2013 ANNUAL REPORT

Toll Brothers
America's Luxury Home Builder®

"WE LOOK FOR SPECTACULAR LOCATIONS AT THE CORNER OF MAIN AND MAIN."

— DOUGLAS C. YEARLEY, JR., CEO

CORPORATE OVERVIEW*

FOCUS ON LUXURY HOMES AND COMMUNITIES

National presence in the luxury market

Average delivered home price of $639,000

Average price of homes in FYE backlog: $715,000

Operations in approximately 50 affluent markets in 19 states and Washington, D.C.

A diversity of community types:

- Luxury move-up
- Elegant empty-nester, active-adult, and second homes
- Urban low-, mid-, and high-rise condominiums
- Large multiproduct master plans
- Suburban high-density
- Resort-style golf, country club, lake, and marina
- Luxury urban and suburban rental apartments

NATIONALLY RECOGNIZED BRAND NAME

America's Luxury Home Builder®

Toll Brothers City Living® in Manhattan, Brooklyn, and Queens, NYC; Hoboken and Jersey City, NJ; Washington, D.C.; Bethesda, MD; and Philadelphia, PA markets

Championship golf courses designed by Pete Dye, Greg Norman, Arnold Palmer, Nicklaus Design, Arthur Hills, and Peter Jacobsen

AWARDS:

- Two-Time **Builder of the Year**, *Professional Builder* magazine
- **National Housing Quality Award**, National Association of Home Builders® (NAHB)
- **America's Best Builder**, NAHB
- **Apex Award**, *Big Builder* magazine
- **World's Most Admired Companies**, *Fortune* magazine
- **Most Honored Home Building Company**, *Institutional Investor* magazine

FINANCIAL AND MANAGEMENT STRENGTH

Founded in 1967; NYSE (TOL) since 1986

Strong corporate credit ratings: Standard & Poor's (BB+), Moody's (Ba1), and Fitch (BBB-)

Multibank, multiyear, $1.035 billion credit facility

$826 million in cash and marketable securities and $958 million available under 15-bank, 5-year credit facility

Raised over $3.2 billion in corporate and joint venture financing since beginning of FY 2013

Net debt-to-capital ratio† of 32.5%

Laddered long-term public debt maturities with average of 5.6 years remaining

Seasoned management team: average senior management tenure of 18 years

Acquisition of distressed loan portfolios through Gibraltar Capital and Asset Management

Development and management of rental apartments through Toll Brothers Apartment Living and Campus Living

Acquisition, development, and operation of golf courses

INTEGRATED LAND AND BUILDING PROGRAM

Controls 48,600 home sites

Land acquisition, approval, and development skills

Delivered approximately 69,000 homes ($41 billion) since FY 2000

Selling from 232 communities at FYE 2013 with a target of 250 to 290 by FYE 2014

Combines high-volume home production with extensive personalization offerings

Home buyers averaged approximately $116,000 in upgrades and home site premiums, 21% above base house price, in FY 2013

Predesigns and prebudgets options through Toll Architecture and Toll Integrated Systems

Through Toll Brothers City Living, 28 mid- and high-rise towers completed, in construction, or planned for metro urban New York City market since entry in 2003

Ancillary businesses: mortgage, title, golf course development and management, landscape, land development, home security, architecture, engineering, house component manufacturing, apartment development and operation, and acquisition of distressed loan portfolios

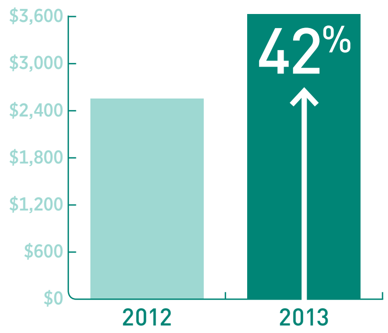
* Information for and as of FYE October 31, 2013, unless otherwise noted.
† Net debt-to-capital ratio is calculated as total debt minus mortgage warehouse loans minus cash and marketable securities, divided by total debt minus mortgage warehouse loans minus cash and marketable securities plus stockholders' equity.

PIERHOUSE AT BROOKLYN BRIDGE PARK WILL OFFER RESIDENTS SWEEPING VIEWS OF THE BROOKLYN BRIDGE TO THE NORTH, THE STATUE OF LIBERTY TO THE SOUTH, AND THE EAST RIVER DIRECTLY AHEAD, ALL FRAMING MANHATTAN'S MAGNIFICENT SKYLINE.

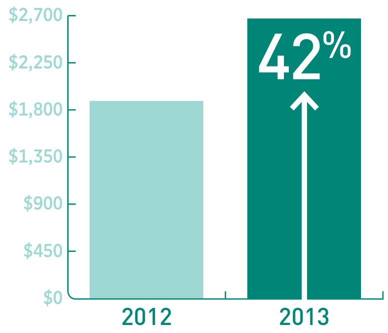
Pierhouse at Brooklyn Bridge Park | Brooklyn, NY
Artist's Rendering

The Vallagio | Riverstone | Sugar Land, TX

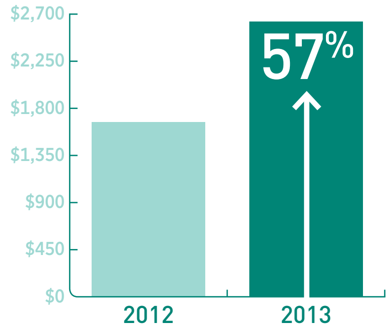
CONTRACTS
In FY (in millions)



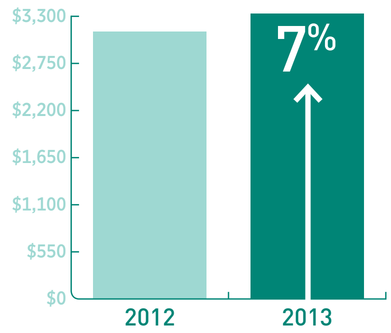
REVENUES
In FY (in millions)



BACKLOG
At FYE (in millions)



STOCKHOLDERS' EQUITY
At FYE (in millions)



FINANCIAL SUMMARY (FYE)

Balance Sheet Data *(amounts in 000s, except per-share data)*	2013	2012	2011	2010	2009	2008	2007	2006	2005	2004	2003
Cash and marketable securities	**$ 825,480**	$ 1,217,892	$ 1,139,912	$ 1,236,927	$ 1,908,894	$ 1,633,495	$ 900,337	$ 632,524	$ 689,219	$ 580,863	$ 425,251
Home building debt*	**$ 2,428,664**	$ 2,180,280	$ 1,597,528	$ 1,638,601	$ 2,108,374	$ 2,100,039	$ 2,189,120	$ 2,228,101	$ 1,740,580	$ 1,636,045	$ 1,448,366
Stockholders' equity	**$ 3,332,987**	$ 3,121,700	$ 2,586,353	$ 2,555,453	$ 2,513,199	$ 3,237,653	$ 3,527,234	$ 3,415,926	$ 2,763,571	$ 1,919,987	$ 1,476,628
Book value per share	**$ 19.68**	$ 18.51	$ 15.61	$ 15.36	$ 15.26	$ 20.19	$ 22.47	$ 22.20	$ 17.84	$ 12.83	$ 10.07
Home building debt-to-capital ratio†	**42.2%**	41.1%	38.2%	39.1%	45.6%	39.3%	38.3%	39.5%	38.6%	46.0%	49.5%
Home building net debt-to-capital ratio††	**32.5%**	23.6%	15.0%	13.6%	7.4%	12.6%	26.8%	31.8%	27.6%	35.5%	40.9%

Operations Data *(amounts in 000s)*	2013	2012	2011	2010	2009	2008	2007	2006	2005	2004	2003
Total revenues	**$ 2,674,299**	$ 1,882,781	$ 1,475,881	$ 1,494,771	$ 1,755,310	$ 3,148,166	$ 4,635,093	$ 6,115,280	$ 5,759,301	$ 3,839,451	$ 2,731,044
Income (loss) before income taxes	**$ 267,697**	$ 112,942	$ (29,366)	$ (117,187)	$ (496,465)	$ (466,787)	$ 70,680	$ 1,126,616	$ 1,323,128	$ 647,432	$ 411,153
Net income (loss)	**$ 170,606**	$ 487,146	$ 39,795	$ (3,374)	$ (755,825)	$ (297,810)	$ 35,651	$ 687,213	$ 806,110	$ 409,111	$ 259,820
Total contracts	**$ 3,633,908**	$ 2,557,917	$ 1,604,827	$ 1,472,030	$ 1,304,656	$ 1,608,191	$ 3,010,013	$ 4,460,734	$ 7,152,463	$ 5,641,454	$ 3,475,992
Backlog	**$ 2,629,466**	$ 1,669,857	$ 981,052	$ 852,106	$ 874,837	$ 1,325,491	$ 2,854,435	$ 4,488,400	$ 6,014,648	$ 4,433,895	$ 2,631,900

* Total debt minus mortgage warehouse loans.
† Home building debt-to-capital ratio is calculated as total debt minus mortgage warehouse loans, divided by total debt minus mortgage warehouse loans plus stockholders' equity.
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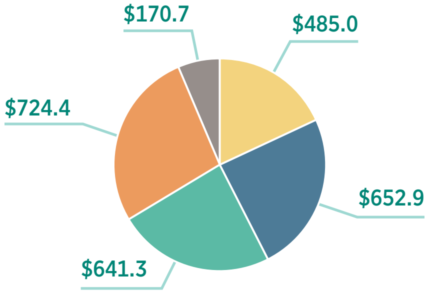
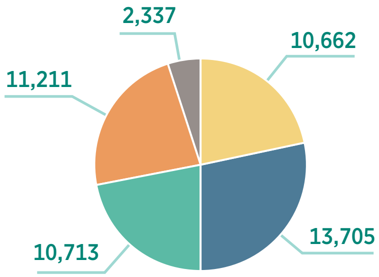


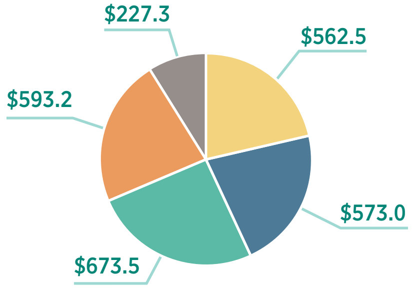
HOUSING REVENUES

By region in FY 2013 (in millions)



HOME SITES CONTROLLED

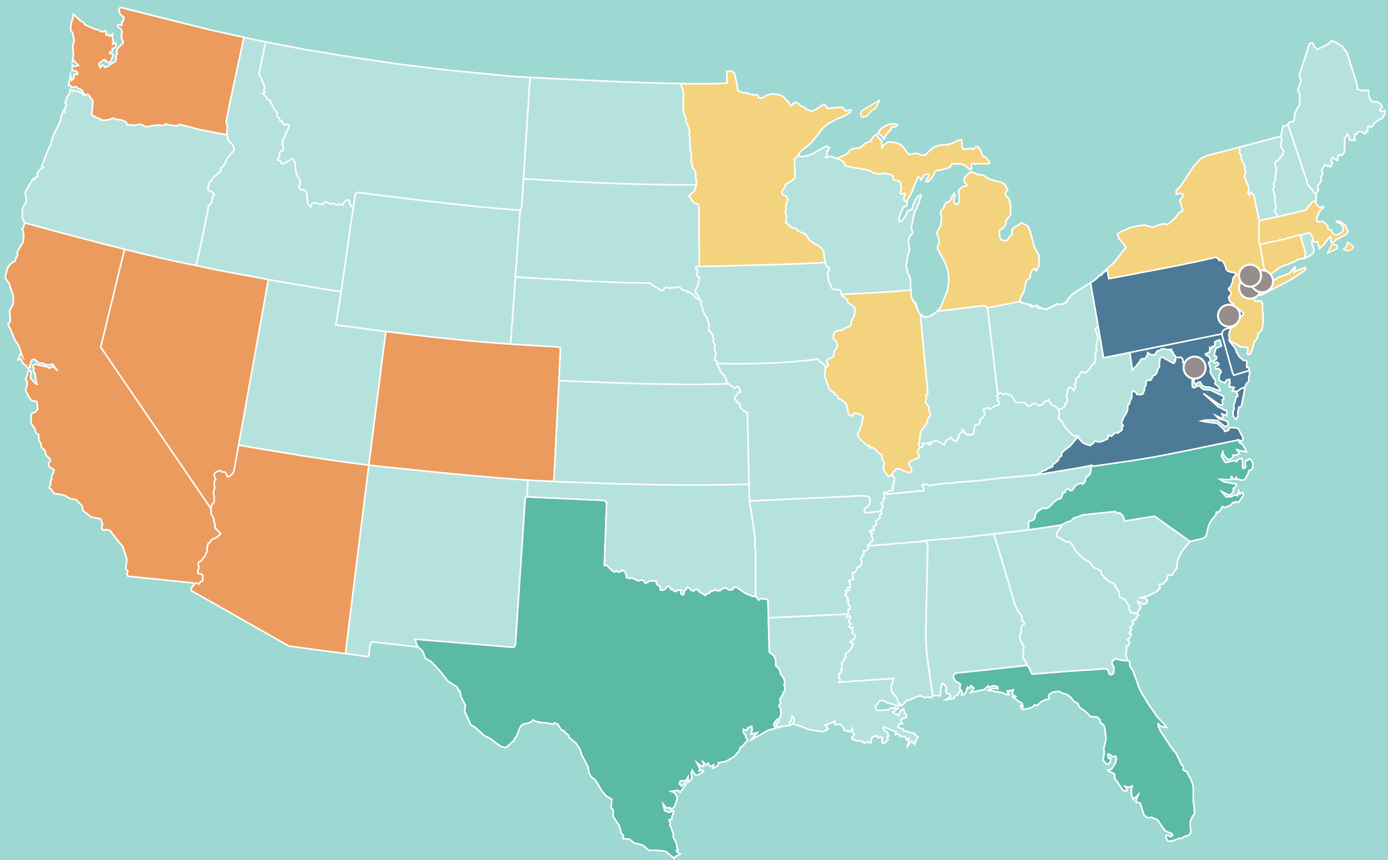
By region at FYE 2013



BACKLOG

By region at FYE 2013 (in millions)

GEOGRAPHIC DIVERSIFICATION



THE NORTH

Connecticut, Illinois, Massachusetts, Michigan, Minnesota, New Jersey, New York

THE MID-ATLANTIC

Delaware, Maryland, Pennsylvania, Virginia

THE SOUTH

Florida, North Carolina, Texas

THE WEST

Arizona, California, Colorado, Nevada, Washington

CITY LIVING

Manhattan, Brooklyn, and Queens, NYC; Hoboken and Jersey City, NJ; Washington, D.C.; Bethesda, MD; Philadelphia, PA

The Chesapeake | The Reserve at Chestnut Ridge | Downingtown, PA

The McCartney | Belvedere at Bellevue | Bellevue, WA

Parkland Golf & Country Club | Parkland, FL

400 Park Avenue South | Manhattan, NY
Artist's Rendering

The Hampton | Randolph Ridge | Randolph, NJ

La Morra | Toll Brothers at Amalfi Hills | Yorba Linda, CA

DEAR SHAREHOLDER,

WITH THE HOUSING RECOVERY GAINING MOMENTUM, FY 2013 was a year of significant growth for Toll Brothers. Our revenues rose 42% to $2.67 billion; our contracts grew 42% to $3.63 billion; our backlog increased 57% to $2.63 billion; and our pre-tax income improved 137% to $267.7 million. Our revenues were the highest since FY 2008; our year-end backlog was the highest since FYE 2007; and our contracts were the highest since FY 2006.

The price increases that we have been instituting in many communities over the past year, combined with the acceleration in sales paces per community and efficiencies from our high-volume home production systems, translated into strong revenue and earnings growth. In our fourth quarter, revenues jumped 65% to $1.04 billion — the first time that we've exceeded $1 billion in revenues in 24 quarters. Our 36% increase in unit home deliveries in the fourth quarter resulted from our continuing focus on increasing production to meet the surge in our backlog. In the fourth quarter, our gross margin, excluding write-downs and impairments, and our operating margin improved to 25.4% and 12.3%, respectively, compared to 24.6% and 8.3% in FY 2012's fourth quarter.

In addition to our solid home building results in FY 2013, our wholly owned Gibraltar Capital and Asset Management subsidiary, which focuses on the acquisition and value maximization of distressed real estate loans and assets, generated approximately $16 million in pre-tax income, while we produced approximately $37.5 million of pre-tax income from our other joint ventures and ancillary businesses, as well as other items.

In this recovery, our focus on the luxury market and "long land" strategy of controlling sites in affluent locations is serving us well. Upscale buyers want to live in neighborhoods with quality schools and convenient access to employment centers, major cities, and cultural institutions. They are willing to pay a premium for this lifestyle. With approved sites for luxury homes still in short supply nationwide, our well-located communities, coupled with our highly respected brand, helped drive our pricing power in FY 2013: The average price of deliveries this fourth quarter was up 21% to $703,000, and the average price of homes in FYE backlog rose 10% to $715,000 compared to one year ago.

We started FY 2013 very strong, building on the sales momentum of FY 2012. Buoyed by historic low interest rates and significant pent-up demand, we raised prices and accelerated per-community home sales paces as the housing market continued to rebound. The value of FY 2013's first nine months' contracts rose 35% in units and 49% in dollars

WITH THE HOUSING RECOVERY GAINING MOMENTUM, FY 2013 WAS A YEAR OF SIGNIFICANT GROWTH FOR TOLL BROTHERS. OUR REVENUES ROSE 42% TO $2.67 BILLION; OUR CONTRACTS GREW 42% TO $3.63 BILLION; OUR BACKLOG INCREASED 57% TO $2.63 BILLION; AND OUR PRE-TAX INCOME IMPROVED 137% TO $267.7 MILLION.

SUPPORTED BY OUR WELL-LOCATED LAND PORTFOLIO, STRONG FINANCIAL POSITION, BROAD PRODUCT DIVERSIFICATION, AND INDUSTRY-LEADING BRAND, WE BELIEVE THAT FY 2014 WILL BE A YEAR OF FURTHER REVENUE GROWTH, MARGIN IMPROVEMENT, AND INCREASED PROFITABILITY FOR TOLL BROTHERS.

compared to the same period in FY 2012, which was up solidly — 43% and 54%, respectively — versus FY 2011. Buyers seemed to digest the price increases that accompanied the stepped-up sales volumes through our first three quarters of FY 2013.

