327,856	$ 50,515	$ 198,927	$ 310,847	$ 888,145
Other liabilities	5,352	9,745	3,427	382	18,906
Members equity	49,637	140,722	3,974	172,944	367,277
Non-controlling interest				249,666	249,666
Total liabilities and equity	$ 382,845	$ 200,982	$ 206,328	$ 733,839	$ 1,523,994
Company s net investment in unconsolidated entities (2)	$ 17,098	$ 72,734	$ 1,872	$ 34,651	$ 126,355

	October 31, 2010				
	Develop-ment Joint Ventures	Home Building Joint Ventures	Toll Brothers Realty Trust I and II	Structured Asset Joint Venture	Total
Cash and cash equivalents	$ 21,224	$ 14,831	$ 13,154	$ 21,287	$ 70,496
Inventory	486,394	343,463	5,340		835,197
Non-performing loan portfolio				498,256	498,256
Rental properties			185,658		185,658
Real estate owned			1,934	124,775	126,709
Other assets (1)	194,541	29,374	9,401	15,003	248,319
Total assets	$ 702,159	$ 387,668	$ 215,487	$ 659,321	$ 1,964,635
Debt (1)	$ 379,793	$ 208,295	$ 184,616	$ 303,192	$ 1,075,896
Other liabilities	60,385	11,207	3,952	265	75,809

Members equity	261,981	168,166	26,919	146,248	603,314
Non-controlling interest				209,616	209,616
Total liabilities and equity	$ 702,159	$ 387,668	$ 215,487	$ 659,321	$ 1,964,635
Company s net investment in unconsolidated entities (2)	$ 58,551	$ 99,259	$ 11,382	$ 29,250	$ 198,442

(1) Included in other assets at October 31, 2011 and 2010 of the Structured Asset Joint Venture is $152.6 million and $8.5 million, respectively, of restricted cash held in a defeasance account which will be used to repay debt of the Structured Asset Joint Venture.

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

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Condensed Statements of Operations:

	For the year ended October 31, 2011				
	Develop-ment Joint Ventures	Home Building Joint Ventures	Toll Brothers Realty Trust I and II	Structured Asset Joint Venture	Total
Revenues	$ 4,624	$ 242,326	$ 37,728	$ 46,187	$ 330,865
Cost of revenues	3,996	191,922	15,365	30,477	241,760
Other expenses	1,527	8,954	18,808	10,624	39,913
Gain on disposition of loans and REO				61,406	61,406
Income (loss) from operations	(899)	41,450	3,555	66,492.	110,598
Other income	9,498	1,605		252	11,355
Net income before noncontrolling interest	8,599	43,055	3,555	66,744.	121,953
Less: Net income attributable to noncontrolling interest				40,048	40,048
Net income	$ 8,599	$ 43,055	$ 3,555	$ 26,696	$ 81,905
Company s equity in (losses) earnings of unconsolidated entities (3)	$ (25,272)	$ 15,159	$ 3,580	$ 5,339	$ (1,194)

	For the year ended October 31, 2010				
	Develop-ment Joint Ventures	Home Building Joint Ventures	Toll Brothers Realty Trust I and II	Structured Asset Joint Venture	Total
Revenues	$ 7,370	$ 132,878	$ 34,755	$ 16,582	$ 191,585
Cost of revenues	6,402	106,638	13,375	6,693	133,108
Other expenses	1,522	8,121	18,693	2,977	31,313
Loss on disposition of loans and REO				(5,272)	(5,272)
Income (loss) from operations	(554)	18,119	2,687	1,640	21,892
Other income	13,616	572		5	14,193
Net income before noncontrolling interest	13,062	18,691	2,687	1,645	36,085
Less: Net income attributable to noncontrolling interest				987	987

Net income	$ 13,062	$ 18,691	$ 2,687	$ 658	$ 35,098
Company s equity in earnings of unconsolidated entities (3)	$ 10,664	$ 11,272	$ 1,402	$ 132	$ 23,470

	For the year ended October 31, 2009				
	Develop- ment Joint Ventures	Home Building Joint Ventures	Toll Brothers Realty Trust I and II	Structured Asset Joint Venture	Total
Revenues	$ 144	$ 48,719	$ 34,955	$	$ 83,818
Cost of revenues	141	76,525	13,943		90,609
Other expenses	1,025	8,482	17,994		27,501
Income (loss) from operations	(1,022)	(36,288)	3,018		(34,292)
Other income (loss)	15,483	(1,879)			13,604
Net (loss) income	$ 14,461	$ (38,167)	$ 3,018	$	$ (20,688)
Company s equity in (losses) earnings of unconsolidated entities (3)	$ (5,120)	$ (3,676)	$ 1,278	$	$ (7,518)

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

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

In March 2011, the Company, through Gibraltar, acquired a 60% participation in a portfolio of non-performing loans. The portfolio of 83 loans, with an unpaid principal balance of approximately $200.3 million consisted primarily of residential acquisition, development and construction loans secured by properties at various stages of completion. The Company oversees the day-to-day management of the portfolio in accordance with the business plans which are jointly approved by the Company and the co-participant. The Company receives a management fee for such services. The Company recognizes income from the loan portfolio based upon its participation interest until such time as the portfolio meets certain internal rates of return as stipulated in the participation agreement. Upon reaching the stipulated internal rates of return, the Company will be entitled to receive additional income above its participation percentage from the portfolio. Since the acquisition of the loan portfolio, the Company sold its interest in one loan to a third party resulting in a gain of approximately $0.6 million. In fiscal 2011, the Company acquired an interest in four properties through foreclosure or obtaining deeds in lieu of foreclosure related to this loan portfolio. At October 31, 2011, the Company s pro-rata share of the carrying value of these properties was $5.9 million.

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

The Company s earnings from the portfolios and management fees earned are included in interest and other income in its consolidated statements of operations. In fiscal 2011, the Company recognized $1.5 million of earnings from its investments in the loan portfolios.

The following summarizes the accretable yield and the nonaccretable difference on our investments in non-performing loans portfolios as of their acquisition dates (amounts in thousands):

Contractually required payments, including interest	$	200,047
Nonaccretable difference		(81,723)
Cash flows expected to be collected		118,324
Accretable difference		(51,462)
Non-performing loans carrying amount	$	66,862

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

Unpaid principal balance	$	171,559
Discount on acquired loans		(108,325)
Carrying value	$	63,234

The activity in the accretable yield for the Company s investment in the non-performing loan portfolios for the year ended October 31, 2011 was as follows (amounts in thousands):

Balance at November 1, 2010	$	
Additions		51,462
Accretion		(4,480)
Reductions from foreclosures and other dispositions		(4,599)
Other		(57)
Balance at October 31, 2011	$	42,326

The additions to accretable yield and the accretion of interest income are based on various estimates regarding loan performance and the value of the underlying real estate securing the loans. As the Company continues to gather additional information regarding the loans and the underlying collateral, the accretable yield may change. Therefore, the amount of accretable income recorded in the year ended October 31, 2011 is not necessarily indicative of expected future results.

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

Credit Facility

On October 22, 2010, the Company entered into an $885 million revolving credit facility (New Credit Facility) with 12 banks, which extends to October 2014. The New Credit Facility replaced a $1.89 billion credit facility consisting of a $1.56 billion unsecured revolving credit facility and a $331.7 million term loan facility (collectively, the Old Credit Facility) with 30 banks, which extended to March 17, 2011. Prior to the closing of the New Credit Facility, the Company repaid the term loan under the Old Credit Facility from cash on hand.

At October 31, 2011, the Company had no outstanding borrowings under the New Credit Facility but had outstanding letters of credit of approximately $100.3 million. At October 31, 2011, interest would have been payable on borrowings under the New Credit Facility at 2.75% (subject to adjustment based upon the Company s debt rating and leverage ratios) above the Eurodollar rate or at other specified variable rates as selected by the Company from time to time. Under the terms of the New Credit Facility, the Company is not permitted to allow its maximum leverage ratio (as defined in the credit agreement) to exceed 1.75 to 1.00 and is required to maintain a minimum tangible net worth (as defined in the New Credit Facility agreement) of approximately $1.87 billion at October 31, 2011. At October 31, 2011, the Company s leverage ratio was approximately 0.18 to 1.00 and its tangible net worth was approximately $2.55 billion. Based upon the minimum tangible net worth requirement, the Company s ability to pay dividends and repurchase its common stock was limited to an aggregate amount of approximately $680 million at October 31, 2011. The Company is obligated to pay an undrawn commitment fee of 0.50% (subject to adjustment based upon the Company s debt rating and leverage ratios) based on the average daily unused amount of the facility.

Loans Payable

The Company s loans payable represent purchase money mortgages on properties the Company has acquired that the seller has financed and various revenue bonds that were issued by government entities on behalf of the Company to finance community infrastructure and the Company s manufacturing facilities. Information regarding the Company s loans payable at October 31, 2011 and 2010 is included in the table below ($ amounts in thousands).