In our fourth quarter, the impact of those price increases, combined with uncertainty from Washington's political discord and a sudden rise in interest rates, contributed to a leveling of demand. In our fourth quarter, contract growth was 6% in units and 23% in dollars versus FY 2012's strong fourth quarter, which was up 70% in units and 75% in dollars versus FY 2011's same period.

We believe that this leveling of demand, which, as we write this, has persisted through the first six weeks of our FY 2014 first quarter, will prove temporary based on still-considerable pent-up demand, the gradually strengthening economy, a robust stock market, and the improving prospects of our affluent customers. We believe that the housing industry is still in the early stages of recovery and that Toll Brothers, and the publicly traded home building companies in general, still have substantial room for growth.

New home production remains well below volumes needed to meet current demand, not to mention the pent-up demand of the last six years. The economy, while improving slowly, is far from fully recovered. In 2013, national housing starts, although projected to be up significantly from 2012, will still be well below the average of the last 40 years, despite an increased population. Based on historical ratios comparing new home construction to population and households, as well as based on normalized housing production over the past 40 years, our industry has been dramatically undersupplying the market since 2008.

A shortage of approved home sites, labor constraints in some markets, and a lack of available capital for small and mid-sized privately owned builders, are still constraining supply. In the luxury market, this shortage could lead to a further escalation in home prices above and beyond normal trends until industry production returns to its historic equilibrium.

In FY 2013, we increased our land position by 20% from one year ago to approximately 48,600 home sites, a total that will increase again in the coming months. We bought land in nearly all of the 19 states in which we operate and strategically expanded our product lines into a number of key markets in FY 2013.

In the metro urban New York City market, we made some timely Manhattan condominium site acquisitions and began construction of our first urban rental project, a 38-story joint-ventured tower in Jersey City, New Jersey, a 5-minute train ride to Wall Street. We introduced our already established active-adult brand to the western United States with a new community in the Denver suburbs. In Texas, we acquired several major master plans in fast-growing Houston and reentered the Austin market with a large acquisition as well. In the Maryland and Northern Virginia suburbs of Washington, D.C., we made several well-positioned land acquisitions and entered the metro urban D.C. market with both condo and rental apartment projects. And in Boca Raton, Florida, we acquired the former Royal Palm Polo Club, on which we plan to offer 223 homes at an average sales price of between $1.2 and $2 million.

Most significantly, in early November 2013, we announced the acquisition of Shapell Homes of California for $1.6 billion. Shapell has a long and illustrious history as one of California's largest and most successful land development and home building companies in the coastal markets of Northern and Southern California. This acquisition provides us with California's premier large-scale land portfolio, consisting of approximately 5,200 entitled home sites in affluent, high-barrier-to-entry markets: the San Francisco Bay area, metro Los Angeles, Orange County, and Carlsbad. We expect the deal to close in early 2014.

The Tradition | Regency Hills at Providence | Collegeville, PA

The Elan | Estilo at Rancho Mirage | Rancho Mirage, CA

(left to right)
Richard T. Hartman, *President, Chief Operating Officer*
Robert I. Toll, *Executive Chairman of the Board*
Douglas C. Yearley, Jr., *Chief Executive Officer*
Martin P. Connor, *Chief Financial Officer*

Our strong balance sheet and ready access to capital helped fuel our growth in FY 2013 and remain a major competitive advantage. We ended FY 2013 with $826 million of cash and marketable securities on our balance sheet and an additional $1.46 billion of liquidity through our various committed bank credit facilities. We are focused on maintaining the financial flexibility that has enabled us to weather the recent unprecedented downturn and then expand opportunistically as the recovery has unfolded. This flexibility allowed us to enter Seattle in November 2011, as the market began to recover, through our acquisition of CamWest and, more recently, to expand our presence in California through our upcoming acquisition of Shapell. It also has allowed us to grow our apartment development business over the last two years with four projects totaling approximately 1,500 units currently under development and approximately 4,000 additional units in the pipeline.

During FY 2013 and into the start of FY 2014, we have raised over $3.2 billion via corporate and joint venture project financings while maintaining our current credit ratings, which were reaffirmed by all three agencies in early November after our announcement of the Shapell acquisition. This acquisition will be paid for with the proceeds from our November 2013 $230 million stock issuance, the $600 million of 5- and 10-year debt we also raised in November in the public capital markets, and a planned future draw of approximately $800 million on our preexisting $1.035 billion long-term line of credit. Upon completion of the Shapell transaction, with our additional cash on hand and supplemental already committed credit facilities in place, we project that we will still have in excess of $1 billion of available liquidity for growth.

Supported by our well-located land portfolio, strong financial position, broad product diversification, and industry-leading brand, we believe that FY 2014 will be a year of further revenue growth, margin improvement, and increased profitability for Toll Brothers. Our community count, including the additions from our acquisition of Shapell, should increase from 232 communities at FYE 2013 to between 250 and 290 by FYE 2014. Based on our FYE $2.63 billion backlog of 3,679 homes, projected pace of future sales, and cancellation rate, which is the lowest among the publicly traded builders, we anticipate delivering between 5,100 and 6,100 homes in FY 2014. At an average home price of between $670,000 and $720,000, this would translate to revenues of between $3.42 billion and $4.39 billion in FY 2014, an increase of 28% to 64% over FY 2013. And we look forward to continuing to expand our land position and spreading our brand across our product lines and diversified markets.

We thank our shareholders and home buyers for their support. We thank our capital providers, our suppliers, and our subcontractors for working with us. And we thank and express our deep admiration for the tremendous group of colleagues with whom we work at Toll Brothers. Their commitment to providing our buyers with the finest quality and service propels us forward and makes Toll Brothers a unique place to work and a unique company on which our customers can rely to build the homes and communities of their dreams.

Robert I. Toll
Executive Chairman of the Board

Douglas C. Yearley, Jr.
Chief Executive Officer

December 10, 2013

Lower level wine cellar in The Claridge
Spring Lake Estates | Shakopee, MN

THE TOLL BROTHERS BRAND: THE NATION'S LEADING LUXURY HOME BUILDER

THE TOLL BROTHERS BRAND IS SYNONYMOUS WITH QUALITY, VALUE, AND SERVICE. We began back in 1967 as a company focused on building large single-family homes for growing families in the suburbs of Philadelphia. In the past 46 years, we have expanded our brand across the United States and diversified our product lines across the spectrum of luxury housing. We now serve move-up, empty-nester, active-adult, and second-home buyers in affluent markets in 19 states and roughly 50 markets with an array of luxury residential single-family detached, attached, large master planned, resort-style golf, and urban low-, mid-, and high-rise for-sale communities, as well as urban and suburban rental communities. For those efforts we have won the three most coveted awards in the home building industry: **America's Best Builder**, the **National Housing Quality Award**, and **Builder of the Year**. Toll Brothers was awarded **Builder of the Year** in 2012, the first two-time recipient.

Our communities are known for their excellent locations, lifestyle amenities, extensive landscaping, and beautiful homes. In the suburbs, we seek to integrate cul-de-sacs and winding streets, walking trails, tot lots, playgrounds, open spaces, and greenscapes. Our larger communities may include indoor and outdoor swimming pools, tennis courts, golf courses, fitness centers, and clubhouses with libraries, dining facilities, and yoga, game, and craft rooms. In our urban high-rise towers, children's playrooms, rooftop decks and gardens, grill areas, swimming pools, business centers, wine cellars, screening rooms, shuttle services, workout facilities, and extensive concierge services all enhance our residents' lifestyles.

Particularly in our suburban communities, buyers can extensively personalize their homes by choosing from hundreds of options. They may select structural additions such as conservatories, media rooms, expanded kitchens and family rooms, extra bedrooms, home offices, in-law and guest suites, playrooms, and a myriad of other options. For designer options, they can upgrade cabinets, lighting, flooring, doors, fixtures, and hundreds of other home features. On average, in FY 2013 our buyers added over $116,000, or 21%, in upgrades and home site premiums to the base price of their homes.


The Hampton | Olney Estates | Olney, MD


The Fairhaven | Regency at Yardley | Yardley, PA


Snowmass Clubhouse | Snowmass Village, CO

Toll Brothers Design Studio | Englewood, CO

Harborside Lofts | Hoboken, NJ

The Henley
Bromley Estates at Weddington | Weddington, NC

Pierhouse at Brooklyn Bridge Park | Brooklyn, NY
Artist's Rendering

DISCIPLINED LAND BUYING IN AFFLUENT HIGH-GROWTH AND HIGH-BARRIER-TO-ENTRY MARKETS

FINDING THE BEST SITES at the corner of Main and Main has been our mantra for nearly half a century. We've learned that, during good times, home prices rise faster in these locations, and during downturns, the best markets hold their value much better than marginal areas. Every land parcel we buy is approved at corporate headquarters.

During FY 2013, we acquired, or put under control, sites in nearly all of the 19 states in which we operate. Many were in "knowledge centers" — towns and cities that attract highly educated, high-income earners drawn by strong quality of life and employment prospects in fields such as technology, finance, health care, energy, education, and professional services.

The most significant transaction, and the most exciting acquisition in the Company's history, is our $1.6 billion purchase of Shapell Homes, which we announced in November 2013. This deal, which we expect will close in early 2014, includes approximately 5,200 home sites, 97.5% of which are entitled, and all of which are located in already established upscale master planned communities. Shapell's fabulous land portfolio dovetails perfectly with our own and adds meaningfully to our land position in premier northern and southern coastal California locations where entitled home sites are scarce. To reduce geographic concentration, we plan to sell some sites to other builders. Shapell will immediately ramp up our presence in a state in which we have operated for 20 years and sold over $6 billion of homes and which remains one of the most desirable and affluent housing markets in the United States.

In the metro urban New York City market, we acquired three Manhattan sites that, when developed, are expected to yield over 380 high-end condominiums and produce revenues of approximately $734 million over the next several years. We also began delivering homes at The Touraine at 65th Street and Lexington Avenue in Manhattan. We launched sales at two projects under construction: the 210-unit 1100 Maxwell Place in Hoboken, New Jersey, and the 81-unit 160 East 22nd Street in Manhattan's Gramercy neighborhood. In Philadelphia, we launched condominium sales at 410 at Society Hill and 2400 South. In the coming months in New York City, we will launch sales at 400 Park Avenue South, a 40-story tower south of Grand Central Station; at the Pierhouse in Brooklyn Bridge Park; and at 1110 Park Avenue at 89th Street in Manhattan, an ultra-luxury, 11-unit large-condominium boutique building.

In the metro urban Washington, D.C., area, we purchased Union Place in the NOMA neighborhood of the District, adjacent to Union Train Station, where we plan to build over 500 rental apartment units. We also purchased Hampden Row, a planned 55-unit project in Bethesda, Maryland — our first new condo project in metro urban D.C. In addition, we began construction, in joint venture, of our first Washington, D.C., luxury rental apartment building of 287 units in the Capitol Riverfront area by Nationals Park. When complete, this project, River Parc, will consist of two buildings of over 590 units. In D.C.'s land-constrained Maryland suburbs, we acquired, in joint venture, a 945-acre site in Upper Marlboro that is expected to yield 1,291 single-family and townhome lots that we will develop and build out pro rata with our partner.

In Texas, we reentered the Austin market with the purchase, in joint venture, of Travisso, a 2,900-home site master planned community. In the dynamic Houston market, we acquired three major master planned communities: one each in Houston's North, Northwest, and Southwest submarkets. The largest, a joint venture, is Sienna South, an approximately 6,500-home site community in Southwest Houston, 30 minutes from downtown Houston and 25 minutes from the vast Texas Medical Center. The other two communities, Woodbridge at Spring Creek and Northwoods, are located 15 minutes from the new 12,000-employee Exxon Mobil corporate campus and will total approximately 2,000 home sites combined. In all three communities, Toll Brothers will build a portion of the homes, and also sell home sites to other builders. All three communities will begin sales as most of the mature, competing master planned communities sell out their final lots, so we are very excited about our timing.


The Elan | Estilo at Rancho Mirage | Rancho Mirage, CA

OUR STRONG BALANCE SHEET AND ABILITY TO RAISE CAPITAL FUEL OUR GROWTH

THROUGHOUT THE 27 YEARS THAT WE HAVE BEEN PUBLICLY TRADED on the New York Stock Exchange, as careful stewards of our shareholders' capital in a cyclical industry, we have sought to balance the drive for growth and increasing profitability with the need to maintain a strong balance sheet with ample liquidity.

As we have shifted into growth mode again in the past several years, after the dramatic housing recession, we have continued to maintain our philosophy of prudent capital management. During FY 2013 and into the start of FY 2014, we raised over $3.2 billion via industry-leading corporate and joint venture project financing transactions to buy land, make site improvements, build residences, and drive future growth. Even with all that activity, all three rating agencies — Standard & Poor's Ratings Services, Moody's Investors Service, and Fitch Ratings, Inc. — reaffirmed our current strong credit ratings in mid-November 2013.

Our fundraising was quite diverse as we tapped a variety of capital markets. In April and May 2013, we raised a total of $400 million in 10-year senior notes at an average rate of 4.28% to retire $222 million of near-maturing debt and provide additional growth capital. In August 2013, we replaced our soon-to-mature $885 million, 4-year bank credit facility with a new $1.035 billion, 5-year facility priced more attractively. Over the course of the last 15 months, we raised over $600 million in project-specific joint venture debt and equity for a number of urban and suburban rental apartment developments and large master planned community land acquisitions. In anticipation of the closing of our recently announced $1.6 billion Shapell Homes acquisition, we raised an additional $1.3 billion from the bank and public capital markets, both to pay for the acquisition and to assure ourselves additional growth liquidity. In November 2013, we raised $230 million through a stock offering and then raised $350 million of 5-year 4% debt and $250 million of 10-year 5.625% debt from the public capital markets. In October 2013, we secured a commitment for a $500 million, 364-day bank revolving credit facility that we don't intend to draw upon but that will provide additional liquidity as we digest the Shapell acquisition and pursue additional growth opportunities.

As we look to the future, we will continue to balance our growth initiatives with the need to maintain a well-structured balance sheet and manage our leverage so that we can increase revenues and profits going forward while carefully controlling our risk.

SINCE THE START OF FY 2013, WE HAVE RAISED OVER $3.2 BILLION VIA CORPORATE AND JOINT VENTURE PROJECT FINANCINGS WHILE MAINTAINING OUR CURRENT CREDIT RATINGS. EVEN UPON COMPLETION OF THE $1.6 BILLION SHAPELL ACQUISITION, WE PROJECT THAT WE WILL STILL HAVE IN EXCESS OF $1 BILLION OF AVAILABLE LIQUIDITY FOR GROWTH.

BASIC DEMOGRAPHICS DRIVE AN INDUSTRY EMERGING FROM ITS SLUMBER

FROM 1970 THROUGH 2007, the United States produced on average approximately 1.59 million total housing starts per year. The numbers ranged from a low of 1.014 million in 1991 to a high of 2.357 million in 1972. From 2008 through 2012, housing starts have not exceeded 906,000 in any one year — annual production in each of the last five years has ranked lower than in any other year since at least 1970. Even 2013, which, when the dust settles, may approach 1 million housing starts, will likely be lower than in any year other than from 2008 to 2012. Compared to the historic average, the industry has underproduced by about 900,000 homes per year for the last five years, or total underproduction of 4.5 million units. That works out to nearly three years of production needed just to meet pent-up demand.

From 1970 through 2007, the U.S. population grew from 205 million to 301 million people, and household growth rose from 65 million to 112 million. Comparing the historic ratio of housing starts to population, and also to households, suggests an even greater shortfall: over four years of normalized production would be required to meet pent-up demand.

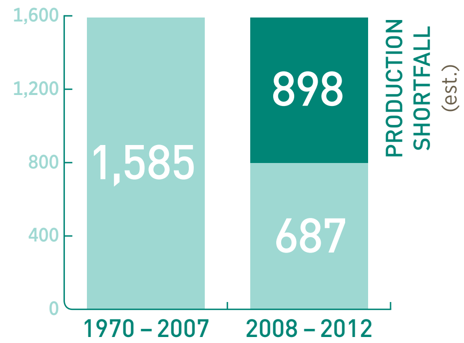
While population has continued to grow, household formations have not kept pace. Immigration has been slowed; grown kids are living with their parents; seniors are doubling up with their adult children; and, for many other reasons, multigenerational households have emerged as a short-term solution to the economy's weakness. If those who are doubling up reenter the housing market and more new adult immigrants come to the United States, an additional surge in housing demand could result.

A number of factors have impeded the industry's ability to ramp up. On the demand side, the mortgage process is keeping many potential first-time buyers and those at lower price points from homeownership. The industry needs to find a balance between today's rigid mortgage application process and the looser underwriting standards and high-leverage, minimal documentation mortgage products that were promoted late in the last housing cycle.

Mortgages are readily available to Toll Brothers' buyers. Our customers are at the higher end of the income scale and have strong FICO credit scores averaging 756. The 80% of our buyers who are not paying all cash are typically putting down an average of 30% equity at closing. However, there are many potential buyers at lower price points who are worthy borrowers, but whose ability to become homeowners is being inhibited by the conservatism pervading the current mortgage underwriting process. Since our buyers often sell their existing homes before moving to a Toll Brothers home, the normalizing of the mortgage market will help us and all home building companies, as well as the economy in general.

On the supply side, one key constraining factor is approved land availability. When housing began to slow in late 2005 and then the economy collapsed in 2008, builders and land developers stopped taking land through the approval process, and towns and municipalities trimmed back their infrastructure devoted to approving land for residential development. That infrastructure is just being revived. Similarly, the long downturn led many in the construction sector to seek other avenues of employment. With a path of growth in housing now more evident, more workers are returning to the sector as production gains momentum.