	2011	2010
Aggregate loans payable at October 31	$ 106,556	$ 94,491
Weighted-average interest rate	3.99%	3.75%
Interest rate range	0.16%-7.87%	0.50% - 8.00%
Loans secured by assets		
Carrying value of loans secured by assets	$ 105,092	$ 93,029
Carrying value of assets securing loans	$ 283,169	$ 257,563

Senior Notes

At October 31, 2011 and 2010, the Company s senior notes consisted of the following (amounts in thousands):

	2011	2010
6.875% Senior Notes due November 15, 2012	$ 139,776	$ 194,865
5.95% Senior Notes due September 15, 2013	141,635	141,635
4.95% Senior Notes due March 15, 2014	267,960	267,960
5.15% Senior Notes due May 15, 2015	300,000	300,000
8.91% Senior Notes due October 15, 2017	400,000	400,000
6.75% Senior Notes due November 1, 2019	250,000	250,000
Bond discount	(8,399)	(10,350)
	$ 1,490,972	$ 1,544,110

The senior notes are the unsecured obligations of Toll Brothers Finance Corp., a 100%-owned subsidiary of the Company. The payment of principal and interest is fully and unconditionally guaranteed, jointly and severally, by the

Company and a majority of its home building subsidiaries (together with Toll Brothers Finance Corp., the Senior Note Parties). The senior notes rank equally in right of payment with all the Senior Note Parties existing and future unsecured senior indebtedness, including the New Credit Facility. The senior notes are structurally subordinated to the prior claims of creditors, including trade creditors, of the subsidiaries of the Company that are not guarantors of the senior notes. The senior notes are redeemable in whole or in part at any time at the option of the Company, at prices that vary based upon the then-current rates of interest and the remaining original term of the notes.

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The Company has repurchased, and may from time to time in the future repurchase, its senior notes in the open market or otherwise. The table below provides for the periods indicated, the amount of senior notes the Company has redeemed and the amount of expenses related to the retirement of the notes (amounts in thousands).

	2011	2010	2009
Fiscal year:			
6.875% Senior notes due 2012	$ 55,089		$ 105,135
5.95% Senior notes due 2013		$ 13,500	94,985
4.95% Senior notes due 2014		32,040	
	$ 55,089	$ 45,540	$ 200,120
Expenses related to retirement of debt	$ 3,827	$ 744	$ 11,626

Expenses related to the retirement of notes includes, if any, premium paid, write-off of unamortized debt issuance costs and other debt redemption costs.

Senior Subordinated Notes

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

The table below provides for the periods indicated, the amount of senior subordinated notes the Company has redeemed and the amount of expenses related to the retirement of the notes (amounts in thousands).

	2010	2009
Fiscal year:		
8.25% Senior Subordinated Notes due December 2011	$ 47,872	$ 102,128
8 1/4% Senior Subordinated Notes due February 2011		193,000
Total	$ 47,872	$ 295,128
Expenses related to retirement of debt	$ 34	$ 2,067

Mortgage Company Loan Facilities

TBI Mortgage Company (TBI Mortgage), the Company s wholly-owned mortgage subsidiary, has a Master Repurchase Agreement (the Repurchase Agreement) with Comerica Bank. The purpose of the Repurchase Agreement is to finance the origination of mortgage loans by TBI Mortgage and it is accounted for as a secured borrowing under ASC 860. The Repurchase Agreement, as amended, provides for loan purchases up to $50 million, subject to certain sublimits. In addition, the Repurchase Agreement provides for an accordion feature under which TBI Mortgage may request that the aggregate commitments under the Repurchase Agreement be increased to an amount up to $75 million for a short period of time. The Repurchase Agreement, as amended, expires on July 25, 2012 and bears interest at LIBOR plus 1.25%, with a minimum rate of 3.50%. Borrowings under this facility are included in the fiscal 2012 maturities.

At October 31, 2011 and 2010, there were $57.4 million and $72.4 million, respectively, outstanding under the Repurchase Agreement, which are included in liabilities in the accompanying Consolidated Balance Sheets. At October 31, 2011 and 2010, amounts outstanding under the Repurchase Agreement are collateralized by $63.2 million and $93.6 million, respectively, of mortgage loans held for sale, which are included in assets in the Company s balance sheets. As of October 31, 2011, there were no aggregate outstanding purchase price limitations reducing the amount available to TBI Mortgage. There are several restrictions on purchased loans under the Repurchase Agreement, including that they cannot be sold to others, they cannot be pledged to anyone other than the agent, and they cannot support any other borrowing or repurchase agreement.

General

As of October 31, 2011, the annual aggregate maturities of the Company s loans and notes during each of the next five fiscal years are as follows (amounts in thousands):

	Amount
2012	$ 92,827
2013	294,742
2014	271,969
2015	301,872
2016	1,955

6. Accrued Expenses

Accrued expenses at October 31, 2011 and 2010 consisted of the following (amounts in thousands):

	2011	2010
Land, land development and construction	$ 109,574	$ 110,301
Compensation and employee benefit	96,037	95,107
Insurance and litigation	130,714	143,421
Commitments to unconsolidated entities	60,130	88,121
Warranty	42,474	45,835
Interest	25,968	26,998
Other	56,154	60,538
	$ 521,051	$ 570,321

The Company accrues expected warranty costs at the time each home is closed and title and possession have been transferred to the home buyer. Changes in the warranty accrual during fiscal 2011, 2010 and 2009 were as follows (amounts in thousands):

	2011	2010	2009
Balance, beginning of year	$ 45,835	$ 53,937	$ 57,292
Additions homes closed during the year	8,809	9,147	10,499
Additions (reductions) to accruals for homes closed in prior years	(828)	(4,684)	1,697
Charges incurred	(11,342)	(12,565)	(15,551)
Balance, end of year	$ 42,474	$ 45,835	$ 53,937

7. Income Taxes

A reconciliation of the Company s effective tax rate from the federal statutory tax rate for the fiscal years ended October 31, 2011, 2010 and 2009 is set forth below ($ amounts in thousands).

	2011		2010		2009	
	$	%*	$	%*	$	%*
Federal tax benefit at statutory rate	(10,278)	35.0	(41,015)	35.0	(173,763)	35.0
State taxes, net of federal benefit	(954)	3.2	(3,809)	3.3	(14,522)	2.9
Reversal of accrual for uncertain tax positions	(52,306)	178.1	(39,485)	33.7	(77,337)	15.6
	3,055	(10.4)	9,263	(7.9)	6,828	(1.4)

Accrued interest on anticipated tax assessments						
Increase in unrecognized tax benefits			35,575	(30.3)	39,500	(8.0)
Increase in deferred tax assets, net	(25,948)	88.4				
Valuation allowance recognized	43,876	(149.4)	55,492	(47.4)	458,280	(92.3)
Valuation allowance reversed	(25,689)	87.5	(128,640)	109.7		
Reversal of tax credits					10,000	(2.0)
Other	(917)	3.1	(1,194)	1.0	10,374	(2.1)
Tax (benefit)provision	(69,161)	235.5	(113,813)	97.1	259,360	(52.3)

* Due to rounding, amounts may not add.

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The Company currently operates in 19 states and is subject to various state tax jurisdictions. The Company estimates its state tax liability based upon the individual taxing authorities regulations, estimates of income by taxing jurisdiction and the Company s ability to utilize certain tax-saving strategies. Due primarily to a change in the Company s estimate of the allocation of income or loss, as the case may be, among the various taxing jurisdictions and changes in tax regulations and their impact on the Company s tax strategies, the Company s estimated rate for state income taxes was 5.0% for each of fiscal 2011, and 2010 and 4.5% for fiscal 2009.

The (benefit) provision for income taxes for each of the fiscal years ended October 31, 2011, 2010 and 2009 is set forth below (amounts in thousands).

	2011	2010	2009
Federal	$ (21,517)	$ (67,318)	$ 333,311
State	(47,644)	(46,495)	(73,951)
	$ (69,161)	$ (113,813)	$ 259,360
Current	$ (43,212)	$ (156,985)	$ (229,003)
Deferred	(25,949)	43,172	488,363
	$ (69,161)	$ (113,813)	$ 259,360

A reconciliation of the change in the unrecognized tax benefits for the years ended October 31, 2011, 2010 and 2009 is set forth below (amounts in thousands).

	2011	2010	2009
Balance, beginning of year	$ 160,446	$ 171,366	$ 320,679
Increase in benefit as a result of tax positions taken in prior years	8,168	14,251	11,000
Increase in benefit as a result of tax positions taken in current year		15,675	47,500
Decrease in benefit as a result of settlements	(17,954)		(138,333)
Decrease in benefit as a result of completion of audits	(33,370)		
Decrease in benefit as a result of lapse of statute of limitation	(12,621)	(40,846)	(69,480)
Balance, end of year	$ 104,669	$ 160,446	$ 171,366

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

The Company s unrecognized tax benefits are included in Income taxes payable on the Company s consolidated balance sheets. If these unrecognized tax benefits reverse in the future, they would have a beneficial impact on the Company s effective tax rate at that time. During the next twelve months, it is reasonably possible that the amount of unrecognized tax benefits will change but we are not able to provide a range of such change. The anticipated changes will be principally due to the expiration of tax statutes, settlements with taxing jurisdictions, increases due to new tax positions taken and the accrual of estimated interest and penalties.

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The Company recognizes in its tax provision, potential interest and penalties. Information as to the amounts recognized in its tax provision, before reduction for applicable taxes and reversal of previously accrued interest and penalties, of potential interest and penalties in the twelve-month periods ended October 31, 2011, 2010 and 2009, and the amounts accrued for potential interest and penalties at October 31, 2011 and 2010 is set forth in the table below (amounts in thousands).

Recognized in statements of operations:	
Fiscal year	
2011	$ 4,700
2010	$ 14,300
2009	$ 11,000
Accrued at:	
October 31, 2011	$ 29,200
October 31, 2010	$ 39,209

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

Since the beginning of fiscal 2007, the Company has recorded significant deferred tax assets. These deferred tax assets were generated primarily by inventory impairments and impairments of investments in and advances to unconsolidated entities. In accordance with ASC 740, the Company assessed whether a valuation allowance should be established based on its determination of whether it is more likely than not that some portion or all of the deferred tax assets will not be realized. The Company believes that the continued downturn in the housing market, the uncertainty as to its length and magnitude, the cumulative operating losses in recent years, and the Company s continued recognition of impairment charges, are significant evidence of the continued need for a valuation allowance against its net deferred tax assets. The Company has recorded valuation allowances against its entire net deferred tax asset as of October 31, 2011 and 2010.