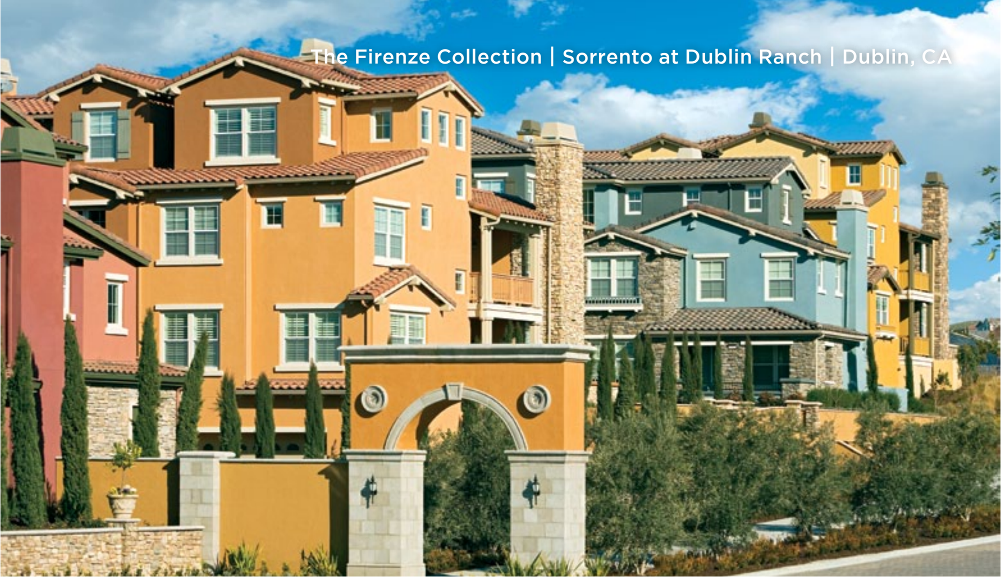
We believe that the industry is just emerging from its slumber and that there is tremendous room for growth as supply increases to match the demographics. We believe Toll Brothers, advantaged by our brand, sophisticated marketing, access to capital, and ability to approve and acquire land, will gain a disproportionate share of that growth.



AVERAGE ANNUAL HOUSING STARTS

(in thousands)

Housing Starts Source: U.S. Census Bureau



The Firenze Collection | Sorrento at Dublin Ranch | Dublin, CA

The Villa Lago | Frenchman's Harbor | North Palm Beach, FL

The Henley | Bromley Estates at Weddington | Weddington, NC

The Touraine | Manhattan, NY
Artist's Rendering

Lower level of The Hampton | Randolph Ridge | Randolph, NJ

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TOLL BROTHERS' 28-YEAR FINANCIAL SUMMARY 1986–2013

Summary Consolidated Statement of Operations Data *(amounts in thousands, except per share data)*

Year Ended October 31,	2013	2012	2011	2010	2009	2008	2007	2006	2005	2004	2003	2002
Revenues	$ 2,674,299	$ 1,882,781	$ 1,475,881	$ 1,494,771	$ 1,755,310	$ 3,148,166	$ 4,635,093	$ 6,115,280	$ 5,759,301	$ 3,839,451	$ 2,731,044	$ 2,279,261
Income (loss) before income taxes	$ 267,697	$ 112,942	$ (29,366)	$ (117,187)	$ (496,465)	$ (466,787)	$ 70,680	$ 1,126,616	$ 1,323,128	$ 647,432	$ 411,153	$ 347,318
Net income (loss)	$ 170,606	$ 487,146	$ 39,795	$ (3,374)	$ (755,825)	$ (297,810)	$ 35,651	$ 687,213	$ 806,110	$ 409,111	$ 259,820	$ 219,887
Income (loss) per share — Basic	$ 1.01	$ 2.91	$ 0.24	$ (0.02)	$ (4.68)	$ (1.88)	$ 0.23	$ 4.45	$ 5.23	$ 2.75	$ 1.84	$ 1.56
Weighted-average number of shares — Basic	169,288	167,346	167,140	165,666	161,549	158,730	155,318	154,300	154,272	148,646	141,339	140,945
Income (loss) per share — Diluted	$ 0.97	$ 2.86	$ 0.24	$ (0.02)	$ (4.68)	$ (1.88)	$ 0.22	$ 4.17	$ 4.78	$ 2.52	$ 1.72	$ 1.46
Weighted-average number of shares — Diluted	177,963	170,154	168,381	165,666	161,549	158,730	164,166	164,852	168,552	162,330	151,083	150,959

Summary Consolidated Balance Sheet Data *(amounts in thousands, except per share data)*

At October 31,	2013	2012	2011	2010	2009	2008	2007	2006	2005	2004	2003	2002
Cash and marketable securities	$ 825,480	$ 1,217,892	$ 1,139,912	$ 1,236,927	$ 1,908,894	$ 1,633,495	$ 900,337	$ 632,524	$ 689,219	$ 580,863	$ 425,251	$ 102,337
Inventory	$ 4,650,412	$ 3,732,703	$ 3,416,723	$ 3,241,725	$ 3,183,566	$ 4,127,475	$ 5,572,655	$ 6,095,702	$ 5,068,624	$ 3,878,260	$ 3,080,349	$ 2,551,061
Total assets	$ 6,827,459	$ 6,181,044	$ 5,055,246	$ 5,171,555	$ 5,634,444	$ 6,586,836	$ 7,220,316	$ 7,583,541	$ 6,343,840	$ 4,905,578	$ 3,787,391	$ 2,895,365
Debt												
Loans payable	$ 107,222	$ 99,817	$ 106,556	$ 94,491	$ 472,854	$ 613,594	$ 696,814	$ 736,934	$ 250,552	$ 340,380	$ 281,697	$ 253,194
Senior notes	$ 2,321,442	2,080,463	1,490,972	1,544,110	1,587,648	1,143,445	1,142,306	1,141,167	1,140,028	845,665	546,669	
Subordinated notes					47,872	343,000	350,000	350,000	350,000	450,000	620,000	819,663
Mortgage warehouse line	75,000	72,664	57,409	72,367	27,015	37,867	76,730	119,705	89,674	92,053	49,939	48,996
Collateralized mortgage obligations												
Total	$ 2,503,664	$ 2,252,944	$ 1,654,937	$ 1,710,968	$ 2,135,389	$ 2,137,906	$ 2,265,850	$ 2,347,806	$ 1,830,254	$ 1,728,098	$ 1,498,305	$ 1,121,853
Equity	$ 3,339,164	$ 3,127,871	$ 2,592,551	$ 2,559,013	$ 2,516,482	$ 3,237,653	$ 3,535,245	$ 3,423,629	$ 2,767,511	$ 1,919,987	$ 1,476,628	$ 1,129,509
Number of shares outstanding	169,353	168,637	165,729	166,408	164,725	160,369	157,008	153,899	154,943	149,642	146,644	140,432
Book value per share	$ 19.72	$ 18.55	$ 15.64	$ 15.38	$ 15.28	$ 20.19	$ 22.52	$ 22.25	$ 17.86	$ 12.83	$ 10.07	$ 8.04
Return on beginning stockholders' equity	5.5%	18.8%	1.6%	(0.1%)	(23.3.%)	(8.4%)	1.0%	24.9%	42.0%	27.7%	23.0%	24.1%

Home Data

Year Ended October 31,	2013	2012	2011	2010	2009	2008	2007	2006	2005	2004	2003	2002
Number of homes closed (1)	4,184	3,286	2,611	2,642	2,965	4,743	6,687	8,601	8,769	6,627	4,911	4,430
Sales value of homes closed (in 000s) (1)	$ 2,674,299	$ 1,882,781	$ 1,475,881	$ 1,494,771	$ 1,755,310	$ 3,106,293	$ 4,495,600	$ 5,945,169	$ 5,759,301	$ 3,839,451	$ 2,731,044	$ 2,279,261
Revenues — Percentage of completion (in 000s)	—	—	—	—	—	41,873	139,493	170,111				
Number of homes contracted	5,294	4,159	2,784	2,605	2,450	2,927	4,440	6,164	10,372	8,684	6,132	5,070
Sales value of homes contracted (in 000s)	$ 3,633,908	$ 2,557,917	$ 1,604,827	$ 1,472,030	$ 1,304,656	$ 1,608,191	$ 3,010,013	$ 4,460,734	$ 7,152,463	$ 5,641,454	$ 3,475,992	$ 2,734,457
At October 31,	**2013**	**2012**	**2011**	**2010**	**2009**	**2008**	**2007**	**2006**	**2005**	**2004**	**2003**	**2002**
Number of homes in backlog	3,679	2,569	1,667	1,494	1,531	2,046	3,950	6,533	8,805	6,709	4,652	3,342
Sales value of homes in backlog (in 000s) (2)	$ 2,629,466	$ 1,669,857	$ 981,052	$ 852,106	$ 874,837	$ 1,325,491	$ 2,854,435	$ 4,488,400	$ 6,014,648	$ 4,433,895	$ 2,631,900	$ 1,858,784
Number of selling communities	232	224	215	195	200	273	315	300	230	220	200	170
Home sites												
Owned	33,967	31,327	30,199	28,891	26,872	32,081	37,139	41,808	35,838	29,804	29,081	25,822
Optioned	14,661	9,023	7,298	5,961	5,045	7,703	22,112	31,960	47,288	30,385	18,977	15,022
Total	48,628	40,350	37,497	34,852	31,917	39,784	59,251	73,768	83,126	60,189	48,058	40,844

(1) Excludes 88 units with an aggregate delivered value of $86.1 million in fiscal 2008 and 336 units with an aggregate delivered value of $263.3 million in fiscal 2007 that were accounted for using the percentage of completion accounting method.
(2) Net of $55.2 million and $170.1 million of revenues recognized in fiscal 2007 and 2006, respectively, under the percentage of completion accounting method.

2001	2000	1999	1998	1997	1996	1995	1994	1993	1992	1991	1990	1989	1988	1987	1986
$ 2,180,469	$ 1,762,930	$ 1,438,171	$ 1,206,290	$ 968,253	$ 759,303	$ 643,017	$ 501,822	$ 392,560	$ 279,841	$ 175,971	$ 198,336	$ 176,864	$ 197,027	$ 134,856	$ 124,641
$ 337,889	$ 230,966	$ 160,432	$ 132,523	$ 103,215	$ 85,793	$ 79,439	$ 56,840	$ 42,820	$ 27,493	$ 8,444	$ 16,801	$ 21,520	$ 40,803	$ 33,346	$ 23,718
$ 213,673	$ 145,943	$ 101,566	$ 84,704	$ 65,075	$ 53,744	$ 49,932	$ 36,177	$ 28,058	$ 16,538	$ 5,013	$ 9,988	$ 13,127	$ 24,074	$ 17,173	$ 11,861
$ 1.49	$ 1.01	$ 0.69	$ 0.58	$ 0.48	$ 0.40	$ 0.37	$ 0.27	$ 0.21	$ 0.13	$ 0.04	$ 0.08	$ 0.11	$ 0.20	$ 0.14	$ 0.11
143,340	145,075	146,756	153,441	136,508	135,460	134,040	133,592	132,924	132,088	124,992	118,856	119,776	120,612	121,540	111,812
$ 1.38	$ 0.98	$ 0.68	$ 0.55	$ 0.44	$ 0.36	$ 0.34	$ 0.25	$ 0.21	$ 0.12	$ 0.04	$ 0.08	$ 0.11	$ 0.20	$ 0.14	$ 0.11
154,734	149,651	149,744	153,441	149,049	147,516	145,440	142,620	133,868	132,936	125,648	118,856	119,880	120,612	121,540	111,812

2001	2000	1999	1998	1997	1996	1995	1994	1993	1992	1991	1990	1989	1988	1987	1986
$ 182,840	$ 161,860	$ 96,484	$ 80,143	$ 147,575	$ 22,891	$ 27,772	$ 38,026	$ 32,329	$ 33,407	$ 31,475	$ 10,379	$ 9,160	$ 27,110	$ 18,009	$ 14,720
$ 2,183,541	$ 1,712,383	$ 1,443,282	$ 1,111,863	$ 921,595	$ 772,471	$ 623,830	$ 506,347	$ 402,515	$ 287,844	$ 222,775	$ 240,155	$ 256,934	$ 206,593	$ 143,894	$ 66,543
$ 2,532,200	$ 2,030,254	$ 1,668,062	$ 1,254,468	$ 1,118,626	$ 837,926	$ 692,457	$ 586,893	$ 475,998	$ 384,836	$ 312,424	$ 316,534	$ 348,163	$ 256,611	$ 181,765	$ 108,185
$ 362,712	$ 326,537	$ 213,317	$ 182,292	$ 189,579	$ 132,109	$ 59,057	$ 17,506	$ 24,779	$ 25,756	$ 49,943	$ 71,707	$ 95,508	$ 74,048	$ 55,545	$ 12,474
669,581	469,499	469,418	269,296	319,924	208,415	221,226	227,969	174,442	128,854	55,513	61,474	69,681	69,635	29,967	29,963
24,754														382	5,969
		1,145	1,384	2,577	2,816	3,912	4,686	10,810	24,403	39,864	45,988	52,617			
$ 1,057,047	$ 796,036	$ 683,880	$ 452,972	$ 512,080	$ 343,340	$ 284,195	$ 250,161	$ 210,031	$ 179,013	$ 145,320	$ 179,169	$ 217,806	$ 143,683	$ 85,894	$ 48,406
$ 912,583	$ 745,145	$ 616,334	$ 525,756	$ 385,252	$ 314,677	$ 256,659	$ 204,176	$ 167,136	$ 136,605	$ 118,195	$ 94,959	$ 85,832	$ 73,305	$ 48,842	$ 31,405
139,112	143,580	145,814	147,742	137,102	135,674	134,552	133,692	133,276	132,348	131,248	118,736	119,652	120,168	120,268	119,972
$ 6.56	$ 5.19	$ 4.23	$ 3.56	$ 2.81	$ 2.32	$ 1.91	$ 1.53	$ 1.25	$ 1.03	$ 0.90	$ 0.80	$ 0.72	$ 0.61	$ 0.41	$ 0.26
28.7%	23.7%	19.3%	22.0%	20.7%	20.9%	24.5%	21.7%	20.6%	14.0%	5.3%	11.7%	18.0%	49.3%	54.7%	122.5%

2001	2000	1999	1998	1997	1996	1995	1994	1993	1992	1991	1990	1989	1988	1987	1986
4,358	3,945	3,555	3,099	2,517	2,109	1,825	1,583	1,324	1,019	676	727	676	778	674	802
$ 2,180,469	$ 1,762,930	$ 1,438,171	$ 1,206,290	$ 968,253	$ 759,303	$ 643,017	$ 501,822	$ 392,560	$ 279,841	$ 175,971	$ 198,336	$ 176,864	$ 197,027	$ 134,856	$ 124,641
4,314	4,364	3,799	3,387	2,701	2,398	1,846	1,716	1,595	1,202	863	612	704	656	756	832
$ 2,158,536	$ 2,134,522	$ 1,627,849	$ 1,383,093	$ 1,069,279	$ 884,677	$ 660,467	$ 586,941	$ 490,883	$ 342,811	$ 230,324	$ 163,975	$ 185,255	$ 162,504	$ 190,680	$ 133,369
2001	**2000**	**1999**	**1998**	**1997**	**1996**	**1995**	**1994**	**1993**	**1992**	**1991**	**1990**	**1989**	**1988**	**1987**	**1986**
2,702	2,746	2,327	1,892	1,551	1,367	1,078	1,025	892	621	438	251	366	338	460	378
$ 1,403,588	$ 1,425,521	$ 1,053,929	$ 814,714	$ 627,220	$ 526,194	$ 400,820	$ 370,560	$ 285,441	$ 187,118	$ 124,148	$ 69,795	$ 104,156	$ 95,765	$ 130,288	$ 74,194
155	146	140	122	116	100	97	80	67	62	42	41	40	26	21	15
25,981	22,275	23,163	15,578	12,820	12,065	9,542	6,779	5,744	5,633	3,974	4,548	5,075	4,724	2,147	1,461
13,165	10,843	11,268	14,803	9,145	5,237	5,042	4,445	4,271	3,592	3,281	2,117	2,832	4,041	7,141	4,853
39,146	33,118	34,431	30,381	21,965	17,302	14,584	11,224	10,015	9,225	7,255	6,665	7,907	8,765	9,288	6,314

FORWARD-LOOKING STATEMENTS

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

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

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

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS ("MD&A")

This discussion and analysis is based on, should be read with, and is qualified in its entirety by, our 2013 Consolidated Financial Statements and Notes thereto. It also should be read in conjunction with the disclosure under "Forward-Looking Statements."

When this report uses the words "we," "us," "our," and the "Company," they refer to Toll Brothers, Inc. and its subsidiaries, unless the context otherwise requires. References herein to "fiscal 2013," "fiscal 2012," "fiscal 2011," "fiscal 2010," "fiscal 2009," and "fiscal 2008" refer to our fiscal years ended October 31, 2013, October 31, 2012, October 31, 2011, October 31, 2010, October 31, 2009, and October 31, 2008, respectively. References herein to "fiscal 2014" refer to our fiscal year ending October 31, 2014.

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

OVERVIEW

Our Business

We design, build, market and arrange financing for detached and attached homes in luxury residential communities. We cater to move-up, empty-nester, active-adult, age-qualified and second-home buyers in the United States. We also build and sell homes in urban infill markets through Toll City Living® ("City Living"). At October 31, 2013, we were operating in 19 states. In the five years ended October 31, 2013, we delivered 15,688 homes from 512 communities, including 4,184 homes from 297 communities in fiscal 2013.

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

Over the past several years, we have acquired control of a number of land parcels as for-rent apartment projects, including two student housing sites, totaling approximately 4,600 units. See "Toll Brothers Apartment Living/Toll Brothers Campus Living" section of this "Overview." Through Toll Brothers Realty Trust ("Trust"), we also have interests in approximately 1,500 operating apartment units in the Washington, D.C. area and in Princeton Junction, NJ.

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

Fiscal 2013 Financial Highlights

In the twelve-month period ended October 31, 2013, we recognized $2.67 billion of revenues and net income of $170.6 million, as compared to $1.88 billion of revenues and net income of $487.1 million in fiscal 2012. The fiscal 2012 net income included an income tax benefit of $394.7 million related to the reversal of deferred tax asset valuation allowances.

At October 31, 2013, we had $825.5 million of cash, cash equivalents and marketable securities on hand and approximately $958.4 million available under our $1.04 billion revolving credit facility that matures in August 2018. During fiscal 2013, we issued $400 million of senior notes and repaid $163.9 million of senior notes that matured in fiscal 2013.

Acquisition

In November 2013, we entered into a purchase and sale agreement (the "Purchase Agreement") to acquire all of the equity interests in Shapell Industries, Inc. ("Shapell"), for an aggregate all-cash purchase price of $1.60 billion, which amount is subject to adjustment in accordance with the terms of the Purchase Agreement. We have agreed to acquire the single-family residential real property development business of Shapell, including a portfolio of approximately 5,200 home sites in California. We intend to use the net proceeds of the equity offering and the senior note offerings consummated in November 2013, borrowings under our $1.04 billion credit facility, other financial resources available to us, and, if needed, borrowings under the 364-day unsecured revolving credit commitment to finance the Acquisition. See Note 1, "Significant Accounting Policies — Subsequent Events" of the Notes to our 2013 Consolidated Financial Statements.

Shapell was founded in 1955 as a home construction company that built custom-quality single-family home communities in Southern California. Shapell designs, constructs and markets single-family detached and attached homes and develops land in master-planned communities and neighborhoods throughout coastal Northern and Southern California. Shapell's revenues from home building totaled $354 million, $252 million, $272 million and $274 million for 2010, 2011, 2012 and the eight-month period ended August 31, 2013, respectively. Shapell has delivered over 70,000 homes and built over 7,000 apartments since 1955.

Shapell's home building operation has 18 active selling communities concentrated in 15 locations. It is organized in two geographic regions, Northern California and Southern California, within which it is focused on a select number of premium markets.

Following the closing of the acquisition, we expect to selectively sell approximately $500 million of assets to reduce land concentration and outstanding borrowings; however, the timing and size of any asset sale transactions will be dependent on market and other factors, some of which are outside of our control. We make no assurance that we will be able to complete asset sale transactions on attractive terms or at all.

Our Challenging Business Environment and Current Outlook

We believe that, in fiscal 2012, the housing market began to recover from the significant slowdown that started in the fourth quarter of our fiscal year ended October 31, 2005. During fiscal 2012 and the first nine months of fiscal 2013, we saw a strong recovery in the number and value of new sales contracts signed. Our net contracts signed in fiscal 2012 and 2013, as compared to fiscal 2011, increased approximately 50% and 90%, respectively, in the number of net contracts signed and 59% and 126%, respectively, in the value of net contracts signed. Although the number and value of fiscal 2012 and 2013 net contracts signed increased over fiscal 2011, they were still significantly below what we recorded in fiscal 2005. We have witnessed a leveling of demand which began in the fourth quarter of our fiscal 2013 and has continued into fiscal 2014. We believe this to be a temporary pause triggered by a rapid rise in interest rates and home prices and uncertainty from the political discord in Washington.

We are still affected by the 2006-2011 downturn in the housing market. We believe the downturn started with a decline in consumer confidence, an overall softening of demand for new homes and an oversupply of homes available for sale. The downturn was exacerbated by, among other things, a decline in the overall economy, increased unemployment, the large number of homes that were vacant and homes that had been foreclosed on due to the economic downturn, a fear of job loss, a decline in home prices and the resulting reduction in home equity, the inability of some of our home buyers, or some prospective buyers of their homes, to sell their current homes, the deterioration in the credit markets, and the direct and indirect impact of the turmoil in the mortgage loan market. We believe that, as the national unemployment rate declines and confidence improves, pent-up demand will begin to be released.

We believe that the demographics of the move-up, empty-nester, active-adult, age-qualified and second-home upscale markets will provide us with the potential for growth in the coming decade. According to the U.S. Census Bureau, the number of households earning $100,000 or more (in constant 2012 dollars) at September 2013 stood at 26.9 million, or approximately 22% of all U.S. households. This group has grown at three times the rate of increase of all U.S. households since 1980. According to Harvard University's June 2012 "The State of the Nation's Housing," the growth and aging of the current population, assuming the economic recovery is sustained over the next few years, supports the addition of about 1.2 million new household formations per year during the next decade.

According to the U.S. Census Bureau, during the period 1970 through 2006, total housing starts in the United States averaged approximately 1.6 million per year, while in the period 2007 through 2012, total housing starts averaged approximately 0.8 million per year. In addition, based on the trend of household formations in relation to population growth during the period 2000 through 2007, the number of households formations formed in the four year period of 2008 through 2011 was approximately 2.9 million less than would have been expected.

In the 2006-2011 downturn, in many markets, the pipeline of approved and improved home sites dwindled as many builders and developers lacked both the capital and the economic benefit for bringing sites through approvals. Therefore, we believe that, as demand continues to strengthen, builders and developers with approved land in well-located markets will be poised to benefit. We believe that this will be particularly true for us because our land portfolio is heavily weighted in the metro-Washington, D.C. to metro-Boston corridor where land is scarce, approvals are more difficult to obtain and overbuilding has been relatively less prevalent than in the Southeast and Western regions.

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

Competitive Landscape

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

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

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

Land Acquisition and Development

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

In response to the decline in market conditions over the past several years, we re-evaluated and renegotiated or canceled many of our land purchase contracts. In addition, we sold, and may continue to sell, certain parcels of land that we identified as non-strategic. As a result, we reduced our land position from a high of approximately 91,200 home sites at April 30, 2006 to a low of approximately 31,700 home sites at January 31, 2010. Based on our belief that the housing market has begun to recover, the increased attractiveness of land available for purchase and the revival of demand in certain areas, we have begun to increase our land positions. During fiscal 2013 and 2012, we acquired control of approximately 12,500 home sites (net of options terminated) and 6,100 home sites (net of options terminated), respectively. In November 2013, we agreed to acquire all of the equity interests in the single-family residential real property development business of Shapell, including a portfolio of approximately 5,200 home sites in California. See "Overview — Acquisition" in this MD&A for more information about the Shapell acquisition.

At October 31, 2013, we controlled approximately 48,628 home sites of which we owned approximately 33,967. Significant improvements were completed on approximately 12,554 of the 33,967 home sites. At October 31, 2013, we were selling from 232 communities, compared to 224 at October 31, 2012 and 215 communities at October 31, 2011.

We expect to be selling from 250 to 290 communities at October 31, 2014. At October 31, 2013, we had 25 communities that were temporarily closed due to market conditions and that we do not expect to re-open in fiscal 2014.

Availability of Customer Mortgage Financing

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

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

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

There has been significant media attention given to mortgage put-backs, a practice by which a buyer of a mortgage loan tries to recoup losses from the loan originator. We do not believe this is a material issue for our mortgage subsidiary. Of the approximately 17,521 loans sold by our mortgage subsidiary since November 1, 2004, only 31 have been the subject of either actual indemnification payments or take-backs or contingent liability loss provisions related thereto. We believe that this is due to (i) our typical home buyer's financial position and sophistication, (ii) on average, our home buyers who use mortgage financing to purchase a home pay approximately 30% of the purchase price in cash, (iii) our general practice of not originating certain loan types such as option adjustable rate mortgages and down payment assistance products, and our origination of few sub-prime and high loan-to-value/no documentation loans, (iv) our elimination of "early payment default" provisions from each of our agreements with our mortgage investors several years ago, and (v) the quality of our controls, processes and personnel in our mortgage subsidiary. We have entered into two agreements with investors that contain limited early payment default provisions. At October 31, 2013, we had not sold any loans under these agreements. We believe that these limited early payment default provisions will not expose us to a significant risk.

The Dodd-Frank Wall Street Reform and Consumer Protection Act provides for a number of new requirements relating to residential mortgage lending practices. These include, among others, minimum standards for mortgages and related lender practices, the definitions and parameters of a Qualified Mortgage and a Qualified Residential Mortgage, future risk retention requirements, limitations on certain fees, prohibition of certain tying arrangements and remedies for borrowers in foreclosure proceedings in the event that a lender violates fee limitations or minimum standards. We do not believe that the effect of these requirements on our mortgage subsidiary will be significant, although it will restrict us from providing a comprehensive package of services to our home buyer due to fee restrictions imposed upon our home buyers as to what they are permitted to pay to our affiliated businesses.

Gibraltar Capital and Asset Management

We continue to look for distressed real estate opportunities through Gibraltar. Gibraltar continues to selectively review new opportunities, including bank portfolios and other distressed real estate investments.

In fiscal 2013, Gibraltar acquired four loans directly and invested in a loan participation for an aggregate purchase price of approximately $26.0 million. The loans are secured by retail shopping centers, residential land and golf courses located in seven states.

At October 31, 2013, Gibraltar had investments in distressed loans of approximately $36.4 million, investments in foreclosed real estate of $73.0 million and an investment in a structured asset joint venture of $25.7 million. In fiscal 2013, 2012 and 2011, we recognized income, including its equity in the earnings from its investment in a structured asset joint venture, of $15.9 million, $7.2 million and $6.9 million from the Gibraltar operations, respectively.

Toll Brothers Apartment Living/Toll Brothers Campus Living

Over the past several years, we have acquired control of a number of land parcels as for-rent apartment projects, including two student housing sites, totaling approximately 4,600 units. These projects, which are located in the metro-Boston to metro-Washington, D.C. corridor, are being developed or will be developed with partners under the brand names Toll Brothers Apartment Living and Toll Brothers Campus Living. A number of these sites had been acquired by us as part of a larger purchase or were originally acquired to develop as for-sale homes. Of the 4,600 planned units, 1,500 are owned by joint ventures in which we have a 50% interest; approximately 1,600 are owned by us; 1,200 of them are under contract to be purchased; and 300 of them are under letters of intent. Through the Trust, we also have interests in approximately 1,500 operating apartment units in the Washington, D.C. area and in Princeton Junction, NJ.

CONTRACTS AND BACKLOG

The aggregate value of net sales contracts signed increased 42.1% in fiscal 2013, as compared to fiscal 2012, and 59.4% in fiscal 2012, as compared to fiscal 2011. The value of net sales contracts signed was $3.63 billion (5,294 homes) in fiscal 2013, $2.56 billion (4,159 homes) in fiscal 2012 and $1.60 billion (2,784 homes) in fiscal 2011. The increase in the aggregate value of net contracts signed in fiscal 2013, as compared to fiscal 2012, was the result of a 27.3% increase in the number of net contracts signed, and a 11.6% increase in the average value of each contract signed. The increase in the number of net contracts signed in fiscal 2013, as compared to fiscal 2012, was primarily due to the continued recovery in the U.S. housing market in fiscal 2013 and the reduced competition from the small and mid-sized private builders that had been our primary competitors in the luxury market. The increase in the average value of each contract signed in fiscal 2013, as compared to fiscal 2012, was due primarily to a change in mix of contracts signed to more expensive areas, higher priced products, increased prices and reduced incentives given on new contracts signed.

The increase in the aggregate value of net contracts signed in fiscal 2012, as compared to fiscal 2011, was the result of a 49.4% increase in the number of net contracts signed, and a 6.7% increase in the average value of each contract signed. The increase in the number of net contracts signed in fiscal 2012, as compared to fiscal 2011, was primarily due to the continued recovery in the U.S. housing market in fiscal 2012, reduced competition from the small and mid-sized private builders that had been our primary competitors in the luxury market and a 10% increase in the average number of selling communities in fiscal 2012, as compared to fiscal 2011.

Backlog consists of homes under contract but not yet delivered to our home buyers ("backlog"). The value of our backlog at October 31, 2013, 2012 and 2011 was $2.63 billion (3,679 homes), $1.67 billion (2,569 homes) and $981.1 million (1,667 homes), respectively. Of the homes in backlog at October 31, 2013, approximately 96.5% are scheduled to be delivered by October 31, 2014. The 57.5% and 43.2% increase in the value and number of homes in backlog at October 31, 2013, as compared to October 31, 2012, was due to the increase in the number and the average value of net contracts signed in fiscal 2013, as compared to fiscal 2012, offset, in part, by the increase in the aggregate value and number of our deliveries in fiscal 2013, as compared to the aggregate value and number of deliveries in fiscal 2012.

The 70.2% and 54.1% increase in the value and number of homes in backlog at October 31, 2012 as compared to October 31, 2011, was due to the 59.4% and 49.4% increase, respectively, in the number and average value of net contracts signed in fiscal 2012, as compared to fiscal 2011 and the higher value and number of homes in backlog at October 31, 2011, as compared to October 31, 2010, offset, in part, by the increase in the aggregate value and number of our deliveries in fiscal 2012, as compared to the aggregate value and number of deliveries in fiscal 2011.

For more information regarding revenues, net contracts signed and backlog by geographic segment, see "Segments" in this MD&A.

CRITICAL ACCOUNTING POLICIES

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

Inventory

Inventory is stated at cost unless an impairment exists, in which case it is written down to fair value in accordance with U.S. generally accepted accounting principles ("GAAP") . In addition to direct land acquisition, land development and home construction costs, costs also include interest, real estate taxes and direct overhead related to development and construction, which are capitalized to inventory during periods beginning with the commencement of development and ending with the completion of construction. For those communities that have been temporarily closed, no additional capitalized interest is allocated to the community's inventory until it re-opens, and other carrying costs are expensed as incurred. Once a parcel of land has been approved for development and we open the community, it can typically take four or more years to fully develop, sell and deliver all the homes in that community. Longer or shorter time periods are possible depending on the number of home sites in a community and the sales and delivery pace of the homes in a community. Our master planned communities, consisting of several smaller communities, may take up to ten years or more to complete. Because our inventory is considered a long-lived asset under GAAP, we are required to regularly review the carrying value of each of our communities and write down the value of those communities when we believe the values are not recoverable.

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

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

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

We provided for inventory impairment charges and the expensing of costs that we believed not to be recoverable in each of the three fiscal years ended October 31, 2013, 2012 and 2011 as shown in the table below (amounts in thousands).

	2013	2012	2011
Land controlled for future communities	$ 1,183	$ 451	$ 17,752
Land owned for future communities		1,218	17,000
Operating communities	3,340	13,070	17,085
	$ 4,523	$ 14,739	$ 51,837

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

		Impaired operating communities		
Three months ended:	Number of communities tested	Number of communities	Fair value of communities, net of impairment charges	Impairment charges
Fiscal 2013:				
January 31	60	2	$ 5,377	$ 700
April 30	79	1	$ 749	340
July 31	76	1	$ 191	100
October 31	63	2	$ 6,798	2,200
				$ 3,340
Fiscal 2012:				
January 31	113	8	$ 49,758	$ 6,425
April 30	115	2	$ 22,962	2,560
July 31	115	4	$ 6,609	2,685
October 31	108	3	$ 9,319	1,400
				$ 13,070
Fiscal 2011:				
January 31	143	6	$ 56,105	$ 5,475
April 30	142	9	$ 40,765	10,725
July 31	129	2	$ 867	175
October 31	114	3	$ 3,367	710
				$ 17,085

Income Taxes — Valuation Allowance

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

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

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

Our deferred tax assets consist principally of the recognition of losses primarily driven by inventory impairments and impairments of investments in and advances to unconsolidated entities. In accordance with GAAP, we assessed whether a valuation allowance should be established based on our determination of whether it was "more likely than not" that some portion or all of the deferred tax assets would not be realized. In fiscal 2009, we recorded valuation allowances against substantially all of our deferred tax assets. We believed that the continued downturn in the housing market, the uncertainty as to its length and magnitude, our continued recognition of impairment charges, and our recent operating losses were significant negative evidence of the need for a valuation allowance against our deferred tax assets.

At October 31, 2013, we expect to utilize all prior year federal tax loss carryforwards resulting from losses incurred for federal income tax purposes during fiscal years 2011 and 2012 on our fiscal 2013 federal income tax return.

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

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

- We incurred pre-tax losses from 2008 through 2011 totaling $1.1 billion. These losses were driven primarily by impairments of land, options, inventory and joint ventures which aggregated approximately $1.53 billion during that period. The impairment charges were triggered by the most severe and longest downturn in the U.S. housing industry.
- We generated pre-tax income of $132.1 million in the six-month period ended October 31,2012. This included generating pre-tax income in five out of the previous six consecutive quarters ended October 31, 2012. Our operations had been profitable in each of the last ten quarters ended October 31, 2012 excluding impairment charges.
- Impairment charges in fiscal 2012 decreased to $14.7 million due to the strength of the recovery in the housing industry and the lower carrying value of our inventories and joint venture investments as a result of the significant writedowns recognized on them over the period from 2005 through 2011.
- The value of new contracts signed in fiscal 2012 increased 59% over fiscal 2011. Our cancellation rate of 4.2% in units and 4.0% in value in fiscal 2012 was the lowest it has been since before 2006.

- We expected significant revenue and pre-tax income growth in fiscal 2013 which was supported by our backlog as well as the continued improvement in housing industry trends. Our backlog at October 31, 2012, which totaled $1.67 billion, was the highest it had been since 2008. Our backlog is a strong indicator of our next eight months of operations as we require a signed agreement of sale and a significant cash deposit for a sale to be included in backlog. We had objective and verifiable positive evidence, summarized more fully below, that we would continue to be profitable in fiscal 2013 due to our backlog. That positive evidence in tandem with other positive evidence provided the basis for overcoming the negative evidence. Even without growth in our profits over 2012 levels of profitability, we would realize our federal deferred tax assets in less than 10 years.
- Based on our belief that the recovery in the housing market would be sustained, we expected to continue to grow revenues and be profitable beyond fiscal 2013.
- Housing market indices showed positive gains in fiscal 2012. Unemployment rates continued to decrease from October 2010, consumer confidence showed continued improvement, and housing affordability was at near record levels. The October 2012 seasonally adjusted annual rate of housing starts was 894,000, as compared to 630,000 in October 2011 which represented an increase of 42%. The improvement in the housing market had been experienced by all the major public home builders. The financial community and economists were optimistic regarding the housing trends going into 2013.
- There was significant pent-up demand for housing that we believed would support a prolonged recovery. According to the U.S. Census Bureau, during the period 1970 through 2007, total housing starts in the United States averaged approximately 1.26 million per year, while in the period 2008 through 2011, total housing starts averaged approximately 0.66 million per year. In addition, based on the trend of household formations in relation to population growth during the period 2000 through 2007, the number of household formations in the four-year period of 2008 through 2011 was approximately 2.3 million less than would have been expected.
- We believed that the demographics of the move-up, empty-nester, active-adult, age-qualified and second-home upscale markets would provide us with the potential for growth in the coming decade. According to the U.S. Census Bureau, the number of households earning $100,000 or more (in constant 2011 dollars) at September 2011 stood at 25.4 million, or approximately 17.3% of all U.S. households. This group grew at three times the rate of increase of all U.S. households since 1980. According to Harvard University's June 2012 "The State of the Nation's Housing," the growth and aging of the current population and assuming the economic recovery is sustained over the next few years supports the addition of about one million new household formations per year during the next decade.
- We emerged from the downturn with reduced competition and increased market share. We believed that many home builders in the areas in which we operated were no longer in business and that access to capital by the remaining ones was severely constrained. The seasonally adjusted annual rate of housing starts in October 2012 increased 42% over the October 2011 rate, whereas the increase in the number of our signed contracts in fiscal 2012 was 49%. The excess of our contracts signed versus the housing starts evidenced the additional market share we gained over the past year.