The components of net deferred tax assets and liabilities at October 31, 2011 and 2010 are set forth below (amounts in thousands).

	2011	2010
Deferred tax assets:		
Accrued expenses	$ 5,573	$ 4,917
Impairment charges	427,807	415,801
Inventory valuation differences	10,036	13,093
Stock-based compensation expense	44,319	48,657
Amounts related to unrecognized tax benefits	47,387	55,090
State tax, net operating loss carryforward	18,406	11,159
Federal tax net operating loss carryforward	11,232	
Other	5,382	3,497
Total assets	570,142	552,214
Deferred tax liabilities:		
Capitalized interest	94,129	91,731
Deferred income	(10,553)	(10,097)
Depreciation	32,416	29,334
Deferred marketing	(9,295)	(3,635)
Other	36,074	35,698

Total liabilities	142,771	143,031
Net deferred tax assets before valuation allowances	427,371	409,183
Cumulative valuation allowance state	(74,030)	(45,030)
Cumulative valuation allowance federal	(353,341)	(364,153)
Net deferred tax assets	$	$

On November 6, 2009, the Worker, Homeownership, and Business Assistance Act of 2009 (the Act) was enacted into law. The Act amended Section 172 of the Internal Revenue Code to allow net operating losses realized in a tax year ending after December 31, 2007 and beginning before January 1, 2010 to be carried back for up to five years (such losses were previously limited to a two-year carryback). This change allowed the Company to carry back its fiscal 2010 taxable loss against taxable income reported in fiscal 2006 and receive a federal tax refund in its second quarter of fiscal 2011 of $154.3 million. The tax losses generated in fiscal 2010 were primarily from the recognition for tax purposes of previously recognized book impairments and the recognition of stock option expenses recognized for book purposes in prior years**.**

For federal income tax purposes, the Company carried back tax losses incurred in fiscal 2009 against taxable income it reported in fiscal 2007 and received a tax refund in fiscal 2010 of $152.7 million. The tax losses generated in fiscal 2009 were primarily from the recognition for tax purposes of previously recognized book impairments and the recognition of stock option expenses not recognized for book purposes.

The Company is allowed to carry forward tax losses for 20 years and apply such tax losses to future taxable income to realize federal deferred tax assets. As of October 31, 2011, the Company estimates that it will have approximately $45.0 million of tax loss carryforwards, resulting from losses that it expects to recognize on its fiscal 2011 tax return. In addition, the Company expects to be able to reverse its previously recognized valuation allowances against future tax provisons during any future period in which it reports book income before income taxes. The Company will continue to review its deferred tax assets in accordance with ASC 740.

For state tax purposes, due to past and projected losses in certain jurisdictions where the Company does not have carryback potential and/or cannot sufficiently forecast future taxable income, the Company has recognized net cumulative valuation allowances against its state deferred tax assets of $74.0 million as of October 31, 2011 and $45.0 million as of October 31, 2010. In 2011, the Company took steps to merge a number of entities to better align financial and tax reporting and to reduce administrative complexity going forward. Some of these mergers occurred in higher state tax jurisdictions creating additional state tax deferred assets of $28.9 million, offset entirely by an increase in the state tax valuation allowance. Future valuation allowances in these jurisdictions may continue to be recognized if the Company believes it will not generate sufficient future taxable income to utilize any future state deferred tax assets.

8. Stockholders Equity

The Company s authorized capital stock consists of 400 million shares of common stock, $.01 par value per share and 15 million shares of preferred stock, $.01 par value per share. At October 31, 2011, the Company had 165.7 million shares of common stock issued and outstanding (excluding 2.9 million shares of treasury stock), 13.7 million shares of common stock reserved for outstanding stock options and restricted stock units, 6.7 million shares of common stock reserved for future stock option and award issuances and 0.6 million shares of common stock reserved for issuance under the Company s employee stock purchase plan. As of October 31, 2011, the Company had not issued any shares of preferred stock.

Issuance of Common Stock

In each of fiscal 2011, 2010 and 2009, the Company issued 1,250 shares of restricted common stock pursuant to its stock incentive plans to certain outside directors. The Company is amortizing the fair market value of the awards on the date of grant over the period of time that each award vests. At October 31, 2011, 1,875 shares of the restricted stock awards were unvested.

Stock Repurchase Program

In March 2003, the Company s Board of Directors authorized the repurchase of up to 20 million shares of its common stock from time to time, in open market transactions or otherwise, for the purpose of providing shares for its various benefit plans.

Information about the Company s share repurchase program for the fiscal years ended October 31, 2011, 2010 and 2009 is in the table below.

	2011	2010	2009
Number of shares purchased (in thousands)	3,068	31	79

Average price per share	$	16.00	$	19.24	$	18.70
Remaining authorization at October 31(in thousands):		8,786		11,855		11,885

Stockholder Rights Plan and Transfer Restriction

In June 2007, the Company adopted a shareholder rights plan (2007 Rights Plan). The rights issued pursuant to the 2007 Rights Plan will become exercisable upon the earlier of (i) ten days following a public announcement that a person or group of affiliated or associated persons has acquired, or obtained the right to acquire, beneficial ownership of 15% or more of the outstanding shares of the Company s common stock or (ii) ten business days following the commencement of a tender offer or exchange offer that would result in a person or group beneficially owning 15% or more of the outstanding shares of common stock. No rights were exercisable at October 31, 2011.

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

9. Stock-Based Benefit Plans

The Company has two active stock incentive plans, one for employees (including officers) and one for non-employee directors. The Company s active stock incentive plans provide for the granting of incentive stock options (solely to employees) and non-qualified stock options with a term of up to ten years at a price not less than the market price of the stock at the date of grant. The Company s active stock incentive plans also provide for the issuance of stock appreciation rights and restricted and unrestricted stock awards and stock units, which may be performance based.

The Company has two additional stock incentive plans for employees, officers and directors that are inactive except for outstanding stock option grants at October 31, 2011. No additional options may be granted under these plans. Stock options granted under these plans were made with a term of up to ten years at a price not less than the market price of the stock at the date of grant and generally vested over a four-year period for employees and a two-year period for non-employee directors.

Stock Options

Stock options granted to employees generally vest over a four-year period, although certain grants may vest over a longer or shorter period, and stock options granted to non-employee directors generally vest over a two-year period. Shares issued upon the exercise of a stock option are either from shares held in treasury or newly issued shares.

The Company used a lattice model for the valuation for all option grants in fiscal 2011, 2010 and 2009. Expected volatilities are based on implied volatilities from traded options on the Company s stock and the historical volatility of the Company s stock. The expected life of options granted is derived from the historical exercise patterns and anticipated future patterns and represents the period of time that options granted are expected to be outstanding; the range given above results from certain groups of employees exhibiting different behavior. The risk-free rate for periods within the contractual life of the option is based on the U.S. Treasury yield curve in effect at the time of grant.

The weighted-average assumptions and fair value used for stock option grants in each of the fiscal years ended October 31, 2011, 2010 and 2009 are set forth below.

	2011	2010	2009
Expected volatility	45.38% - 49.46%	46.74% - 51.41%	46.74% - 50.36%
Weighted-average volatility	47.73%	49.51%	48.06%
Risk-free interest rate	1.64% - 3.09%	2.15% - 3.47%	1.24% - 1.90%
Expected life (years)	4.29 - 8.75	4.44 - 8.69	4.29 - 8.52
Dividends	none	none	none
Weighted-average fair value per share of options granted	$7.94	$7.63	$8.60

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The fair value of stock option grants is recognized evenly over the vesting period of the options or over the period between the grant date and the time the option becomes non-forfeitable by the employee, whichever is shorter. Stock option expense is included in the Company s selling, general and administrative expenses in the accompanying Consolidated Statements of Operations. Information regarding the stock-based compensation for fiscal 2011, 2010 and 2009 is set forth below (amounts in thousands).

	2011	2010	2009
Stock-based compensation expense recognized	$ 8,626	$ 9,332	$ 10,925
Income tax benefit recognized	(a)	$ 3,266	$ 4,370

(a) Due to the losses recognized by the Company over the past several years and its inability to forecast future pre-tax profits, the Company has not recognized or estimated a tax benefit on its stock based compensation expense in fiscal 2011.

In fiscal 2010 and 2009, as part of severance plans for certain employees, the Company extended the period in which an option could be exercised on 175,813 options and 46,052 options, respectively. The Company expensed $552,000 and $322,000 of stock option expense related to these extensions in fiscal 2010 and 2009, respectively. These amounts are included in the stock-based compensation in the table above.

At October 31, 2011, total compensation cost related to non-vested awards not yet recognized was approximately $7.4 million and the weighted-average period over which the Company expects to recognize such compensation costs and tax benefit is 2.5 years.