Based on the above re-evaluation, we reversed $394.7 million of federal and state deferred tax asset valuation allowances in fiscal 2012. In fiscal 2013, we continued to re-evaluate our need for a state deferred tax asset valuation allowance and updated our fiscal 2012 analysis. Based upon our better than forecasted operating results in fiscal 2013, our significantly higher backlog at October 31, 2013 and improved forecast of results of operations in fiscal 2014, we reversed an additional $4.6 million of state deferred tax asset valuation allowances in fiscal 2013.

Revenue and Cost Recognition

The construction time of our homes is generally less than one year, although some homes may take more than one year to complete. Revenues and cost of revenues from these home sales are recorded at the time each home is delivered and title and possession are transferred to the buyer. For detached homes, closing normally occurs shortly after construction is substantially completed.

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

For high-rise/mid-rise projects, land, land development, construction and related costs, both incurred and estimated to be incurred in the future, are generally amortized to the cost of units closed based upon an estimated relative sales value of the units closed to the total estimated sales value. Any changes resulting from a change in the estimated total costs or revenues of the project are allocated to the remaining units to be delivered.

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

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

OFF-BALANCE SHEET ARRANGEMENTS

We have investments in and advances to various unconsolidated entities. Our investments in these entities are accounted for using the equity method of accounting. At October 31, 2013, we had investments in and advances to these entities of $403.1 million, and were committed to invest or advance $92.1 million to these entities if they require additional funding. The unconsolidated entities in which we have investments generally finance their activities with a combination of partner equity and debt financing. In some instances, we and our partners have guaranteed debt of certain unconsolidated entities which may include any, or all, of the following: (i) project completion including any cost overruns, in whole or in part, (ii) repayment guarantees, generally covering a percentage of the outstanding loan, (iii) indemnification of the lender from environmental matters of the unconsolidated entity and (iv) indemnification of the lender from "bad boy acts" of the unconsolidated entity or its partners.

In some instances, the guarantees provided in connection with loans to an unconsolidated entity are joint and several. In these situations, we generally have a reimbursement agreement with our partner that provides that neither party is responsible for more than its proportionate share of the guarantee. However, if the joint venture partner does not have adequate financial resources to meet its obligations under the reimbursement agreement, we may be liable for more than our proportionate share.

We believe that as of October 31, 2013, in the event we become legally obligated to perform under a guarantee of the obligation of an unconsolidated entity due to a triggering event, the collateral should be sufficient to repay a significant portion of the obligation. If it is not, we and our partners would need to contribute additional capital to the venture. At October 31, 2013, the unconsolidated entities that have guarantees related to debt had loan commitments aggregating $279.0 million and had borrowed an aggregate of $65.7 million. We estimate that our maximum potential exposure under these guarantees, if the full amount of the loan commitments were borrowed, would be $279.0 million before any reimbursement from the our partners. Based on the amounts borrowed at October 31, 2013, our maximum potential exposure under these guarantees is estimated to be $65.7 million before any reimbursement from our partners.

In addition, we have guaranteed approximately $11.6 million of ground lease payments and insurance deductibles for three joint ventures.

For more information regarding these unconsolidated entities, see Note 4, "Investments in and Advances to Unconsolidated Entities" in the Notes to our 2013 Consolidated Financial Statements.

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 an unconsolidated entity 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 "Inventory" above 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 our Consolidated Statement of Operations with a corresponding decrease to our investment in unconsolidated entities.

We are a party to several joint ventures with unrelated parties to develop and sell land that is owned by the joint venture. We recognize our proportionate share of the earnings from the sale of home sites to other builders, including our joint venture partners. We do not recognize earnings from the home sites we purchase from these ventures but reduce our cost basis in the home sites by our share of the earnings from those home sites.

We are also a party to a number of other joint ventures. We recognize our proportionate share of the earnings and losses of these unconsolidated entities.

In fiscal 2011, we recognized an impairment charge in connection with the settlement of a lawsuit by one of our joint ventures. As a result of the settlement, we recorded a charge of $25.7 million above amounts previously provided. The impairment was attributable to our investment in South Edge LLC, and its successor entity, Inspirada Builders, LLC (collectively, "Inspirada"). Inspirada settled litigation regarding a loan made by a syndicate of lenders to it having a principal balance of $327.9 million, for which we had executed certain completion guarantees and conditional repayment guarantees. We 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 our results of operations and liquidity or on our financial condition.

In fiscal 2011, due to the deterioration of the market in which one of our home building joint ventures operated, we determined that there was an other-than-temporary impairmet of our investment in this joint venture; based on this determination, we recognized $15.2 million in impairment charges against the carrying value of our investment in this joint venture.

In December 2013, Trust II sold substantially all of its assets to an unrelated party. As a result of this sale, we expect to realize a profit of approximately $20 million in the first quarter of fiscal 2014 representing our share of the gain on the sale. This gain will be included in income from unconsolidated entities in our Consolidated Statements of Operations.

RESULTS OF OPERATIONS

The following table compares certain items in our Consolidated Statements of Operations for fiscal 2013, 2012 and 2011 ($ amounts in millions):

	2013		2012		2011	
	$	%	$	%	$	%
Revenues	2,674.3		1,882.8		1,475.9	
Cost of revenues	2,133.3	79.8	1,532.1	81.4	1,260.8	85.4
Selling, general and administrative	339.9	12.7	287.3	15.3	261.4	17.7
	2,473.2	92.5	1,819.4	96.6	1,522.1	103.1
Income (loss) from operations	201.1		63.4		(46.2)	
Other:						
Income (loss) from unconsolidated entities	14.4		23.6		(1.2)	
Other income — net	52.2		25.9		23.4	
Interest expense	—		—		(1.5)	
Expenses related to early retirement of debt					(3.8)	
Income (loss) before income taxes	267.7		112.9		(29.4)	
Income tax provision (benefit) (a)	97.1		(374.2)		(69.2)	
Net income	170.6		487.1		39.8	

Note: Amounts may not add due to rounding.

(a) In fiscal 2012, we recognized a reversal of $394.7 million of federal and state deferred tax asset valuation allowances. See "Critical Accounting Policies — Income Taxes — Valuation Allowance" in this MD&A for information regarding the reversal of valuation allowances against our net deferred tax assets.

FISCAL 2013 COMPARED TO FISCAL 2012

Revenues and Cost of Revenues

Revenues in fiscal 2013 were higher than those for fiscal 2012 by approximately $791.5 million, or 42.0%. This increase was attributable to a 27.3% increase in the number of homes delivered and a 11.6% increase in the average price of the homes delivered. In fiscal 2013, we delivered 4,184 homes with a value of $2.67 billion, as compared to 3,286 homes in fiscal 2012 with a value of $1.88 billion. The increase in the number of homes delivered in fiscal 2013, as compared to fiscal 2012, was primarily due to the 54.1% higher number of homes in backlog at the beginning of fiscal 2013, as compared to the beginning of fiscal 2012, and the 40.4% increase in the number of net contracts signed in the first six months of fiscal 2013, as compared to the comparable period of fiscal 2012. The increase in the average price of homes delivered in fiscal 2013, as compared to fiscal 2012, was primarily attributable to a shift in the number of homes delivered to more expensive areas and/or products and increases in selling prices in fiscal 2013.

Cost of revenues as a percentage of revenues was 79.8% in fiscal 2013, as compared to 81.4% in fiscal 2012. We recognized inventory impairment charges and write-offs of $4.5 million in fiscal 2013 and $14.7 million in fiscal 2012. Cost of revenues as a percentage of revenues, excluding impairments, was 79.6% of revenues in fiscal 2013, as compared to 80.6% in fiscal 2012. The decrease in cost of revenues as a percentage of revenues, excluding inventory impairment charges, as a percentage of revenue in fiscal 2013, as compared to fiscal 2012, was due primarily to lower materials, labor, interest and closing costs, improved absorption of job overhead due to the increased number of homes closed in fiscal 2013, as compared to fiscal 2012, and the reduced impact on costs in fiscal 2013, as compared to fiscal 2012 from the application of purchase accounting on the homes delivered from the acquisition of CamWest Development LLC ("CamWest") in November 2011, offset, in part, by the increased cost of land and land improvements in fiscal 2013, as compared to fiscal 2012.

Selling, General and Administrative Expenses ("SG&A")

SG&A increased by $52.6 million in fiscal 2013, as compared to fiscal 2012. As a percentage of revenues, SG&A was 12.7% in fiscal 2013, as compared to 15.3% in fiscal 2012. The decline in SG&A as a percentage of revenues was due to SG&A increasing by 18.3% while revenues increased 42.0%. The dollar increase in SG&A costs was due primarily to increased compensation, information technology, insurance, sales and marketing costs and the expensing of costs incurred for the pending acquisition of Shapell.

Income from Unconsolidated Entities

We are a participant in several unconsolidated entities. 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 unconsolidated entities 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, these unconsolidated entities will generally, over a relatively short period of time, generate revenues and earnings until all of 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 quarter-to-quarter and year-to-year.

In fiscal 2013, we recognized $14.4 million of income from unconsolidated entities, as compared to $23.6 million in fiscal 2012. In fiscal 2012, we recognized a $2.3 million recovery of costs previously incurred related to a joint venture. The $6.9 million decrease in income in fiscal 2013, as compared to fiscal 2012, excluding the recovery recognized in fiscal 2012, was due principally to lower income in fiscal 2013, as compared to fiscal 2012, generated from two condominium joint ventures due to their substantial completion in fiscal 2012, offset, in part, by higher income realized from Gibraltar's Structured Asset Joint Venture, a distribution received in fiscal 2013 from the Trust in excess of our cost basis, and a land development joint venture that sold a large parcel of land to an outside developer in fiscal 2013, as compared to fiscal 2012.

Other Income — Net

Other income — net includes the gains and losses from our ancillary businesses, income from Gibraltar, interest income, management fee income, retained customer deposits, income/losses on land sales and other miscellaneous items.

In fiscal 2013 and 2012, other income — net was $52.2 million and $25.9 million, respectively. Fiscal 2013 other income-net includes $13.2 million of income from the previously-disclosed settlement of derivative litigation. Excluding these settlement proceeds, the increase in other income — net in fiscal 2013, as compared to fiscal 2012, was due to increased income from our Gibraltar operations, increased income from our ancillary operations, higher earnings from land sales and higher other miscellaneous income in fiscal 2013, as compared to fiscal 2012. These increases were offset, in part, by lower retained customer deposits in fiscal 2013 period, as compared to fiscal 2012.

Income Before Income Taxes

In fiscal 2013, we reported income before income tax benefit of $267.7 million, as compared to $112.9 million in fiscal 2012.

Income Tax Provision (Benefit)

We recognized an income tax provision of $97.1 million in fiscal 2013, as compared to an income tax benefit of $374.2 million in fiscal 2012. The tax provision in fiscal 2013 included the reversal of $4.6 million of state deferred tax asset valuation allowances and the recording of $3.2 million of new state tax deferred asset valuation allowances. The tax benefit in fiscal 2012 included the reversal of $394.7 million of federal and state deferred tax asset valuation allowances. See "Critical Accounting Policies — Income Taxes — Valuation Allowance" in this MD&A for information regarding the reversal of valuation allowances against our net deferred tax assets.

Excluding the changes in the deferred tax valuation allowances, we recognized a $98.4 million tax provision in fiscal 2013. Based upon the federal statutory rate of 35%, our federal tax provision would have been $93.7 million. The difference between the tax provision recognized and the tax provision based on the federal statutory rate was due primarily to the reversal of $5.6 million of previously accrued taxes and related interest on uncertain tax positions (net of federal tax provision), offset, in part, by $3.7 million of accrued interest and penalties (net of federal tax provision) and an $11.4 million provision for state income taxes, net of federal income tax benefit. The reversal of previously accrued taxes and related interest on uncertain tax positions is due primarily to the expiration of the statute of limitations on these items.

Excluding the reversal of the deferred tax valuation allowances, we recognized a tax provision of $20.5 million in fiscal 2012. Based upon the federal statutory rate of 35%, our federal tax provision would have been $39.5 million. The difference between the tax provision excluding the reversal of deferred tax valuation allowances and the tax provision based on the federal statutory rate was due primarily to the reversal of $34.2 million of previously accrued taxes and related interest on uncertain tax positions (net of federal tax provision) due to the expiration of statute of limitations of the applicable filings or the completion of audits during fiscal 2012, offset, in part, by the recognition of $4.7 million of state income tax provision (net of federal tax benefit), a $5.5 million provision on uncertain tax positions (net of federal tax provision) taken in fiscal 2012 and $5.0 million of accrued interest and penalties.

FISCAL 2012 COMPARED TO FISCAL 2011

Revenues and Cost of Revenues

Revenues in fiscal 2012 were higher than those for fiscal 2011 by approximately $406.9 million, or 27.6%. This increase was primarily attributable to an increase in the number of homes delivered. In fiscal 2012, we delivered 3,286 homes with a value of $1.88 billion, as compared to 2,611 homes in fiscal 2011 with a value of $1.48 billion. The increase in the number of homes delivered in fiscal 2012, as compared to fiscal 2011, was primarily due to the higher number of homes in backlog at the beginning of fiscal 2012, as compared to the beginning of fiscal 2011, the increased number of homes delivered from available inventory, the 37.1% increase in the number of net contracts signed in the first six months of fiscal 2012, as compared to the comparable period of fiscal 2011, and deliveries from our November 2011 acquisition of CamWest. In fiscal 2012, we delivered 201 homes with a sales value of $99.7 million from our CamWest operations.

Cost of revenues as a percentage of revenues was 81.4% in fiscal 2012, as compared to 85.4% in fiscal 2011. We recognized inventory impairment charges and write-offs of $14.7 million in fiscal 2012 and $51.8 million in fiscal 2011. Cost of revenues as a percentage of revenues, excluding impairments, was 80.6% of revenues in fiscal 2012, as compared to 81.9% in fiscal 2011. The decrease in cost of revenues, excluding inventory impairment charges, as a percentage of revenue in fiscal 2012, as compared to fiscal 2011, was due primarily to lower interest costs in fiscal 2012 and increased deliveries in fiscal 2012 from two of our high-rise buildings which had significantly higher margins than our normal product, offset, in part, by the impact on costs from the application of purchase accounting on the homes delivered from the acquisition of CamWest in November 2011. In fiscal 2012 and 2011, interest cost as a percentage of revenues was 4.6% and 5.3%, respectively.

Selling, General and Administrative Expenses ("SG&A")

SG&A increased by $25.9 million in fiscal 2012, as compared to fiscal 2011. As a percentage of revenues, SG&A was 15.3% in fiscal 2012, as compared to 17.7% in fiscal 2011. The increase in SG&A was due primarily to increased compensation costs and increased sales and marketing costs. The increased compensation costs and increased sales and marketing costs were due primarily to the increased number of communities we had open in fiscal 2012, the increase in net sales contracts taken and the number of homes delivered in fiscal 2012, as compared to fiscal 2011. The decline in SG&A, as a percentage of revenues, was due to SG&A increasing by 9.9% while revenues increased 27.6%. The decline in the SG&A percentage was due in part to only a portion of these expenses varying directly with the amount of revenues recognized while an additional portion of these expenses were semi-fixed.

Interest Expense

Interest incurred on average home building indebtedness in excess of average qualified assets is charged directly to the Consolidated Statement of Operations in the period incurred. Interest expensed directly to the Consolidated Statement of Operations in fiscal 2011 was $1.5 million. Due to the increase in qualified assets, we did not have any directly expensed interest from home building indebtedness in fiscal 2012.

Income (Loss) from Unconsolidated Entities

We are a participant in several unconsolidated entities. 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 unconsolidated entities 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, these unconsolidated entities will generally, over a relatively short period of time, generate revenues and earnings until all of 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 quarter-to-quarter and year-to-year.

In fiscal 2012, we recognized $23.6 million of income from unconsolidated entities, as compared to $1.2 million of loss in fiscal 2011. 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 2012. In fiscal 2012, we recognized a $2.3 million recovery of costs we previously incurred. The $18.4 million decrease in income in fiscal 2012, as compared to fiscal 2011, excluding the impairment charges recognized in fiscal 2011 and the recovery recognized in fiscal 2012, was due principally to lower income generated from two of our condominium joint ventures, primarily due to the delivery of fewer units in fiscal 2012 than in fiscal 2011, a distribution received in fiscal 2011 from the Trust in excess of our cost basis in it, and lower income realized from our structured asset joint venture in fiscal 2012, as compared to fiscal 2011 due primarily to the favorable settlement in fiscal 2011 of a large distress loan. The decrease in the number of units delivered in fiscal 2012 was due to fewer units being available for delivery due to the sellout or near sellout of units in those condominium joint ventures in the early part of fiscal 2012.

Other Income — Net

Other income — net includes the gains and losses from our ancillary businesses, income from Gibraltar, interest income, management fee income, retained customer deposits, income/losses on land sales and other miscellaneous items.

In fiscal 2012 and 2011, other income — net was $25.9 million and $23.4 million, respectively. The increase in other income — net in fiscal 2012, as compared to fiscal 2011, was due to increased income from our ancillary operations, primarily from our Gibraltar operations and improved performance from our golf operations in fiscal 2012, as compared to fiscal 2011, as well as increases in retained customer deposits and rental income in fiscal 2012, as compared to fiscal 2011. These increases were offset, in part, by lower management fee income, lower interest income and a profit participation payment received in fiscal 2011 from a fiscal 2009 sale of a non-core asset.

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 2012, we did not have any expenses related to the early retirement of debt.

Income Before Income Taxes

In fiscal 2012, we reported income before income tax benefit of $112.9 million, as compared to a loss before income tax benefit of $29.4 million in fiscal 2011.