The following table summarizes stock option activity for the Company s plans during each of the fiscal years ended October 31, 2011, 2010 and 2009 (amounts in thousands, except per share amounts):

	2011		2010		2009	
	Number of options	Weighted-average exercise price	Number of options	Weighted-average exercise price	Number of options	Weighted-average exercise price
Balance, beginning	14,339	$ 19.36	16,123	$ 17.73	19,854	$ 14.73
Granted	1,103	19.32	1,015	18.39	1,092	21.68
Exercised	(2,467)	11.07	(2,498)	8.72	(4,436)	5.03
Cancelled	(107)	20.12	(301)	17.03	(387)	20.49
Balance, ending	12,868	$ 20.94	14,339	$ 19.36	16,123	$ 17.73
Options exercisable, at October 31,	10,365	$ 21.24	11,670	$ 19.00	13,171	$ 16.53
Options available for grant at October 31,	6,712		8,038		9,168	

The following table summarizes information about stock options outstanding and exercisable at October 31, 2011:

	Options outstanding			Options exercisable		
Range of	Number	Weighted-average remaining contractual	Weighted-average	Number	Weighted-average remaining contractual	Weighted-average

exercise prices	outstanding (in 000s)	life (in years)	exercise price	exercisable (in 000s)	life (in years)	exercise price
\$10.35 - \$10.88	2,484	0.8	\$ 10.66	2,484	0.8	\$ 10.66
\$18.38 - \$20.21	5,249	5.1	\$ 19.36	3,489	3.3	\$ 19.57
\$20.76 - \$22.18	2,376	6.5	\$ 21.13	1,648	2.3	\$ 21.06
\$31.82 - \$35.97	2,759	4.0	\$ 33.04	2,744	4.0	\$ 33.05
	12,868	4.3	\$ 20.94	10,365	3.4	\$ 21.24

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The intrinsic value of options outstanding and exercisable is the difference between the fair market value of the Company s common stock on the applicable date (Measurement Value) and the exercise price of those options that had an exercise price that was less than the Measurement Value. The intrinsic value of options exercised is the difference between the fair market value of the Company s common stock on the date of exercise and the exercise price. Information pertaining to the intrinsic value of options outstanding and exercisable at October 31, 2011, 2010 and 2009 is provided below (amounts in thousands):

	2011	2010	2009
Intrinsic value of options outstanding	$ 16,839	$ 35,214	$ 54,646
Intrinsic value of options exercisable	$ 16,839	$ 35,214	$ 54,646

Information pertaining to the intrinsic value of options exercised and the fair value of options which became vested or modified in each of the fiscal years ended October 31, 2011, 2010 and 2009 is provided below (amounts in thousands):

	2011	2010	2009
Intrinsic value of options exercised	$ 23,573	$ 25,327	$ 74,659
Fair value of options vested	$ 11,027	$ 12,336	$ 15,528

The Company s stock incentive plans permit optionees to exercise stock options using a net exercise method at the discretion of the Executive Compensation Committee of the Board of Directors (Executive Compensation Committee). In a net exercise, the Company withholds from the total number of shares that otherwise would be issued to an optionee upon exercise of the stock option that number of shares having a fair market value at the time of exercise equal to the option exercise price and applicable income tax withholdings and remits the remaining shares to the optionee. Information regarding the use of the net exercise method for fiscal 2011, 2010 and 2009 is set forth below.

	2011	2010	2009
Options exercised	194,000	1,201,372	93,000
Shares withheld	98,918	798,420	21,070
Shares issued	95,082	402,952	71,930
Average market value per share withheld	$ 18.94	$ 17.96	$ 21.29
Aggregate market value of shares withheld (in thousands)	$ 1,873	$ 14,341	$ 400

In addition, pursuant to the provisions of the Company s stock incentive plans, optionees are permitted to use the value of the Company s common stock that they own to pay for the exercise of options (stock swap method). Information regarding the use of the stock swap method for fiscal 2011, 2010 and 2009 is set forth below.

	2011	2010	2009
Options exercised	28,900	29,512	38,379
Shares tendered	14,807	14,459	9,237
Shares issued	14,093	15,053	29,142
Average market value per share withheld	$ 20.53	$ 19.71	$ 21.40
Aggregate market value of shares tendered (in thousands)	$ 304	$ 285	$ 198

Performance Based Restricted Stock Units:

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

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The Company used a lattice based option pricing model to determine the fair value of the 2009 and 2008 Performance-Based RSUs. Expenses related to the performance-based RSUs are included in the Company s selling, general and administrative expenses. Information regarding the issuance, valuation assumptions, amortization and unamortized balances of the Company s Performance-Based RSUs in and at the relevant periods and dates in fiscal 2011, 2010 and 2009 is as follows:

	2011	2010	2009
Performance-Based RSUs issued:			
Number issued	306,000	200,000	200,000
Closing price of the Company s common stock on date of issuance	$ 19.32	$ 18.38	$ 21.70
Target price	$ 25.12	$ 23.89	$ 28.21
Volatility	48.22%	49.92%	48.14%
Risk-free interest rate	1.99%	2.43%	1.35%
Expected life	3.0 years	3.0 years	3.0 years
Aggregate fair value of Performance-Based RSUs issued (in thousands)	$ 4,994	$ 3,160	$ 3,642
Performance-Based RSU expense recognized (in thousands):			
Twelve months ended October 31,	$ 3,701	$ 2,121	$ 1,045

	2011	2010	2009
At October 31:			
Aggregate outstanding Performance-Based RSUs	706,000	400,000	200,000
Cumulative unamortized value of Performance- Based RSUs (in thousands)	$ 4,929	$ 3,636	$ 2,597

Non-Performance Based Restricted Stock Units:

In December 2010 and 2009, the Company issued restricted stock units (RSUs) relating to shares of the Company s common stock to several employees. These RSUs generally vest in annual installments over a four-year period. The value of the RSUs was determined to be equal to the number of shares of the Company s common stock to be issued pursuant to the RSUs, multiplied by the closing price of the Company s common stock on the NYSE on the date the RSUs were awarded. Information regarding these RSUs is as follows:

	2011	2010
Non-Performance-Based RSUs issued:		
Number issued	15,497	19,663
Closing price of the Company s common stock on date of issuance	$ 19.32	$ 18.38
Aggregate fair value of RSUs issued (in thousands)	$ 299	$ 361
Non-Performance-Based RSU expense recognized (in thousands)**:**		
Twelve months ended October 31,	$ 144	$ 138
At October 31:		
Aggregate Non-Performance-Based RSUs outstanding	30,994	19,663
Cumulative unamortized value of Non-Performance-Based RSUs (in thousands)	$ 379	$ 224

Restricted Stock Units in Lieu of Compensation

In December 2008, the Company issued restricted stock units (RSUs) relating to 62,051 shares of the Company s common stock to a number of employees in lieu of a portion of the employees bonuses and in lieu of a portion of one employee s 2009 salary. These RSUs, although not subject to forfeiture, will vest in annual installments over a four-year period, unless accelerated due to death, disability or termination of employment, as more fully described in the RSU award document. Because the RSUs are non-forfeitable, the value of the RSUs was determined to be equal to the number of shares of the Company s common stock to be issued pursuant to the RSUs, multiplied by $21.70, the closing price of the Company s common stock on the NYSE on December 19, 2008, the date the RSUs were awarded. The amount applicable to employee bonuses was charged to the Company s accrual for bonuses that it made in fiscal 2008 and the amount applicable to salary deferral ($130,000) was charged to selling, general and administrative expense in the three-month period ended January 31, 2009. The Company s stock incentive plan permits the Company to withhold from the total number of shares that otherwise would be issued to a RSU recipient upon distribution that number of shares having a fair value at the time of distribution equal to the applicable income tax withholdings due and remit the remaining shares to the RSU participant. Information relating to the distribution of shares and the withholding of taxes on the RSUs for fiscal 2011, 2010 and 2009 is set forth below.

	2011	2010	2009
Shares withheld	741	924	836
Shares issued	8,975	2,749	1,509
Value of shares withheld (in thousands)	$ 15	$ 17	$ 15

Employee Stock Purchase Plan

The Company s employee stock purchase plan enables substantially all employees to purchase the Company s common stock at 95% of the market price of the stock on specified offering dates without restriction, or at 85% of the market price of the stock on specified offering dates subject to restrictions. The plan, which terminates in December 2017, provides that 1.2 million shares be reserved for purchase. At October 31, 2011, 612,000 shares were available for issuance.

Information regarding the Company s employee stock purchase plan for fiscal 2011, 2010 and 2009 is set forth below.

	2011	2010	2009
Shares issued	23,079	23,587	25,865
Average price per share	$ 15.59	$ 16.20	$ 16.49
Compensation expense recognized (in thousands)	$ 54	$ 57	$ 64

10. Income (Loss) Per Share Information

Information pertaining to the calculation of income (loss) per share for each of the fiscal years ended October 31, 2011, 2010 and 2009 is as follows (amounts in thousands):

	2011	2010	2009
Basic weighted-average shares	167,140	165,666	161,549
Common stock equivalents	1,241		
Diluted weighted-average shares	168,381	165,666	161,549
Common stock equivalents excluded from diluted weighted-average shares due to anti-dilutive effect (a)		1,968	3,936
Weighted average number of anti-dilutive options (b)	7,936	8,401	7,604
Shares issued under stock incentive and employee stock purchase plans	2,390	1,712	4,442

(a) Common stock equivalents represent the dilutive effect of outstanding in-the-money stock options using the treasury stock method. For fiscal 2010 and 2009, there were no incremental shares attributed to outstanding options to purchase common stock because the Company had a net loss in fiscal 2010 and fiscal 2009 and any incremental shares would be anti-dilutive.

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

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11. Fair Value Disclosures

A summary of assets and (liabilities) at October 31, 2011 and October 31, 2010 related to the Company s financial instruments, measured at fair value on a recurring basis, is set forth below (amounts in thousands).

Financial Instrument	Fair value hierarchy	Fair value October 31, 2011	Fair value October 31, 2010
Corporate Securities	Level 1	$ 233,572	
U.S. Treasury Securities	Level 1		$ 175,370
U.S. Agency Securities	Level 1		$ 22,497
Residential Mortgage Loans Held for Sale	Level 2	$ 63,175	$ 93,644
Forward Loan Commitments Residential Mortgage Loans Held for Sale	Level 2	$ 218	$ (459)
Interest Rate Lock Commitments (IRLCs)	Level 2	$ (147)	$ 130
Forward Loan Commitments IRLCs	Level 2	$ 147	$ (130)

At October 31, 2011 and 2010, the carrying value of cash and cash equivalents and restricted cash approximated fair value.