Income Tax Benefit

We recognized a $374.2 million tax benefit in fiscal 2012, including the reversal of $394.7 million of federal and state deferred tax asset valuation allowances. See "Critical Accounting Policies — Income Taxes — Valuation Allowance" in this MD&A for information regarding the reversal of valuation allowances against our net deferred tax assets.

Excluding the reversal of the deferred tax valuation allowances, we recognized a tax provision of $20.5 million. Based upon the federal statutory rate of 35%, our federal tax provision would have been $39.5 million. The difference between the tax provision excluding the reversal of deferred tax valuation allowances and the tax provision based on the federal statutory rate was due primarily to the reversal of $34.2 million of previously accrued taxes on uncertain tax positions due to the expiration of statute of limitations of the applicable filings or the completion of audits during fiscal 2012, offset, in part, by the recognition of $4.7 million of state income tax provision (net of federal tax benefit), a $5.5 million provision on uncertain tax positions taken in fiscal 2012 and $5.0 million of accrued interest and penalties.

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. The impact of these items were offset, in part, by $43.9 million of net new deferred tax valuation allowances and $3.1 million of accrued interest and penalties.

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. At October 31, 2013, we had $825.5 million of cash, cash equivalents and marketable securities on hand and approximately $958.4 million available under our $1.04 billion revolving credit facility which extends to August 2018. Cash used in operating activities during fiscal 2013 was $569.0

million primarily for the acquisition of inventory, the origination of mortgage loans, net of sales to outside investors, and the purchase of commercial property for development, offset in part, from pre-tax income from operations, an increase in our accounts payable and accrued expenses, an increase in customer deposits and a decrease in restricted cash. In fiscal 2013, cash provided by our investing activities was $332.7 million, including $417.8 million of sales and redemptions of marketable securities, and $97.2 million of cash received as returns on our investments in unconsolidated entities, distressed loans and foreclosed real estate. The cash provided by investing activities was offset, in part, by $36.2 million of purchases of marketable securities, $93.4 million of investments in joint venture projects, $26.2 million of investments in distressed loans and foreclosed real estate and $26.6 million in purchases of property and equipment. We generated $230.4 million of cash from financing activities in fiscal 2013, primarily from the issuance of $400 million of 4.375% Senior Notes due 2023, $15.8 million from the proceeds of our stock-based benefit plans and a tax benefit of $24.4 million from our stock-based compensation plans. The cash provided by financing activities was offset, in part, by the repayment at maturity of $59.1 million of our 6.875% Senior Notes in November 2012, the repayment at maturity of $104.8 million of our 5.95% Senior Notes in September 2013, $31.0 million of loans payable repayments, net of new borrowings and $15.4 million for the repurchase of our common stock.

At October 31, 2012, we had $1.22 billion of cash, cash equivalents and marketable securities on hand and approximately $814.9 million available under our $885 million revolving credit facility which extended to October 2014. Cash used in operating activities during fiscal 2012 was $171.5 million primarily from the acquisition of inventory, the origination of mortgage loans, net of sales to outside investors, and the reduction of our accounts payable and accrued expenses, offset in part from pre-tax income from operations. In fiscal 2012, cash used in our investing activities was $560.5 million, including $580.0 million of purchases of marketable securities, $144.7 million for the acquisition of the assets of CamWest, $217.2 million to fund new joint venture projects, $30.1 million for investments in a non-performing loan portfolio and $11.9 million for the purchase of property and equipment. The cash used in investing activities was offset, in part, by $368.3 million of sales and redemptions of marketable securities, $55.1 million of cash received as returns on our investments in unconsolidated entities and in non-performing loan portfolios and foreclosed real estate. We generated $604.6 million of cash from financing activities in fiscal 2012, primarily from the issuance of $300 million of 5.875% Senior Notes due 2022 in February 2012, the issuance of $287.5 million of 0.5% Senior Exchangeable Notes due 2017 in September 2012, $33.7 million from the proceeds of our stock-based benefit plans and $15.3 million of net new borrowings under our mortgage company warehouse facility. The cash provided by financing activities was offset, in part, by $28.4 million of cash used to repay loans payable, net of new borrowings.

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 that extended to October 2014. In fiscal 2011, cash flow provided by operating activities was $58.8 million. Cash provided by operating activities during fiscal 2011 was primarily from our earnings before inventory and joint venture impairments, 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 $80.4 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.

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 that we deliver. In addition, we generally do not begin construction of our detached homes until we have a signed contract with the home buyer, although in the past several years, due to 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 decline, we believe that our inventory levels would 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 delay or curtail our acquisition of additional land, as we did during the period April 2006 through January 2010, which would further reduce our inventory levels and cash needs. At October 31, 2013, we owned or controlled through options 48,628 home sites; as compared to 40,350 at October 31, 2012; 37,497 at October 31, 2011; and 91,200 at April 30, 2006, the high point of our home sites owned and controlled. Of the 48,628 home sites owned or controlled through options at October 31, 2013, we owned 33,967. Of our owned home sites at October 31, 2013, significant improvements were completed on approximately 12,554 of them.

In November 2013, we agreed to acquire all of the equity interests in Shapell, consisting of Shapell's single-family residential real property development business, including a portfolio of approximately 5,200 home sites in California. See "Overview — Acquisition" in this MD&A for more information about the Shapell acquisition.

At October 31, 2013, the aggregate purchase price of land parcels under option and purchase agreements was approximately $1.36 billion (including $61.7 million of land to be acquired from joint ventures in which we have invested). Of the $1.36 billion of land purchase commitments, we had paid or deposited $77.0 million and, if we acquire all of these land parcels, we will be required to pay an additional $1.29 billion. 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. At October 31, 2013, we also had a purchase commitment to acquire a parcel of land for approximately $79.3 million which we intend to develop with a joint venture partner; we expect to acquire up to 1,750 home sites from the joint venture and the joint venture expects to sell the remaining home sites to outside builders. In December 2013, the joint venture was formed and the joint venture acquired the land.

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 provided by (used in) investing activities."

In August 2013, we entered into an $1.04 billion revolving credit facility with 15 banks, which extends to August 2018. At October 31, 2013, we had no outstanding borrowings under the credit facility but had outstanding letters of credit of approximately $76.6 million. At October 31, 2013, 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 0.63% (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 $2.28 billion at October 31, 2013. At October 31, 2013, our leverage ratio was approximately 0.49 to 1.00, and our tangible net worth was approximately $3.28 billion. At October 31, 2013, based upon the minimum tangible net worth requirement, our ability to pay dividends was limited to an aggregate amount of approximately $1.00 billion or the repurchase of our common stock of approximately $1.49 billion. In addition, at October 31, 2013, we had $12.7 million of letters of credit outstanding that were not part of our new credit facility; these letters of credit were collateralized by $12.7 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 our existing cash resources and existing sources of credit. Due to the uncertainties 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.

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 recent sustained downturn in the economy and the decline in demand for homes, the sales prices of our homes generally increased over time. 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 2006-2011 downturn in the housing market and related slowdown in the home building industry and the decline in the sales prices of our homes in that period, without a corresponding reduction in the costs, 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.

CONTRACTUAL OBLIGATIONS

The following table summarizes our estimated contractual payment obligations at October 31, 2013 (amounts in millions):

	2014	2015–2016	2017–2018	Thereafter	Total
Senior notes (a)	$ 384.5	$ 500.6	$ 555.1	$ 1,553.6	$ 2,993.8
Loans payable (a)	34.2	32.1	10.2	54.8	131.3
Mortgage company warehouse loan (a)	76.7				76.7
Operating lease obligations	9.6	14.8	9.3	3.7	37.4
Purchase obligations (b)	1,015.8	550.8	139.9	66.8	1,773.3
Retirement plans (c)	4.8	10.8	15.5	51.3	82.4
Other	0.4	0.7			1.1
	$ 1,526.0	$ 1,109.8	$ 730.0	$ 1,730.2	$ 5,096.0

(a) Amounts include estimated annual interest payments until maturity of the debt. Of the amounts indicated, $2.3 billion of the senior notes, $107.2 million of loans payable, and $75.0 million of the mortgage company warehouse loan were recorded on the October 31, 2013 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 purchase price of $1.60 billion to acquire all of the equity interests in Shapell. See "Overview — Acquisition" in this MD&A for more information on Shapell.

(c) Amounts represent our obligations under our deferred compensation, supplemental executive retirement plans and our 401(k) salary deferral savings plans. Of the total amount indicated, $55.3 million was recorded on the October 31, 2013 Consolidated Balance Sheet.

SEGMENTS

At October 31, 2013, we determined that we operate in two segments: Traditional Home Building and City Living, our urban development division. Amounts reported in prior years have been reclassified to conform to the fiscal 2013 presentation.

Within Traditional Home Building, 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 and Texas; and the West, consisting of Arizona, California, Colorado, Nevada and Washington. In fiscal 2011, we discontinued the sale of homes in South Carolina. The operations of South Carolina were immaterial to the South geographic segment.

The following tables summarize information related to revenues, net contracts signed, total revenues and income (loss) before income taxes by segment for fiscal years 2013, 2012 and 2011. Information related to backlog at October 31, 2013, 2012 and 2011 and assets by segment at October 31, 2013 and 2012 has also been provided. (Note: Amounts in tables may not add due to rounding.)

Units Delivered and Revenues ($ amounts in millions):

	2013 Units	2012 Units	2011 Units	2013 $	2012 $	2011 $
North	874	687	654	485.0	350.7	320.8
Mid-Atlantic	1,146	958	816	652.9	535.7	465.1
South	1,018	624	514	641.3	361.8	273.3
West	1,009	744	484	724.4	437.9	309.6
Total Traditional Home Building	4,047	3,013	2,468	2,503.6	1,686.1	1,368.8
City Living	137	273	143	170.7	196.7	107.1
Total	4,184	3,286	2,611	2,674.3	1,882.8	1,475.9

Net Contracts Signed ($ amounts in millions):

	2013 Units	2012 Units	2011 Units	2013 $	2012 $	2011 $
North	1,197	821	634	697.5	445.2	327.8
Mid-Atlantic	1,414	1,115	849	851.3	625.5	480.0
South	1,225	931	662	831.4	582.1	378.6
West	1,177	1,037	467	966.6	653.7	282.4
Total Traditional Home Building	5,013	3,904	2,612	3,346.8	2,306.5	1,468.8
City Living	281	255	172	287.1	251.4	136.0
Total	5,294	4,159	2,784	3,633.9	2,557.9	1,604.8

Backlog at October 31 ($ amounts in millions):

	2013	2012	2011	2013	2012	2011
	Units	Units	Units	$	$	$
North	948	625	491	562.5	350.0	255.4
Mid-Atlantic	902	634	477	573.0	374.5	284.7
South	956	749	442	673.5	483.5	263.2
West	675	507	185	593.2	351.0	121.6
Total Traditional Home Building	3,481	2,515	1,595	2,402.2	1,559.0	924.9
City Living	198	54	72	227.3	110.9	56.2
Total	3,679	2,569	1,667	2,629.5	1,669.9	981.1

Revenues and Income (Loss) Before Income Taxes ($ amounts in millions):

	Revenues			Income (loss) before income taxes		
	2013	2012	2011	2013	2012	2011
North	$ 485.0	$ 350.7	$ 320.8	$ 32.7	$ 13.9	$ 11.5
Mid-Atlantic	652.9	535.7	465.1	79.8	63.0	48.8
South	641.3	361.8	273.3	67.9	18.9	(25.3)
West	724.4	437.9	309.6	111.3	39.4	(27.1)
Total Traditional Home Building	2,503.6	1,686.1	1,368.8	291.7	135.2	7.9
City Living	170.7	196.7	107.1	53.3	61.9	39.2
Corporate and other				(77.3)	(84.2)	(76.5)
Total	$ 2,674.3	$ 1,882.8	$ 1,475.9	$ 267.7	$ 112.9	$ (29.4)

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 at October 31 ($ amounts in millions):

	2013	2012
North	$ 963.6	$ 757.4
Mid-Atlantic	1,231.4	1,155.7
South	954.0	800.2
West	1,290.4	904.4
Total Traditional Home Building	4,439.4	3,617.7
City Living	674.3	487.0
Corporate and other	1,713.8	2,076.3
Total	$ 6,827.5	$ 6,181.0

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

FISCAL 2013 COMPARED TO FISCAL 2012

North

Revenues in fiscal 2013 were higher than those in fiscal 2012 by $134.3 million, or 38.3%. The increase in revenues was primarily attributable to a 27.2% increase in the number of homes delivered and an increase of 8.7% in the average selling price of the homes delivered. The increase in the number of homes delivered in fiscal 2013, as compared to fiscal 2012, was primarily due to a higher backlog at October 31, 2012, as compared to October 31, 2011. The increase in the average price of homes delivered in fiscal 2013, as compared to fiscal 2012, was primarily attributable to a shift in the number of homes delivered to more expensive areas and/or products and increases in selling prices in fiscal 2013.

The value of net contracts signed in fiscal 2013 was $697.5 million, a 56.7% increase from the $445.2 million of net contracts signed during fiscal 2012. This 56.7% increase was primarily due to a 45.8% increase in the number of net contracts signed and a 7.5% increase in the average value of each net contract. The increase in the number of net contracts signed was primarily due to an improvement in home buyer demand in fiscal 2013 as compared to fiscal 2012. The increase in the average sales price of net contracts signed in fiscal 2013, as compared to fiscal 2012, was primarily attributable to a shift in the number of contracts signed to more expensive areas and/or products and increases in selling prices in fiscal 2013.

In fiscal 2013, we reported income before income taxes of $32.7 million, as compared to $13.9 million in fiscal 2012. This increase in income was primarily attributable to higher earnings from the increased revenues in fiscal 2013, as compared to fiscal 2012, offset, in part, by higher SG&A. The increase in SG&A was due primarily to increased compensation, sales and marketing costs.

Mid-Atlantic

Revenues in fiscal 2013 were higher than those in fiscal 2012 by $117.2 million, or 21.9%. The increase in revenues was primarily attributable to a 19.6% increase in the number of homes delivered and a 1.9% increase in the average selling price of the homes delivered. The increase in the number of homes delivered in fiscal 2013, as compared to fiscal 2012, was primarily due to a higher backlog at October 31, 2012, as compared to October 31, 2011, primarily in Pennsylvania and Virgina. The increase in the average price of homes delivered in fiscal 2013, as compared to fiscal 2012, was primarily attributable to a shift in the number of homes delivered to more expensive areas and/or products and increases in selling prices in fiscal 2013.

The value of net contracts signed during fiscal 2013 increased by $225.8 million, or 36.1%, from fiscal 2012. The increase was due to a 26.8% increase in the number of net contracts signed and a 7.3% increase in the average value of each net contract. The increase in the number of net contracts signed was primarily due to an increase in home buyer demand in fiscal 2013, as compared to fiscal 2012. 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 and increases in selling prices in fiscal 2013.

We reported income before income taxes in fiscal 2013 and 2012 of $79.8 million and $63.0 million, respectively. The increase in the income before income taxes in fiscal 2013 was primarily due to higher earnings from the increased revenues and lower inventory impairment charges in fiscal 2013, as compared to fiscal 2012, offset, in part, by higher SG&A in fiscal 2013, as compared to fiscal 2012. We recognized inventory impairment charges of $0.5 million and $6.0 million in fiscal 2013 and 2012, respectively.

South

Revenues in fiscal 2013 were higher than those in fiscal 2012 by $279.5 million, or 77.3%. This increase was attributable to a 63.1% increase in the number of homes delivered and a 8.7% increase in the average price of the homes delivered. The increase in the number of homes delivered in fiscal 2013, as compared to fiscal 2012, was primarily due to a higher backlog at October 31, 2012, as compared to October 31, 2011, which was the result of an increase in the number of net contracts signed in fiscal 2012 as compared to fiscal 2011. The increase in the average price of the homes delivered in fiscal 2013, as compared to fiscal 2012, was primarily attributable to a shift in the number of homes delivered to more expensive areas and/or products and increases in selling prices in fiscal 2013.

In fiscal 2013, the value of net contracts signed increased by $249.3 million, or 42.8%, as compared to fiscal 2012. The increase was attributable to increases of 31.6% and 8.5% in the number and average value of net contracts signed, respectively. The increase in the number of net contracts signed in fiscal 2013, as compared to fiscal 2012, was primarily due to increased demand in fiscal 2013. 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 and increases in selling prices in fiscal 2013.

We reported income before income taxes of $67.9 million in fiscal 2013, as compared to $18.9 million in fiscal 2012. The increase in the income before income taxes was primarily due to higher earnings from the increased revenues and lower inventory impairment charges in fiscal 2013, as compared to fiscal 2012, offset, in part, by higher SG&A in fiscal 2013, as compared to fiscal 2012. We recognized inventory impairment charges of $2.4 million and $5.2 million in fiscal 2013 and 2012, respectively.

West

Revenues in fiscal 2013 were higher than those in fiscal 2012 by $286.5 million, or 65.4%. The increase in revenues was attributable to a 35.6% increase in the number of homes delivered and a 22.0% increase in the average sales price of the homes delivered. The increase in the number of homes delivered was primarily due to a higher backlog at October 31, 2012, as compared to October 31, 2011, which was the result of an increase in the number of net contracts signed in fiscal 2012 as compared to fiscal 2011. The increase in the average price of the homes delivered was primarily due to a shift in the number of homes delivered to more expensive products and/or locations and increases in selling prices in fiscal 2013.

The value of net contracts signed during fiscal 2013 increased $312.9 million, or 47.9%, as compared to fiscal 2012. This increase was due to a 13.5% increase in the number of net contracts signed and a 30.3% increase in the average value of each net contract signed. The increase in the number of net contracts signed was primarily due to increased demand in fiscal 2013. 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 and increases in base selling prices in fiscal 2013.

In fiscal 2013, we reported income before income taxes of $111.3 million, as compared to $39.4 million in fiscal 2012. The increase in income before income taxes was primarily due to higher earnings from the increased revenues and lower cost of revenues as a percentage of revenues in fiscal 2013, as compared to fiscal 2012, offset, in part, by higher SG&A in fiscal 2013. Cost of revenues as a percentage of revenues was 78.3% of revenues in fiscal 2013, as compared to 82.7% in fiscal 2012. The decrease in cost of revenues as a percentage of revenues in fiscal 2013, as compared to fiscal 2012, was primarily due to a shift in the number of homes delivered to better margin products and/or locations and the impact of purchase accounting on the homes delivered in fiscal 2012 from our acquisition of CamWest.