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

	Aggregate unpaid principal balance	Fair value	Excess
At October 31, 2011	$ 62,765	$ 63,175	$ 410
At October 31, 2010	$ 92,082	$ 93,644	$ 1,562

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

As of October 31, 2011 and 2010, the amortized cost, gross unrealized holding gains, gross unrealized holding losses, and fair value of marketable securities were as follows (in thousands):

	October 31, 2011	October 31, 2010
Amortized cost	$ 233,852	$ 197,699
Gross unrealized holding gains	28	180
Gross unrealized holding losses	(308)	(12)
Fair value	$ 233,572	$ 197,867

The remaining contractual maturities of marketable securities as of October 31, 2011 ranged from less than one month to 12 months.

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The Company recognizes inventory impairment charges based on the difference in the carrying value of the inventory and its fair value at the time of the evaluation. The fair value of the aforementioned inventory was determined using Level 3 criteria. See Note 1, Significant Accounting Policies, Inventory for additional information regarding the Company s methodology on determining fair value. The table below provides, for the periods indicated, the fair value of inventory whose carrying value was adjusted and the amount of impairment charges recognized (amounts in thousands).

Three months ended:	Fair value of communities, net of impairment charges	Impairment charges
Fiscal 2011:		
January 31	$ 56,105	$ 5,475
April 30	$ 40,765	10,725
July 31	$ 4,769	16,175
October 31	$ 5,718	1,710
		$ 34,085
Fiscal 2010:		
January 31	$ 82,509	$ 31,750
April 30	$ 64,964	41,770
July 31	$ 40,071	12,450
October 31	$ 67,850	23,219
		$ 109,189

Gibraltar s portfolio of non-performing loans was recorded at fair value at inception based on the acquisition price as determined by Level 3 inputs. The carrying amount and estimated fair value of the non-performing loan portfolios, as of October 31, 2011, is $63.2 million and $65.8 million, respectively. The estimated fair value was determined using Level 3 inputs and was based on discounted future cash flows generated by the loans discounted at the rates used to value the portfolios at the acquisition dates.

The book value and estimated fair value of the Company s debt at October 31, 2011 and October 31, 2010 was as follows (amounts in thousands):

	October 31, 2011		October 31, 2010	
	Book value	Estimated fair value	Book value	Estimated fair value
Loans payable (a)	$ 106,556	$ 98,950	$ 94,491	$ 87,751
Senior notes (b)	1,499,371	1,614,010	1,554,460	1,679,052
Mortgage company warehouse loan (c)	57,409	57,409	72,367	72,367
	$ 1,663,336	$ 1,770,369	$ 1,721,318	$ 1,839,170

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

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

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

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12. Employee Retirement and Deferred Compensation Plans

The Company has two unfunded defined benefit retirement plans. Retirement benefits generally vest when the participant has completed 20 years of service with the Company and reaches normal retirement age (age 62). Unrecognized prior service costs are being amortized over the period from the date participants enter the plans until their interests are fully vested. The Company used a 4.06%, 4.99% and 5.30% discount rate in its calculation of the present value of its projected benefit obligations at October 31, 2011, 2010 and 2009, respectively, which represented the approximate long-term investment rate at October 31 of the fiscal year for which the present value was calculated. Information related to the plans is based on actuarial information calculated as of October 31, 2011, 2010 and 2009. Information related to the Company s defined benefit retirement plans for each of the fiscal years ended October 31, 2011, 2010 and 2009 is as follows (amounts in thousands):

	2011	2010	2009
Plan costs:			
Service cost	$ 305	$ 270	$ 132
Interest cost	1,290	1,396	1,366
Amortization of prior service cost	694	1,248	1,076
Acceleration of benefits		72	
Amortization of unrecognized gains			(1,272)
	$ 2,289	$ 2,986	$ 1,302
Projected benefit obligation:			
Beginning of year	$ 26,037	$ 25,161	$ 19,005
Plan amendments adopted during year		202	
Service cost	305	270	132
Interest cost	1,290	1,396	1,366
Benefit payments	(504)	(125)	(125)
Change in unrecognized gain/loss	2,638	(867)	4,783
Projected benefit obligation, end of year	$ 29,766	$ 26,037	$ 25,161
Unamortized prior service cost:			
Beginning of year	$ 4,027	$ 5,145	$ 6,221
Plan amendments adopted during year		130	
Amortization of prior service cost	(694)	(1,248)	(1,076)
Unamortized prior service cost, end of year	$ 3,333	$ 4,027	$ 5,145
Accumulated unrecognized (loss) gain, October 31	$ (1,064)	$ 1,574	$ 707
Accumulated benefit obligation, October 31	$ 29,766	$ 26,037	$ 25,161
Accrued benefit obligation, October 31	$ 29,766	$ 26,037	$ 25,161

The table below provides, based upon the estimated retirement dates of the participants in the unfunded defined benefit retirement plans, the amounts of benefits the Company would be required to pay in each of the next five fiscal years and for the five fiscal years ended October 31, 2021 in the aggregate (in thousands).

Year ending October 31,		Amount
2012	$	641
2013	$	1,551
2014	$	1,638
2015	$	1,645
2016	$	1,761
November 1, 2016 - October 31, 2021	$	11,522

The Company maintains salary deferral savings plans covering substantially all employees. The plans provide for discretionary Company contributions of up to 2% of all eligible compensation, plus 2% of eligible compensation above the Social Security wage base, plus matching contributions of up to 2% of eligible compensation of employees electing to contribute via salary deferrals. During the first quarter of fiscal 2009, due to the continued downturn in the Company s business, the Company suspended its matching contributions and discretionary contributions to one of the plans. In fiscal 2011, the Company elected to make a discretionary contribution for the plans year ended December 31, 2010, and beginning in the third quarter of fiscal 2011, to resume a matching contribution of eligible compensation of employees electing to contribute via salary deferrals. The Company recognized an expense, net of plan forfeitures, with respect to the plans of $2.7 million and $0.5 million for the fiscal years ended October 31, 2011 and 2009, respectively. The Company recognized $38,000 of expense for one plan in fiscal 2010.

The Company has an unfunded, non-qualified deferred compensation plan that permits eligible employees to defer a portion of their compensation. The deferred compensation, together with certain Company contributions, earns various rates of return depending upon when the compensation was deferred and the length of time that it has been deferred. A portion of the deferred compensation and interest earned may be forfeited by a participant if he or she elects to withdraw the compensation prior to the end of the deferral period. At October 31, 2011 and 2010, the Company had accrued $19.1 million and $18.4 million, respectively, for its obligations under the plan.

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

Accumulated other comprehensive loss at October 31, 2011 and 2010 was $2.9 million and $0.6 million, respectively, and was primarily related to employee retirement plans.

The table below provides, for each of the fiscal years ended October 31, 2011, 2010 and 2009, the components of total comprehensive income (loss) (amounts in thousands):

	2011	2010	2009
Net income (loss) per consolidated statements of operations	$ 39,795	$ (3,374)	$ (755,825)
Changes in pension liability, net of tax benefit provision	(1,934)	1,986	(2,988)
Change in fair value of available-for-sale securities, net of tax provision	(192)	74	26
Total comprehensive income (loss)	$ 37,669	$ (1,314)	$ (758,787)
Tax benefit recognized in total comprehensive loss			$ 1,975

14. Legal Proceedings

The Company is involved in various claims and litigation arising principally in the ordinary course of business.

In January 2006, the Company 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 its homebuilding projects in the states that comprise EPA Region 3. The Company provided information to the EPA pursuant to the request. The U.S. Department of Justice (DOJ) has assumed responsibility for the oversight of this matter and has alleged that the Company has violated regulatory requirements applicable to storm water discharges and that it may seek injunctive relief and/or civil penalties. The Company is presently engaged in settlement discussions with representatives from the DOJ and the EPA.

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 the Company and its stockholders with respect to their sales of shares of the Company s common stock during the period beginning on December 9, 2004 and ending on November 8, 2005. The plaintiff alleges that such stock sales were made while in possession of non-public, material information about the Company. 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 the Company s 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 the

Company s board of directors and its Chief Accounting Officer. This complaint alleges breaches of fiduciary duty, waste of corporate assets, and unjust enrichment during the period from February 2005 to November 2006. The complaint further alleges that certain of the defendants sold the Company s stock during this period while in possession of allegedly non-public, material information and plaintiff seeks disgorgement of profits from these sales. The complaint also asserts a claim for equitable indemnity for costs and expenses incurred by the Company in connection with 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 the Company s board of directors and its 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. The Company s Certificate of Incorporation and Bylaws provide for indemnification of its directors and officers. The Company has also entered into individual indemnification agreements with each of its directors.

Due to the high degree of judgment required in determining the amount of potential loss related to the various claims and litigation in which the Company is involved, including those noted above, and the inherent variability in predicting future settlements and judicial decisions, the Company cannot estimate a range of reasonably possible losses in excess of its accruals for these matters. The Company believes that adequate provision for resolution of all claims and pending litigation has been made for probable losses and the disposition of these matters is not expected to have a material adverse effect on the Company s results of operations and liquidity or on its financial condition.

15. Commitments and Contingencies

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

Information regarding the Company s purchase commitments at October 31, 2011 and 2010 is provided in the table below (amounts in thousands).

	2011	2010
Aggregate purchase commitments		
Unrelated parties	$ 551,905	$ 419,194
Unconsolidated entities that the Company has investments in	12,471	131,217
Total	$ 564,376	$ 550,411
Deposits against aggregate purchase commitments	$ 37,987	$ 47,111
Credits to be received from unconsolidated entities		37,272
Additional cash required to acquire land	526,389	466,028
Total	$ 564,376	$ 550,411
Amount of additional cash required to acquire land included in accrued expenses	$ 44	$ 77,618

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

At October 31, 2011, the Company had investments in and advances to a number of unconsolidated entities, was committed to invest or advance additional funds and had guaranteed a portion of the indebtedness and/or loan commitments of these entities. See Note 3, Investments in and Advances to Unconsolidated Entities, for more information regarding the Company s commitments to these entities.

At October 31, 2011, the Company had outstanding surety bonds amounting to $367.2 million, primarily related to its obligations to various governmental entities to construct improvements in the Company s various communities. The Company estimates that $202.5 million of work remains on these improvements. The Company has an additional $73.6 million of surety bonds outstanding that guarantee other obligations of the Company. The Company does not believe it is probable that any outstanding bonds will be drawn upon.

At October 31, 2011, the Company had outstanding letters of credit of $113.2 million, including $100.3 million under its New Credit Facility and $13.0 million collateralized by restricted cash. These letters of credit were issued to secure various financial obligations of the Company including insurance policy deductibles and other claims, land deposits and security to complete improvements in communities which it is operating. The Company believes it is not probable that any outstanding letters of credit will be drawn upon.

At October 31, 2011, the Company had agreements of sale outstanding to deliver 1,667 homes with an aggregate sales value of $981.1 million.

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

Information regarding the Company s mortgage commitments at October 31, 2011 and 2010 is provided in the table below (amounts in thousands).

	2011	2010
Aggregate mortgage loan commitments		
IRLCs	$ 129,553	$ 169,525
Non-IRLCs	306,722	263,477
Total	$ 436,275	$ 433,002
Investor commitments to purchase:		
IRLCs	$ 129,553	$ 169,525
Mortgage loans receivable	60,680	91,689
Total	$ 190,233	$ 261,214

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

Year ending October 31,	Amount
2011	$ 12,059
2010	$ 13,972
2009	$ 14,923

At October 31, 2011, future minimum rent payments under the Company s operating leases were (amounts in thousands):

Year ending October 31,	Amount
2012	$ 10,444
2013	8,355
2014	7,107
2015	6,024
2016	3,838
Thereafter	8,973
	$ 44,741

16. Subsequent Event

In November 2011, the Company acquired substantially all of the assets of CamWest Development LLC (CamWest) for approximately $143.7 million in cash. The assets acquired were primarily inventory. As part of the acquisition, the Company assumed contracts to deliver approximately 29 homes with an aggregate value of $13.7 million. The average price of the homes in backlog was approximately $471,000. The assets the Company acquired included approximately 1,245 home sites owned and 254 home sites controlled through land purchase agreements. This acquisition increased the Company s selling community count by 15 communities.

17. Interest and Other Income

Interest and other income includes the activity of the Company s non-core ancillary businesses which include its mortgage, title, landscaping, security monitoring, golf course and country club operations and Gibraltar. Revenues and expenses for the years ended October 31, 2011, 2010 and 2009 were as follows (amounts in thousands):

	2011	2010	2009
Revenue	$ 66,224	$ 51,458	$ 53,619
Expense	$ 60,967	$ 46,059	$ 46,296

18. Information on Geographic Segments

The table below summarizes revenue and (loss) income before income taxes for each of the Company s geographic segments for each of the fiscal years ended October 31, 2011, 2010 and 2009 (amounts in millions):

	Revenues			(Loss) income before income taxes		
	2011	2010	2009	2011	2010	2009
North	$ 381.6	$ 407.7	$ 585.3	$ 42.5	$ (2.3)	$ (103.3)
Mid-Atlantic	499.7	488.4	492.7	57.6	33.9	(25.0)
South	285.0	264.3	288.2	(25.9)	(35.2)	(49.4)
West	309.6	334.4	389.1	(27.1)	(11.9)	(209.0)
Corporate and other				(76.5)	(101.7)	(109.8)
Total	$ 1,475.9	$ 1,494.8	$ 1,755.3	$ (29.4)	$ (117.2)	$ (496.5)

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

Total assets for each of the Company s geographic segments at October 31, 2011 and 2010 are shown in the table below (amounts in millions):

	2011	2010
North	$ 1,060.2	$ 961.3
Mid-Atlantic	1,235.9	1,161.5
South	760.1	693.8
West	650.8	712.4
Corporate and other	1,348.2	1,642.6
Total	$ 5,055.2	$ 5,171.6

Corporate and other is comprised principally of cash and cash equivalents, marketable securities, income tax refund recoverable and the assets of the Company s manufacturing facilities and mortgage subsidiary.

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The Company provided for inventory impairment charges and the expensing of costs that it believed not to be recoverable and write-downs of investments in unconsolidated entities (including the Company s pro-rata share of impairment charges recognized by the unconsolidated entities in which it has an investment) for the years ended October 31, 2011, 2010 and 2009 as shown in the table below; the net carrying value of inventory and investments in and advances to unconsolidated entities for each of the Company s geographic segments at October 31, 2011 and 2010 is also shown (amounts in millions).

	Net Carrying Value At October 31,		Impairments Year ended October 31,		
	2011	2010	2011	2010	2009
Inventory:					
Land controlled for future communities:					
North	$ 19.4	$ 3.6	$ 0.9	$ 4.0	$ 17.3
Mid-Atlantic	21.6	14.8	0.3	(0.1)	7.8
South	3.8	11.0	0.3	(0.2)	0.4
West	1.8	2.5	16.2	2.4	3.0
	46.6	31.9	17.7	6.1	28.5
Land owned for future communities:					
North	231.1	208.5		$ 15.9	51.0
Mid-Atlantic	455.8	452.9	$ 0.3	9.0	23.8
South	125.4	119.8	16.7	14.0	1.2
West	166.8	142.8		16.8	93.5
	979.1	924.0	17.0	55.7	169.5
Operating communities:					
North	738.5	685.3	$ 2.9	$ 9.6	77.1
Mid-Atlantic	659.1	662.4	3.7	2.1	28.0
South	539.6	443.3	3.8	23.4	51.2
West	453.8	494.8	6.7	18.4	111.1
	2,391.0	2,285.8	17.1	53.5	267.4
Total	$ 3,416.7	$ 3,241.7	$ 51.8	$ 115.3	$ 465.4
Investments in and advances to unconsolidated entities:					
North	$ 40.8	$ 47.6			$ 6.0
South	32.0	51.7	$ 15.2		
West	17.1	58.5	25.7		5.3
Corporate	36.5	40.6			
Total	$ 126.4	$ 198.4	$ 40.9	$	$ 11.3

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19. Supplemental Disclosure to Statements of Cash Flows

The following are supplemental disclosures to the statements of cash flows for each of the fiscal years ended October 31, 2011, 2010 and 2009 (amounts in thousands):

	2011	2010	2009
Cash flow information:			
Interest paid, net of amount capitalized	$ 18,666	$ 34,333	$ 33,003
Income taxes paid		$ 3,994	$ 144,753
Income taxes refunded	$ 154,524	$ 152,770	$ 105,584
Non-cash activity:			
Cost of inventory acquired through seller financing, municipal bonds or recorded due to VIE criteria, net	$ 29,320	$ 41,276	$ 6,263
Cost of inventory acquired under specific performance contracts		$ (4,889)	$ 14,889
Miscellaneous changes in inventory	$ 1,781	$ 1,725	$ 431
Reclassification of inventory to property, construction and office equipment	$ 20,005	$ 18,711	
Increase in inventory for reclassification of minority interest contribution			$ 5,283
Reduction in inventory related to debt cancellation			$ 16,150
Increase (decrease) in unrecognized gains in defined benefit plans	$ (2,638)	$ 867	$ (4,783)
Defined benefit retirement plan amendment		$ 202	
Income tax benefit related to exercise of employee stock options		$ 27,150	$ 2,672
Reduction of investment in unconsolidated entities due to reduction of letters of credit or accrued liabilities	$ 13,423	$ 7,679	$ 20,489
Reversal of litigation costs previously accrued		$ 10,981	
Reclassification of stock-based compensation from accrued liabilities to additional paid in capital	$ 4,233		
Reclassification of accrued liabilities to loans payable			$ 7,800
Miscellaneous increases (decreases) to investments in unconsolidated entities	$ (2,212)	$ 2,495	$ 1,759
Stock awards	$ 24	$ 22	$ 27

20. Supplemental Guarantor Information

A 100% owned subsidiary of the Company, Toll Brothers Finance Corp. (the Subsidiary Issuer), issued $300 million of 6.875% Senior Notes due 2012 on November 22, 2002; $250 million of 5.95% Senior Notes due 2013 on September 3, 2003; $300 million of 4.95% Senior Notes due 2014 on March 16, 2004; $300 million of 5.15% Senior Notes due 2015 on June 2, 2005; $400 million of 8.91% Senior Notes due 2017 on April 13, 2009; and $250 million of 6.75% Senior Notes due 2019 on September 22, 2009. Through October 31, 2011, the Subsidiary Issuer has redeemed $160.2 million of its 6.875% Senior Notes due 2012, $108.4 million of its 5.95% Senior Notes due 2013 and $32.0 million of its 4.95% Senior Notes due 2014. The obligations of the Subsidiary Issuer to pay principal, premiums, if any, and interest is guaranteed jointly and severally on a senior basis by the Company and substantially all of the Company s 100% owned home building subsidiaries (the Guarantor Subsidiaries). The guarantees are full and unconditional.