City Living

Revenues in fiscal 2013 were lower than those in fiscal 2012 by $26.0 million, or 13.2%. The decrease in revenues was primarily attributable to a 49.8% decrease in the number of homes delivered, offset, in part, by an increase of 72.9% in the average selling price of the homes delivered. The decrease in the number of homes delivered in fiscal 2013, as compared to fiscal 2012, was primarily due to a decrease in the number of homes delivered in two of our high-rise buildings located in the New York and New Jersey urban markets which substantially settled out in fiscal 2012, partially offset by the commencement of closing at The Touraine, a high-rise building located in the New York urban market. The increase in the average price of homes delivered in the fiscal 2013 period, as compared to the fiscal 2012 period, was primarily attributable to closings at The Touraine. In fiscal 2013, we closed 21 units at The Touraine with an average sales price of $4.2 million for each unit. Excluding The Touraine, the average selling price of the homes delivered decreased by 2.3% primarily due to an increase in the number of homes delivered in the Philadelphia urban market which has lower average sales prices than other City Living markets.

The value of net contracts signed in fiscal 2013 was $287.1 million, a 14.2% increase from the $251.4 million of net contracts signed during fiscal 2012. This increase was primarily due to a 10.2% increase in the number of net contracts signed and a 3.6% increase in the average value of each net contract. The increase in the number of net contracts signed was primarily due to two high-rise buildings located in the New York and New Jersey urban markets (160 East 22nd Street in Manhattan and Maxwell Place in Hoboken, New Jersey) that opened in fiscal 2013, offset, in part, by net contracts signed in fiscal 2012 at two high-rise buildings which commenced sales in the second half of fiscal 2011. The increase in the average sales price of net contracts signed in fiscal 2013, as compared to fiscal 2012, was primarily attributable to a shift in the number of contracts signed to more expensive areas and/or products and increases in base selling prices in fiscal 2013, as compared to the fiscal 2012 period.

In fiscal 2013, we reported income before income taxes of $53.3 million, as compared to $61.9 million in fiscal 2012. This decrease in income was primarily attributable to a decrease in income from unconsolidated entities from $15.2 million in fiscal 2012 to $1.2 million in fiscal 2013 and lower earnings from decreased revenues in fiscal 2013, as compared to 2012, partially offset by lower cost of revenues as a percentage of revenues in fiscal 2013, as compared to fiscal 2012. The decrease in income from unconsolidated entities was due principally to a decrease in income generated from two of our high-rise joint ventures where there were fewer units remaining for sale since fiscal 2012 as they have closed most or all of their condominium units. Cost of revenues as a percentage of revenues was 65.7% and 70.4% in fiscal 2013 and 2012, respectively. The decrease in cost of revenues as a percentage of revenue in fiscal 2013, as compared to fiscal 2012, was primarily due to the increase in the number of homes delivered at The Touraine which had better margins than other City Living locations.

Other

In fiscal 2013 and 2012, other loss before income taxes was $77.3 million and $84.2 million, respectively. The decrease in fiscal 2013, as compared to fiscal 2012, was primarily due to $13.2 million of income from the previously-disclosed settlement of derivative litigation in fiscal 2013, increased income from our Gibraltar operations and investment in its structured asset joint venture, increased income from our ancillary operations, and higher earnings from land sales in fiscal 2013, as compared to fiscal 2012, partially offset by higher unallocated SG&A in fiscal 2013. The increase in unallocated SG&A in fiscal 2013 was primarily due to higher compensation, office and information technology expenses as a result of the increase in our business activity.

FISCAL 2012 COMPARED TO FISCAL 2011

North

Revenues in fiscal 2012 were higher than those in fiscal 2011 by $29.9 million, or 9.3%. The increase in revenues was primarily attributable to a 5.0% increase in the number of homes delivered and an increase of 4.1% in the average selling price of the homes delivered. The increase in the number of homes delivered in fiscal 2012, as compared to fiscal 2011, was primarily due to an increase in the number of net contracts signed in fiscal 2012 as compared to fiscal 2011. The increase in the average price of homes delivered in fiscal 2012, as compared to fiscal 2011, was primarily attributable to a shift in the number of homes delivered to more expensive areas and/or products.

The value of net contracts signed in fiscal 2012 was $445.2 million, a 35.8% increase from the $327.8 million of net contracts signed during fiscal 2011. This increase was primarily due to a 29.5% increase in the number of net contracts signed and a 4.9% increase in the average value of each net contract. The increase in the number of net contracts signed was primarily due to a 9% increase in the number of selling communities and an improvement in home buyer demand in fiscal 2012 as compared to fiscal 2011. The increase in the average sales price of net contracts signed in fiscal 2012, as compared to fiscal 2011, was primarily attributable to a shift in the number of homes delivered to more expensive areas and/or products.

In fiscal 2012, we reported income before income taxes of $13.9 million, as compared to $11.5 million in fiscal 2011. This increase in income was primarily attributable to higher earnings from the increased revenues and lower inventory impairment charges in fiscal 2012, as compared to fiscal 2011, offset, in part, by higher SG&A. In fiscal 2012 and 2011, we recognized inventory impairment charges of $1.8 million and $3.8 million, respectively.

Mid-Atlantic

Revenues in fiscal 2012 were higher than those in fiscal 2011 by $70.6 million, or 15.2%. The increase in revenues was primarily attributable to a 17.4% increase in the number of homes delivered, partially offset by a 1.9% decrease in the average selling price of the homes delivered. The increase in the number of homes delivered in fiscal 2012, as compared to fiscal 2011, was primarily due to a higher backlog at October 31, 2011, as compared to October 31, 2010, primarily in Pennsylvania and Virginia. The decrease in the average price of homes delivered in fiscal 2012, as compared to fiscal 2011, was primarily attributable to a shift in the number of homes delivered to less expensive areas and/or products.

The value of net contracts signed during fiscal 2012 increased by $145.5 million, or 30.3%, from fiscal 2011. The increase was due to a 31.3% increase in the number of net contracts signed, partially offset by a 0.8% decrease in the average value of each net contract. The increase in the number of net contracts signed was primarily due to a 10% increase in the number of selling communities and an increase in home buyer demand in fiscal 2012, as compared to fiscal 2011. 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 2012, as compared to fiscal 2011.

We reported income before income taxes in fiscal 2012 and 2011 of $63.0 million and $48.8 million, respectively. The increase in the income before income taxes in fiscal 2012 was primarily due to higher earnings from the increased revenues in fiscal 2012, as compared to fiscal 2011, offset, in part, by higher inventory impairment charges and SG&A in fiscal 2012, as compared to fiscal 2011. We recognized inventory impairment charges of $6.0 million and $4.3 million in fiscal 2012 and 2011, respectively.

South

Revenues in fiscal 2012 were higher than those in fiscal 2011 by $88.5 million, or 32.4%. This increase was attributable to a 21.4% increase in the number of homes delivered and a 9.0% increase in the average price of the homes delivered. The increase in the number of homes delivered in fiscal 2012, as compared to fiscal 2011, was primarily due to a higher backlog at October 31, 2011, as compared to October 31, 2010, which was the result of an increase in the number of net contracts signed in fiscal 2011 as compared to fiscal 2010. The increase in the average price of the homes delivered in fiscal 2012, as compared to fiscal 2011, was primarily attributable to a shift in the number of homes delivered to more expensive areas and/or products in fiscal 2012, as compared to fiscal 2011.

In fiscal 2012, the value of net contracts signed increased by $203.5 million, or 53.8%, as compared to fiscal 2011. The increase was attributable to increases of 40.6% and 9.3% in the number and average value of net contracts signed, respectively. The increase in the number of net contracts signed in fiscal 2012, as compared to fiscal 2011, was primarily due to increased demand and an increase in the number of selling communities in fiscal 2012, as compared to fiscal 2011. 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 2012, as compared to fiscal 2011.

We reported income before income taxes of $18.9 million in fiscal 2012, as compared to a loss before income taxes of $25.3 million in fiscal 2011. The increase in the income before income taxes was primarily due to lower inventory impairment charges in fiscal 2012, as compared to fiscal 2011, $15.2 million of impairment charges that we recognized on one of our investments in unconsolidated entities in fiscal 2011 which did not recur in 2012, and higher earnings from the increased revenues in fiscal 2012, as compared to fiscal 2011. In fiscal 2012 and 2011, we recognized inventory impairment charges of $5.2 million and $20.8 million, respectively.

West

Revenues in fiscal 2012 were higher than those in fiscal 2011 by $128.3 million, or 41.4%. The increase in revenues was attributable to a 53.7% increase in the number of homes delivered, offset, in part, by an 8.0% decrease in the average sales price of the homes delivered. The increase in the number of homes delivered was primarily attributable to home deliveries in Washington from CamWest. 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 Washington, in fiscal 2012, as compared to fiscal 2011.

The value of net contracts signed during fiscal 2012 increased $371.3 million, or 131.5%, as compared to fiscal 2011. This increase was due to a 122.1% increase in the number of net contracts signed and a 4.2% increase in the average value of each net contract signed. The increase in the number of net contracts signed was due to the addition of communities in Washington from CamWest where we entered into 254 net contracts in fiscal 2012 and an increase in the number of selling communities and demand in other states in fiscal 2012, as compared to fiscal 2011.

In fiscal 2012, we reported income before income taxes of $39.4 million, as compared to a loss before income taxes of $27.1 million in fiscal 2011. The increase in income before income taxes was primarily due to a $25.7 million impairment charge that we recognized on our South Edge investment in fiscal 2011 which did not recur in fiscal 2012, a $22.1 million decrease in inventory impairment charges and write-offs and higher earnings from the increased amount of revenues in fiscal 2012, as compared to fiscal 2011, offset, in part, by higher cost of revenues, excluding inventory impairment charges and interest, as a percentage of revenues, in fiscal 2012, as compared to fiscal 2011. In fiscal 2011, we recognized inventory impairment charges and write-offs of $22.9 million, as compared to $0.8 million in fiscal 2012. Cost of revenues as a percentage of revenues, excluding impairments and interest, was 78.2% of revenues in fiscal 2012, as compared to 75.9% in fiscal 2011. The increase in cost of revenues, excluding inventory impairment charges and interest, as a percentage of revenue in fiscal 2012, as compared to fiscal 2011, was primarily due to the impact of purchase accounting on the homes delivered in fiscal 2012 from our acquisition of CamWest, offset, in part, by improved margins in California and Nevada.

City Living

Revenues in fiscal 2012 were higher than those in fiscal 2011 by $89.6 million, or 83.7%. The increase in revenues was primarily attributable to a 90.9% increase in the number of homes delivered, partially offset by a decrease of 3.8% in the average selling price of the homes delivered. The increase in the number of homes delivered in fiscal 2012, as compared to fiscal 2011, was primarily due to the commencement of settlements in fiscal 2012 at two of our high-rise buildings located in the New York and New Jersey urban markets and to a higher backlog at October 31, 2011, as compared to October 31, 2010. The decrease in the average price of homes delivered in fiscal 2012, as compared to fiscal 2011, was primarily attributable to a shift in the number of homes delivered to less expensive areas and/or products.

The value of net contracts signed in fiscal 2012 was $251.4 million, an 84.8% increase from the $136.0 million of net contracts signed during fiscal 2011. This increase was primarily due to a 48.3% increase in the number of net contracts signed and a 24.6% increase in the average value of each net contract. The increase in the number of net contracts signed was primarily due to three high-rise buildings located in the New York and New Jersey urban markets that opened in the second half of fiscal 2011 and an improvement in home buyer demand in fiscal 2012 as compared to fiscal 2011. The increase in the average sales price of net contracts signed in fiscal 2012, as compared to fiscal 2011, was primarily attributable to sales at two of our high-rise buildings located in the New York urban market that opened in the fourth quarter of fiscal 2011. In fiscal 2012, we signed 74 contracts at these buildings with an average sales value of approximately $1.8 million each, as compared to 12 contracts with an average sales value of approximately $1.6 million in fiscal 2011.

In fiscal 2012, we reported income before income taxes of $61.9 million, as compared to $39.2 million in fiscal 2011. This increase in income was primarily attributable to higher earnings from the increased revenues and lower cost of revenues as a percentage of revenues, in fiscal 2012, as compared to fiscal 2011, offset, in part, by a decrease in income from unconsolidated entities from $31.9 million in fiscal 2011 to $15.2 million in fiscal 2012 and by higher SG&A. The lower cost of revenues as a percentage of revenues was primarily due to the initial closings at two of our high-rise buildings located in the New York and New Jersey urban markets which had higher margins than our other City Living markets. The $16.7 million decrease in income from unconsolidated entities in fiscal 2012 was due principally to a decrease in income generated from two of our high-rise joint ventures where unit availability has diminished since fiscal 2011 as they have closed most or all of their condominium units.

Other

In fiscal 2012 and 2011, other loss before income taxes was $84.2 million and $76.5 million, respectively. The increase in the loss in fiscal 2012, as compared to fiscal 2011, was primarily due to higher unallocated SG&A in fiscal 2012, as compared to fiscal 2011, offset, in part, by an increase of income recognized from our Gibraltar operations in fiscal 2012, as compared to fiscal 2011. The increase in unallocated SG&A in fiscal 2012, as compared to fiscal 2011, was primarily due to increased compensation costs in fiscal 2012, as compared to fiscal 2011, and a reduction in SG&A in fiscal 2011 from an insurance claim recovery.

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.

At October 31, 2013, 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 %
2014	$ 297,899	4.82%	$ 75,150	2.99%
2015	317,215	5.12%	150	0.25%
2016	9,182	5.41%	150	0.25%
2017	404,265	8.88%	150	0.25%
2018	1,839	5.81%	150	0.25%
Thereafter	1,389,613	4.47%	11,795	0.16%
Discount	(3,894)			
Total	$ 2,416,119	5.35%	$ 87,545	2.59%
Fair value at October 31, 2013	$ 2,553,180		$ 87,545	

(a) Based upon the amount of variable-rate debt outstanding at October 31, 2013, and holding the variable-rate debt balance constant, each 1% increase in interest rates would increase the interest incurred by us by approximately $0.9 million per year.

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, 2013.

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.

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, 2013, based on criteria established in Internal Control—Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (1992 framework), (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, 2013, 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. as of October 31, 2013 and 2012, and the related consolidated statements of operations, comprehensive income, changes in equity, and cash flows for each of the three years in the period ended October 31, 2013 of Toll Brothers, Inc. and our report dated December 23, 2013 expressed an unqualified opinion thereon.

Ernst + Young LLP

Philadelphia, Pennsylvania
December 23, 2013

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, 2013 and 2012, and the related consolidated statements of operations, comprehensive income, changes in equity, and cash flows for each of the three years in the period ended October 31, 2013. 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, 2013 and 2012, and the consolidated results of its operations and its cash flows for each of the three years in the period ended October 31, 2013, 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, 2013, based on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (1992 framework) and our report dated December 23, 2013 expressed an unqualified opinion thereon.

Ernst + Young LLP

Philadelphia, Pennsylvania
December 23, 2013

CONSOLIDATED BALANCE SHEETS *(Amounts in thousands)*

	October 31, 2013	October 31, 2012
ASSETS		
Cash and cash equivalents	$ 772,972	$ 778,824
Marketable securities	52,508	439,068
Restricted cash	32,036	47,276
Inventory	4,650,412	3,732,703
Property, construction and office equipment, net	131,320	109,971
Receivables, prepaid expenses and other assets	229,295	173,042
Mortgage loans held for sale	113,517	86,386
Customer deposits held in escrow	46,888	29,579
Investments in and advances to unconsolidated entities	403,133	330,617
Investments in distressed loans	36,374	37,169
Investments in foreclosed real estate	72,972	58,353
Deferred tax assets, net of valuation allowances	286,032	358,056
	$ 6,827,459	$ 6,181,044
LIABILITIES AND EQUITY		
Liabilities		
Loans payable	$ 107,222	$ 99,817
Senior notes	2,321,442	2,080,463
Mortgage company warehouse loan	75,000	72,664
Customer deposits	212,669	142,977
Accounts payable	167,787	99,911
Accrued expenses	522,987	476,350
Income taxes payable	81,188	80,991
Total liabilities	3,488,295	3,053,173
Equity		
Stockholders' equity		
Preferred stock, none issued	—	—
Common stock, 169,353 and 168,690 shares issued at October 31, 2013 and 2012, respectively	1,694	1,687
Additional paid-in capital	441,677	404,418
Retained earnings	2,892,003	2,721,397
Treasury stock, at cost — 0 shares and 53 shares at October 31, 2013 and 2012, respectively	—	(983)
Accumulated other comprehensive loss	(2,387)	(4,819)
Total stockholders' equity	3,332,987	3,121,700
Noncontrolling interest	6,177	6,171
Total equity	3,339,164	3,127,871
	$ 6,827,459	$ 6,181,044

See accompanying notes

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

	Year ended October 31, 2013	2012	2011
Revenues	$ 2,674,299	$ 1,882,781	$ 1,475,881
Cost of revenues	2,133,300	1,532,095	1,260,770
Selling, general and administrative	339,932	287,257	261,355
	2,473,232	1,819,352	1,522,125
Income (loss) from operations	201,067	63,429	(46,244)
Other:			
Income (loss) from unconsolidated entities	14,392	23,592	(1,194)
Other income — net	52,238	25,921	23,403
Interest expense	—	—	(1,504)
Expenses related to early retirement of debt			(3,827)
Income (loss) before income taxes	267,697	112,942	(29,366)
Income tax provision (benefit)	97,091	(374,204)	(69,161)
Net income	$ 170,606	$ 487,146	$ 39,795
Income per share:			
Basic	$ 1.01	$ 2.91	$ 0.24
Diluted	$ 0.97	$ 2.86	$ 0.24
Weighted-average number of shares:			
Basic	169,288	167,346	167,140
Diluted	177,963	170,154	168,381

See accompanying notes

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME *(Amounts in thousands)*

	Year ended October 31,		
	2013	2012	2011
Net income	$ 170,606	$ 487,146	$ 39,795
Other comprehensive income (loss), net of tax:			
Change in pension liability	2,334	(1,839)	(1,934)
Change in fair value of available-for-sale securities	(186)	476	(192)
Change in unrealized loss on derivative held by equity investee	284	(554)	
Other comprehensive income (loss)	2,432	(1,917)	(2,126)
Total comprehensive income	$ 173,038	$ 485,229	$ 37,669