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The Company s non-home building subsidiaries and several of its home building subsidiaries (the Non-Guarantor Subsidiaries) do not guarantee the debt. Separate financial statements and other disclosures concerning the Guarantor Subsidiaries are not presented because management has determined that such disclosures would not be material to investors. Prior to the above described senior debt issuances, the Subsidiary Issuer did not have any operations. Supplemental consolidating financial information of Toll Brothers, Inc., the Subsidiary Issuer, the Guarantor Subsidiaries, the Non-Guarantor Subsidiaries and the eliminations to arrive at Toll Brothers, Inc. on a consolidated basis is presented below ($ amounts in thousands).

Consolidating Balance Sheet at October 31, 2011

	Toll Brothers, Inc.	Subsidiary Issuer	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Consolidated
ASSETS						
Cash and cash equivalents			775,300	131,040		906,340
Marketable securities			233,572			233,572
Restricted cash			19,084	676		19,760
Inventory			2,911,211	505,512		3,416,723
Property, construction and office equipment, net			77,001	22,711		99,712
Receivables, prepaid expenses and other assets		6,768	74,980	26,067	(2,239)	105,576
Mortgage loans receivable				63,175		63,175
Customer deposits held in escrow			10,682	4,177		14,859
Investments in and advances to unconsolidated entities			86,481	39,874		126,355
Investments in non-performing loan portfolios				69,174		69,174
Investments in and advances to consolidated entities	2,694,419	1,508,550	(727,258)	(467,395)	(3,008,316)	
	2,694,419	1,515,318	3,461,053	395,011	(3,010,555)	5,055,246
LIABILITIES AND EQUITY						
Liabilities:						
Loans payable			61,994	44,562		106,556
Senior notes		1,490,972				1,490,972
Mortgage company warehouse loan				57,409		57,409
Customer deposits			71,388	12,436		83,824
Accounts payable			96,645	172		96,817
Accrued expenses		24,346	320,021	178,965	(2,281)	521,051
Income taxes payable	108,066			(2,000)		106,066

Total liabilities	108,066	1,515,318	550,048	291,544	(2,281)	2,462,695
Equity:						
Stockholders equity:						
Common stock	1,687			2,003	(2,003)	1,687
Additional paid-in capital	400,382		4,420	2,734	(7,154)	400,382
Retained earnings	2,234,251		2,909,487	92,532	(3,002,019)	2,234,251
Treasury stock, at cost	(47,065)					(47,065)
Accumulated other comprehensive loss	(2,902)		(2,902)		2,902	(2,902)
Total stockholders equity	2,586,353		2,911,005	97,269	(3,008,274)	2,586,353
Noncontrolling interest				6,198		6,198
Total equity	2,586,353		2,911,005	103,467	(3,008,274)	2,592,551
	2,694,419	1,515,318	3,461,053	395,011	(3,010,555)	5,055,246

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Consolidating Balance Sheet at October 31, 2010

	Toll Brothers, Inc.	Subsidiary Issuer	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Consolidated
ASSETS						
Cash and cash equivalents			930,387	108,673		1,039,060
Marketable securities			197,867			197,867
Restricted cash			60,906			60,906
Inventory			2,862,796	378,929		3,241,725
Property, construction and office equipment, net			79,516	400		79,916
Receivables, prepaid expenses and other assets	27	8,104	66,280	24,565	(1,937)	97,039
Mortgage loans receivable				93,644		93,644
Customer deposits held in escrow			13,790	7,576		21,366
Investments in and advances to unconsolidated entities			116,247	82,195		198,442
Income tax refund recoverable	141,590					141,590
Investments in and advances to consolidated entities	2,578,195	1,562,109	(871,125)	(315,074)	(2,954,105)	
	2,719,812	1,570,213	3,456,664	380,908	(2,956,042)	5,171,555
LIABILITIES AND EQUITY						
Liabilities:						
Loans payable			63,442	31,049		94,491
Senior notes		1,544,110				1,544,110
Mortgage company warehouse loan				72,367		72,367
Customer deposits			72,819	4,337		77,156
Accounts payable			91,498	240		91,738
Accrued expenses		26,103	242,793	303,413	(1,988)	570,321
Income taxes payable	164,359			(2,000)		162,359
Total liabilities	164,359	1,570,213	470,552	409,406	(1,988)	2,612,542
Equity:						
Stockholders equity:						
Common stock	1,664			2,003	(2,003)	1,664

Additional paid-in capital	360,006		4,420	2,734	(7,154)	360,006
Retained earnings	2,194,456		2,982,269	(36,795)	(2,945,474)	2,194,456
Treasury stock, at cost	(96)					(96)
Accumulated other comprehensive loss	(577)		(577)		577	(577)
Total stockholders equity	2,555,453		2,986,112	(32,058)	(2,954,054)	2,555,453
Noncontrolling interest				3,560		3,560
Total equity	2,555,453		2,986,112	(28,498)	(2,954,054)	2,559,013
	2,719,812	1,570,213	3,456,664	380,908	(2,956,042)	5,171,555

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Consolidating Statement of Operations for the fiscal year ended October 31, 2011

	Toll Brothers, Inc.	Subsidiary Issuer	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Consolidated
Revenues			1,418,883	56,998		1,475,881
Cost of revenues			1,203,435	64,847	(7,512)	1,260,770
Selling, general and administrative	137	1,345	270,710	42,026	(52,863)	261,355
Interest expense		103,604	1,504		(103,604)	1,504
	137	104,949	1,475,649	106,873	(163,979)	1,523,629
Loss from operations	(137)	(104,949)	(56,766)	(49,875)	163,979	(47,748)
Other:						
(Loss) income from unconsolidated entities			6,129	(7,323)		(1,194)
Interest and other income		108,776	21,408	44,699	(151,480)	23,403
Expenses related to early retirement of debt		(3,827)				(3,827)
Loss from consolidated subsidiaries	(29,229)				29,229	
Loss before income tax benefit	(29,366)		(29,229)	(12,499)	41,728	(29,366)
Income tax benefit	(69,161)		(68,837)	(29,436)	98,273	(69,161)
Net income	39,795		39,608	16,937	(56,545)	39,795

Consolidating Statement of Operations for the fiscal year ended October 31, 2010

	Toll Brothers, Inc.	Subsidiary Issuer	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Consolidated
Revenues			1,441,773	52,998		1,494,771
Cost of revenues			1,311,709	69,521	(4,672)	1,376,558
Selling, general and administrative	77	1,365	261,236	22,661	(22,115)	263,224
Interest expense		106,411	22,751		(106,411)	22,751
	77	107,776	1,595,696	92,182	(133,198)	1,662,533
Loss from operations	(77)	(107,776)	(153,923)	(39,184)	133,198	(167,762)
Other:						
			5,905	17,565		23,470

Income from unconsolidated entities					
Interest and other income	108,520	31,372	31,460	(143,039)	28,313
Expenses related to early retirement of debt	(744)	(464)			(1,208)
Loss from consolidated subsidiaries	(117,110)			117,110	
Loss before income tax benefit	(117,187)	(117,110)	9,841	107,269	(117,187)
Income tax (benefit) provision	(113,813)	(124,695)	9,596	115,099	(113,813)
Net (loss) income	(3,374)	7,585	245	(7,830)	(3,374)

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Consolidating Statement of Operations for the fiscal year ended October 31, 2009

	Toll Brothers, Inc.	Subsidiary Issuer	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Consolidated
Revenues			1,596,491	158,819		1,755,310
Cost of revenues			1,767,228	181,825	2,259	1,951,312
Selling, general and administrative	47	1,033	320,019	25,028	(32,918)	313,209
Interest expense		87,501	7,949		(87,501)	7,949
	47	88,534	2,095,196	206,853	(118,160)	2,272,470
Loss from operations	(47)	(88,534)	(498,705)	(48,034)	118,160	(517,160)
Other:						
Loss from unconsolidated entities			(2,218)	(5,300)		(7,518)
Interest and other income		100,160	6,572	27,776	(92,602)	41,906
Expenses related to early retirement of debt		(11,626)	(2,067)			(13,693)
Loss from consolidated subsidiaries	(496,418)				496,418	
Loss before income tax benefit	(496,465)		(496,418)	(25,558)	521,976	(496,465)
Income tax provision (benefit)	259,360		(259,329)	(13,351)	272,680	259,360
Net loss	(755,825)		(237,089)	(12,207)	249,296	(755,825)

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

	Toll Brothers, Inc.	Subsidiary Issuer	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Consolidated
Cash flow provided by (used in) operating activities:						
Net income	39,795		39,608	16,937	(56,545)	39,795
Adjustments to reconcile net income to net cash provided by (used in) operating activities:						
Depreciation and amortization		3,210	19,343	589		23,142
Stock-based compensation	12,768					12,768
Impairments of investments in unconsolidated entities			15,170	25,700		40,870
Income from unconsolidated entities			(21,299)	(18,377)		(39,676)
Distributions of earnings from unconsolidated entities			12,747	(666)		12,081
Income from non-performing loan portfolios				(5,113)		(5,113)
Change in deferred tax asset	(18,188)					(18,188)
Deferred tax valuation allowance	18,188					18,188
Inventory impairments			51,837			51,837
Change in fair value of mortgage loans receivable and derivative instruments				475		475
Expenses related to early retirement of debt		3,827				3,827
Changes in operating assets and liabilities:						
Increase in inventory			(89,869)	(125,869)		(215,738)
Origination of mortgage loans				(630,294)		(630,294)
Sale of mortgage loans				659,610		659,610
Decrease (increase) in restricted cash			41,822	(676)		41,146
(Increase) decrease in receivables, prepaid expenses and other assets	(116,644)	53,557	(267,889)	264,496	54,959	(11,521)
Increase in customer deposits			1,677	11,498		13,175
(Decrease) increase in accounts payable and	2,287	(1,757)	80,257	(111,272)	1,586	(28,899)

accrued expenses						
Decrease in income tax refund recoverable	141,590					141,590
Decrease in current income taxes payable	(56,225)					(56,225)
Net cash provided by (used in) operating activities	23,571	58,837	(116,596)	87,038		52,850
Cash flow used in investing activities:						
Purchase of property and equipment, net			(6,658)	(2,895)		(9,553)
Purchase of marketable securities			(452,864)			(452,864)
Redemption of marketable securities			408,831			408,831
Investments in and advances to unconsolidated entities			(70)	(62)		(132)
Return of investment in unconsolidated entities			23,859	19,450		43,309
Investment in non-performing loan portfolio and foreclosed real estate				(66,867)		(66,867)
Return of investment in non-performing loan portfolio and foreclosed real estate				2,806		2,806
Net cash used in investing activities			(26,902)	(47,568)		(74,470)
Cash flow used in financing activities:						
Proceeds from loans payable				921,251		921,251
Principal payments of loans payable			(11,589)	(941,032)		(952,621)
Redemption of senior notes		(58,837)				(58,837)
Proceeds from stock-based benefit plans	25,531					25,531
Purchase of treasury stock	(49,102)					(49,102)
Change in noncontrolling interest				2,678		2,678
Net cash used in financing activities	(23,571)	(58,837)	(11,589)	(17,103)		(111,100)
			(155,087)	22,367		(132,720)

Net (decrease) increase in cash and cash equivalents			
Cash and cash equivalents, beginning of year	930,387	108,673	1,039,060
Cash and cash equivalents, end of year	775,300	131,040	906,340

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

	Toll Brothers, Inc.	Subsidiary Issuer	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Consolidated
Cash flow (used in) provided by operating activities:						
Net loss	(3,374)		7,585	245	(7,830)	(3,374)
Adjustments to reconcile net loss to net cash provided by (used in) operating activities:						
Depreciation and amortization	28	3,262	15,961	793		20,044
Stock-based compensation	11,677					11,677
Excess tax benefit from stock-based compensation	(4,954)					(4,954)
Loss from unconsolidated entities			(5,773)	(17,697)		(23,470)
Distributions of earnings from unconsolidated entities			10,297			10,297
Change in deferred tax asset	60,697					60,697
Deferred tax valuation allowance	(60,697)					(60,697)
Inventory impairments			107,508	7,750		115,258
Change in fair value of mortgage loans receivable and derivative instruments				(970)		(970)
Expenses related to early retirement of debt		744	464			1,208
Changes in operating assets and liabilities:						
Decrease in inventory			(16,730)	(123,614)		(140,344)
Origination of mortgage loans				(628,154)		(628,154)
Sale of mortgage loans				579,221		579,221
Increase in restricted cash			(60,906)			(60,906)
(Increase) decrease in receivables, prepaid expenses and other assets	(50,136)	36,330	(143,435)	144,502	9,624	(3,115)
Decrease in customer deposits			(9,713)	(5,469)		(15,182)
(Decrease) increase in accounts payable and accrued expenses	(274)	5,778	(133,422)	91,114	(1,794)	(38,598)
Decrease in income tax refund recoverable	20,250					20,250
	14,828					14,828

Decrease in current income taxes payable						
Net cash (used in) provided by operating activities	(11,955)	46,114	(228,164)	47,721		(146,284)
Cash flow used in investing activities:						
Purchase of property and equipment, net			(4,750)	(80)		(4,830)
Purchase of marketable securities			(157,962)			(157,962)
Redemption of marketable securities			60,000			60,000
Investments in and advances to unconsolidated entities			(28,493)	(29,793)		(58,286)
Return of investment in unconsolidated entities			9,696			9,696
Net cash used in investing activities			(121,509)	(29,873)		(151,382)
Cash flow (used in) provided by financing activities:						
Proceeds from issuance of senior notes						
Proceeds from loans payable				927,233		927,233
Principal payments of loans payable			(372,419)	(944,095)		(1,316,514)
Redemption of senior subordinated notes			(47,872)			(47,872)
Redemption of senior notes		(46,114)				(46,114)
Proceeds from stock-based benefit plans	7,589					7,589
Excess tax benefit from stock-based compensation	4,954					4,954
Purchase of treasury stock	(588)					(588)
Change in noncontrolling interest				320		320
Net cash (used in) provided by financing activities	11,955	(46,114)	(420,291)	(16,542)		(470,992)
Net (decrease) increase in cash and cash equivalents			(769,964)	1,306		(768,658)
Cash and cash equivalents, beginning of year			1,700,351	107,367		1,807,718
Cash and cash equivalents, end of year			930,387	108,673		1,039,060

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Consolidating Statement of Cash Flows for the fiscal year ended October 31, 2009

	Toll Brothers, Inc.	Subsidiary Issuer	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Consolidated
Cash flow provided by (used in) operating activities:						
Net loss	(755,825)		(237,089)	(11,327)	248,416	(755,825)
Adjustments to reconcile net loss to net cash provided by (used in) operating activities:						
Depreciation and amortization	28	2,652	20,363	882		23,925
Stock-based compensation	10,987					10,987
Excess tax benefit from stock-based compensation	(24,817)					(24,817)
Impairment of investment in unconsolidated entities			6,000	5,300		11,300
(Loss) earnings from unconsolidated entities			1,518	(5,300)		(3,782)
Distributions of earnings from unconsolidated entities			816			816
Change in deferred tax asset	(52,577)					(52,577)
Deferred tax valuation allowance	458,280					458,280
Inventory impairments			419,311	46,100		465,411
Expenses related to early retirement of debt		11,626	2,067			13,693
Changes in operating assets and liabilities:						
Decrease in inventory			377,146	112,067		489,213
Origination of mortgage loans				(571,158)		(571,158)
Sale of mortgage loans				577,263		577,263
Decrease (increase) in receivables, prepaid expenses and other assets	508,224	(439,154)	185,744	16,228	(250,997)	20,045
Decrease in customer deposits			(22,842)	(22,864)		(45,706)
Decrease in accounts payable and accrued expenses	(4,979)	(249)	(111,030)	(35,388)	2,581	(149,065)
Increase in income tax refund recoverable	(161,840)					(161,840)
	(22,972)					(22,972)

Decrease in current income taxes payable						
Net cash provided by (used in) operating activities	(45,491)	(425,125)	642,004	111,803		283,191
Cash flow used in investing activities:						
Purchase of property and equipment, net			(2,719)	7		(2,712)
Purchase of marketable securities			(101,324)			(101,324)
Investments in and advances to unconsolidated entities			(31,342)			(31,342)
Return of investment in unconsolidated entities			3,205			3,205
Net cash used in investing activities			(132,180)	7		(132,173)
Cash flow provided by (used in) financing activities:						
Proceeds from issuance of senior notes		635,765				635,765
Proceeds from loans payable				636,975		636,975
Principal payments of loans payable			(28,587)	(757,296)		(785,883)
Redemption of senior subordinated notes			(296,503)			(296,503)
Redemption of senior notes		(210,640)				(210,640)
Proceeds from stock-based benefit plans	22,147					22,147
Excess tax benefit from stock-based compensation	24,817					24,817
Purchase of treasury stock	(1,473)					(1,473)
Change in noncontrolling interest				(2,000)		(2,000)
Net cash provided by (used in) financing activities	45,491	425,125	(325,090)	(122,321)		23,205
Net increase (decrease) in cash and cash equivalents			184,734	(10,511)		174,223
Cash and cash equivalents, beginning of year			1,515,617	117,878		1,633,495

Cash and cash equivalents, end of year	1,700,351	107,367	1,807,718

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21. Summary Consolidated Quarterly Financial Data (Unaudited)

The table below provides summary income statement data for each quarter of fiscal 2011 and 2010 (amounts in thousands, except per share data).

	Three Months Ended,			
	October 31	July 31	April 30	January 31
Fiscal 2011				
Revenue	$ 427,785	$ 394,305	$ 319,675	$ 334,116
Gross profit	$ 65,281	$ 54,358	$ 43,321	$ 52,151
Income (loss) before income taxes	$ 15,277	$ 3,888	$ (31,484)	$ (17,047)
Net income (loss)	$ 15,043	$ 42,108	$ (20,773)	$ 3,417
Income (loss) per share (1)				
Basic	$ 0.09	$ 0.25	$ (0.12)	$ 0.02
Diluted	$ 0.09	$ 0.25	$ (0.12)	$ 0.02
Weighted-average number of shares				
Basic	166,896	168,075	166,910	166,677
Diluted (2)	167,525	169,338	166,910	168,121
Fiscal 2010				
Revenue	$ 402,600	$ 454,202	$ 311,271	$ 326,698
Gross profit	$ 38,617	$ 64,697	$ 5,688	$ 9,211
(Loss) income before income taxes	$ (9,467)	$ 823	$ (51,789)	$ (56,754)
Net income (loss)	$ 50,479	$ 27,302	$ (40,401)	$ (40,754)
Income (loss) per share (1)				
Basic	$ 0.30	$ 0.16	$ (0.24)	$ (0.25)
Diluted	$ 0.30	$ 0.16	$ (0.24)	$ (0.25)
Weighted-average number of shares				
Basic	166,269	165,752	165,407	165,237
Diluted (2)	167,777	167,658	165,407	165,237

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

(2) For the three months ended April 30, 2011, April 30, 2010 and January 31, 2010, there were no incremental shares attributed to outstanding options to purchase common stock because the Company reported a net loss for each period, and any incremental shares would be anti-dilutive.