See accompanying notes

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY *(Amounts in thousands)*

	Common Stock		Additional Paid-In Capital	Retained Earnings	Treasury Stock	Accumulated Other Comprehensive Loss	Non-Controlling Interest	Total Equity
	Shares	$	$	$	$	$	$	$
Balance, November 1, 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
Net income				487,146				487,146
Purchase of treasury stock					(505)			(505)
Exercise of stock options	13		(9,831)		44,472			34,641
Employee benefit plan issuances			174		301			475
Conversion of restricted stock units to stock			(1,814)		1,814			—
Stock-based compensation			7,411					7,411
Issuance of restricted stock and stock units	2		8,096					8,096
Other comprehensive loss						(1,917)		(1,917)
Loss attributable to non-controlling interest							(27)	(27)
Balance, October 31, 2012	168,690	1,687	404,418	2,721,397	(983)	(4,819)	6,171	3,127,871
Net income				170,606				170,606
Purchase of treasury stock					(15,377)			(15,377)
Exercise of stock options	505	6	20,952		15,996			36,954
Employee benefit plan issuances	9		299		362			661
Conversion of restricted stock units to stock								—
Stock-based compensation			7,703					7,703
Issuance of restricted stock and stock units	149	1	8,305		2			8,308
Other comprehensive income						2,432		2,432
Loss attributable to non-controlling interest							(27)	(27)
Capital contribution							33	33
Balance, October 31, 2013	169,353	1,694	441,677	2,892,003	—	(2,387)	6,177	3,339,164

See accompanying notes

CONSOLIDATED STATEMENTS OF CASH FLOWS *(Amounts in thousands)*

	Year Ended October 31,		
	2013	2012	2011
Cash flow (used in) provided by operating activities:			
Net income	$ 170,606	$ 487,146	$ 39,795
Adjustments to reconcile net income to net cash (used in) provided by operating activities:			
Depreciation and amortization	25,210	22,586	23,142
Stock-based compensation	19,041	15,575	12,494
Excess tax benefits from stock-based compensation	(24,417)	(5,776)	
(Recovery) impairment of investments in unconsolidated entities		(2,311)	40,870
Income from unconsolidated entities	(14,392)	(21,281)	(39,676)
Distributions of earnings from unconsolidated entities	23,468	5,258	12,081
Income from distressed loans and foreclosed real estate	(16,312)	(12,444)	(5,113)
Deferred tax provision (benefit)	75,219	41,810	(18,188)
Change in deferred tax valuation allowances	(1,337)	(394,718)	18,188
Inventory impairments and write-offs	4,523	14,739	51,837
Change in fair value of mortgage loans receivable and derivative instruments	174	(670)	475
Gain on sale of marketable securities	(57)	(40)	
Expenses related to early retirement of debt			3,827
Changes in operating assets and liabilities			
Increase in inventory	(941,314)	(195,948)	(215,738)
Origination of mortgage loans	(743,497)	(651,618)	(630,294)
Sale of mortgage loans	716,586	629,397	659,610
Decrease (increase) in restricted cash	15,240	(27,516)	41,146
Increase in receivables, prepaid expenses and other assets	(51,794)	(36,497)	(5,619)
Increase in customer deposits	52,383	44,383	13,175
Increase (decrease) in accounts payable and accrued expenses	100,463	(58,537)	(28,624)
Decrease in income tax refund recoverable			141,590
Increase (decrease) in income taxes payable	21,244	(25,075)	(56,225)
Net cash (used in) provided by operating activities	(568,963)	(171,537)	58,753

	Year Ended October 31,		
	2013	2012	2011
Cash flow provided by (used in) investing activities:			
Purchase of property and equipment — net	(26,567)	(11,920)	(15,456)
Purchase of marketable securities	(36,202)	(579,958)	(452,864)
Sale and redemption of marketable securities	417,846	368,253	408,831
Investment in and advances to unconsolidated entities	(93,398)	(217,160)	(132)
Return of investments in unconsolidated entities	69,809	38,368	43,309
Investment in distressed loans and foreclosed real estate	(26,155)	(30,090)	(66,867)
Return of investments in distressed loans and foreclosed real estate	27,370	16,707	2,806
Acquisition of a business		(144,746)	
Net cash provided by (used in) investing activities	332,703	(560,546)	(80,373)
Cash flow provided by (used in) financing activities:			
Net proceeds from issuance of senior notes	400,383	578,696	
Proceeds from loans payable	1,164,531	1,002,934	921,251
Principal payments of loans payable	(1,195,524)	(1,016,081)	(952,621)
Redemption of senior notes	(163,853)		(58,837)
Proceeds from stock-based benefit plans	15,798	33,747	25,531
Excess tax benefits from stock-based compensation	24,417	5,776	
Purchase of treasury stock	(15,377)	(505)	(49,102)
Change in noncontrolling interest	33		2,678
Net cash provided by (used in) financing activities	230,408	604,567	(111,100)
Net decrease in cash and cash equivalents	(5,852)	(127,516)	(132,720)
Cash and cash equivalents, beginning of year	778,824	906,340	1,039,060
Cash and cash equivalents, end of year	$ 772,972	$ 778,824	$ 906,340

See accompanying notes

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. The cost of marketable securities sold is based on the specific identification method.

Restricted Cash

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

Inventory

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

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

Once a parcel of land has been approved for development and the Company opens one of its typical communities, it may take four or more years to fully develop, sell and deliver all the homes in such community. Longer or shorter time periods are possible depending on the number of home sites in a community and the sales and delivery pace of the homes in a community. The Company's master planned communities, consisting of several smaller communities, may take up to ten years or more to complete. Because the Company's inventory is considered a long-lived asset under GAAP, the Company is required, under ASC 360, to regularly review the carrying value of each community and write down the value of those communities for which it believes the values are not recoverable.

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

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

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

Variable Interest Entities

The Company is required to consolidate variable interest entities ("VIEs") in which it has a controlling financial interest in accordance with ASC 810, "Consolidation" ("ASC 810"). A controlling financial interest will have both of the following characteristics: (i) the power to direct the activities of a VIE that most significantly impact the VIE's economic performance and (ii) the obligation to absorb losses of the VIE that could potentially be significant to the VIE or the right to receive benefits from the VIE that could potentially be significant to the VIE.

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

The Company has a significant number of land purchase contracts and several investments in unconsolidated entities which it evaluates in accordance with ASC 810. The Company analyzes its land purchase contracts and the unconsolidated entities in which it has an investment to determine whether the land sellers and unconsolidated entities are VIEs and, if so, whether the Company is the primary beneficiary. The Company examines specific criteria and uses its judgment when determining if it is the primary beneficiary of a VIE. Factors considered in determining whether the Company is the primary beneficiary include risk and reward sharing, experience and financial condition of other member(s), voting rights, involvement in day-to-day capital and operating decisions, representation on a VIE's executive committee, existence of unilateral kick-out rights or voting rights, level of economic disproportionality between the Company and the other member(s) and contracts to purchase assets from VIEs. The determination whether an entity is a VIE and, if so, whether the Company is primary beneficiary may require significant judgment.

Property, Construction and Office Equipment

Property, construction and office equipment are recorded at cost and are stated net of accumulated depreciation of $159.5 million and $157.5 million at October 31, 2013 and 2012, respectively. Depreciation is recorded using the straight-line method over the estimated useful lives of the assets. In fiscal 2013, 2012 and 2011, the Company recognized $10.8 million, $8.1 million and $9.8 million of depreciation expense, respectively.

Mortgage Loans Receivable

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

Investments in and Advances to Unconsolidated Entities

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

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

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

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

Investments in Non-performing Loan Portfolios and Foreclosed Real Estate

The Company's investments in non-performing loan portfolios are initially recorded at cost which the Company believes is fair value. The fair value is 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 estimates 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 deems 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 expects 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 other income - net over the estimated remaining life of the loan using a level yield methodology provided the Company does not presently have the intention to utilize real estate secured by the loans for use in its operations or significantly improving the collateral for resale. The difference between the contractually required payments of the loan as of the acquisition date and the total cash flows expected to be collected, or non-accretable difference, is not recognized.

Pursuant to ASC 310-30, the Company aggregates loans with common risk characteristics into pools for purposes of recognizing interest income and evaluating changes in estimated cash flows. Loan pools are evaluated as a single loan for purposes of placing the pool on non-accrual status or evaluating loan impairment. Generally, a loan pool is classified as non-accrual when management is unable to reasonably estimate the timing or amount of cash flows expected to be collected from the loan pool or has serious doubts about further collectability of principal or interest. Proceeds received on non-accrual loan pools generally are either applied against principal or reported as other income - net, depending on management's judgment as to the collectability of principal. For the fiscal years ended October 31, 2013, 2012 and 2011, none of the Company's loan pools were on non-accrual status.

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

The Company periodically re-evaluates cash flows expected to be collected for each loan pool based upon all available information as of the measurement date. Subsequent increases in cash flows expected to be collected are recognized prospectively through an adjustment to the loan pool's yield over its remaining life, which may result in a reclassification from non-accretable difference to accretable yield. Subsequent decreases in cash flows expected to be collected are evaluated to determine whether a provision for loan loss should be established. If decreases in expected cash flows result in a decrease in the estimated fair value of the loan pool below its amortized cost, the loan pool is deemed to be impaired and the Company will record a provision for loan losses to write the loan pool down to its estimated fair value. For the years ended October 31, 2013 and October 31, 2012 , the Company recorded a provision for loan losses of $0.7 million and $2.3 million, respectively. There was no provision for loan losses recorded in the fiscal year ended October 31, 2011.

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

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

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

Fair Value Disclosures

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

The fair value hierarchy is summarized below:

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

Treasury Stock

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

Revenue and Cost Recognition

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

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

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

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

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

Advertising Costs

The Company expenses advertising costs as incurred. Advertising costs were $11.6 million, $11.4 million and $11.1 million for the years ended October 31, 2013, 2012 and 2011, 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 is 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 uses 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. Stock-based compensation expense is generally included in the Company's selling, general and administrative expenses in its Consolidated Statements of Operations.

Income Taxes

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

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

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

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

Income Taxes — Valuation Allowance

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

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

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

Noncontrolling Interest

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

Segment Reporting

At October 31, 2013, the Company determined that it operates in two segments: Traditional Home Building and Urban Infill ("City Living"). Amounts reported in prior years have been reclassified to conform to the fiscal 2013 presentation.

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

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

In fiscal 2011, the Company discontinued the sale of homes in South Carolina. The operations in South Carolina were immaterial to the South geographic segments.

Related Party Transactions

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

Recent Accounting Pronouncements

In April 2013, the FASB issued Accounting Standards Update (“ASU”) 2013-04, “Liabilities” (“ASU 2013-04”), which provides guidance for the recognition, measurement, and disclosure of obligations resulting from joint and several liability arrangements for which the total amount of the obligation is fixed at the reporting date. ASU 2013-04 is effective for the Company beginning November 1, 2014. The adoption of ASU 2013-04 is not expected to have a material effect on our consolidated financial statements or disclosures.

In February 2013, the FASB issued ASU No. 2013-02, “Reporting of Amounts Reclassified Out of Accumulated Other Comprehensive Income” (“ASU 2013-02”). ASU 2013-02 requires entities to present information about reclassification adjustments from accumulated other comprehensive income in their financial statements, in a single note or on the face of the financial statements. The Company adopted ASU 2013-02 in its quarter beginning February 1, 2013. The adoption of this guidance, which relates to disclosure only, did not have a material impact on the Company’s consolidated financial position, results of operations or cash flows.

Subsequent Events

ACQUISITION OF SHAPELL INDUSTRIES, INC.: On November 6, 2013, the Company entered into a purchase and sale agreement (the “Purchase Agreement”) with Shapell Investment Properties, Inc. to acquire all of the equity interests in Shapell Industries, Inc. (“Shapell”), for an aggregate all-cash purchase price of $1.60 billion (the “Acquisition”), subject to certain adjustments. Pursuant to the Purchase Agreement, the Company has agreed to acquire the single-family residential real property development business of Shapell, including a portfolio of approximately 5,200 home sites in California. The Purchase Agreement contains customary representations, warranties and covenants of the parties. The closing of the Acquisition is subject to the completion of the separation of Shapell’s commercial and multi-family units to be retained by Shapell, subject to limited exceptions, the completion of pending buy-outs by Shapell of minority interests in certain joint ventures and other customary closing conditions and is expected to occur in the first calendar quarter of 2014. The Company intends to use the net proceeds of the equity offering and senior note offerings completed in November 2013, borrowings under its $1.04 billion credit facility, other financial resources available to it, and, if needed, borrowings under the 364-day unsecured revolving credit facility as more fully described below, to finance the Acquisition and to pay related fees and expenses.

EQUITY OFFERING: In November 2013, the Company issued 7.2 million shares of its common stock, par value $.01 per share, at a price to the public of $32.00 per share (the “equity offering”). The Company received $220.8 million of net proceeds from the issuance.

SENIOR NOTE OFFERINGS: In November 2013, the Company issued $350 million principal amount of 4.0% Senior Notes due 2018 (the “4.0% Senior Notes”) and $250 million principal amount of 5.625% Senior Notes due 2024 (the “5.625% Senior Notes”) through Toll Brothers Finance Corp. The Company received $596.2 million of net proceeds from the issuance of the 4.0% Senior Notes and the 5.625% Senior Notes. If (i) the Purchase Agreement is terminated on any date prior to May 31, 2014, (ii) the Company publicly announces on any date prior to May 31, 2014 that the Acquisition will not be pursued or (iii) the Acquisition is not consummated prior to May 31, 2014, then the Company will be required to redeem each series of notes at 100% of the aggregate principal amount of such series, together with accrued and unpaid interest on such notes from November 21, 2013 up to, but not including, the applicable special mandatory redemption date.

364-DAY SENIOR UNSECURED REVOLVING CREDIT FACILITY: The Company has received a definitive financing commitment from a number of banks for a $500 million, 364-day senior unsecured revolving credit facility. The availability of borrowings under this facility is subject to the Company entering into a definitive agreement with the banks and will be subject to customary conditions. Amounts borrowed thereunder are expected to accrue interest at the London interbank offered rate plus a margin determined pursuant to a leverage ratio-based pricing grid expected to range from 1.25% to 2.25% per annum.

SALE OF TOLL BROTHERS REALTY TRUST II ASSETS: In December 2013, Toll Brothers Realty Trust II (“Trust II”) sold substantially all of its assets to an unrelated party. As a result of this sale, the Company expects to realize a profit of approximately $20 million in the first quarter of fiscal 2014 representing its share of the gain on the sale. This gain will be included in income from unconsolidated entities in the Company’s Consolidated Statements of Operations.

Reclassification

Certain prior period amounts have been reclassified to conform to the fiscal 2013 presentation.

2. ACQUISITION

In November 2011, the Company acquired substantially all of the assets of CamWest Development LLC (“CamWest”) for approximately $144.7 million in cash. The assets acquired were primarily inventory. As part of the acquisition, the Company assumed contracts to deliver approximately 29 homes with an aggregate value of $13.7 million. The average price of the undelivered homes at the date of acquisition was approximately $471,000. The assets the Company acquired included approximately 1,245 home sites owned and 254 home sites controlled through land purchase agreements. The Company’s selling community count increased by 15 communities at the acquisition date. The acquisition of the assets of CamWest was not material to the Company’s results of operations or its financial condition. In fiscal 2012, the Company delivered 201 homes and generated revenues of $99.7 million through its CamWest operations.

3. INVENTORY

Inventory at October 31, 2013 and 2012 consisted of the following (amounts in thousands):

	2013	2012
Land controlled for future communities	$ 99,802	$ 54,624
Land owned for future communities	1,287,630	1,013,565
Operating communities	3,262,980	2,664,514
	$ 4,650,412	$ 3,732,703

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. Backlog consists of homes under contract but not yet delivered to the Company's home buyers ("Backlog").

Information regarding the classification, number and carrying value of these temporarily closed communities at October 31, 2013, 2012 and 2011 is provided in the table below ($ amounts in thousands).

	2013	2012	2011
Land owned for future communities:			
Number of communities	25	40	43
Carrying value (in thousands)	$ 153,498	$ 240,307	$ 256,468
Operating communities:			
Number of communities	15	5	2
Carrying value (in thousands)	$ 88,534	$ 34,685	$ 11,076

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, 2013, 2012 and 2011 as shown in the table below (amounts in thousands).

	2013	2012	2011
Charge:			
Land controlled for future communities	$ 1,183	$ 451	$ 17,752
Land owned for future communities		1,218	$ 17,000
Operating communities	3,340	13,070	17,085
	$ 4,523	$ 14,739	$ 51,837

See Note 12, "Fair Value Disclosures," for information regarding the number of operating communities that the Company tested for potential impairment, the number of operating communities in which it recognized impairment charges, the amount of impairment charges recognized, and the fair value of those communities, net of impairment charges.

See Note 15, "Commitments and Contingencies" for information regarding land purchase commitments.

At October 31, 2013, the Company evaluated its land purchase contracts to determine if any of the selling entities were variable interest entities ("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, 2013, the Company determined that 87 land purchase contracts, with an aggregate purchase price of $1.12 billion, on which it had made aggregate deposits totaling $51.9 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, 2013, 2012 and 2011 was as follows (amounts in thousands):

	2013	2012	2011
Interest capitalized, beginning of year	$ 330,581	$ 298,757	$ 267,278
Interest incurred	134,198	125,783	114,761
Interest expensed to cost of revenues	(112,321)	(87,117)	(77,623)
Interest directly expensed in the consolidated statements of operations			(1,504)
Write-off against other income	(2,917)	(3,404)	(1,155)
Interest reclassified to property, construction and office equipment			(3,000)
Capitalized interest applicable to investments in unconsolidated entities	(6,464)	(3,438)	
Interest capitalized, end of year	$ 343,077	$ 330,581	$ 298,757

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, 2013, 2012 and 2011 would have been reduced by approximately $38.2 million, $47.9 million and $54.0 million, respectively.

During fiscal 2013, the Company reclassified $28.5 million of land inventory primarily related to commercial properties located in two of its master planned communities to receivables, prepaid expenses and other assets. The $28.5 million was reclassified due to the substantial completion of the home building operations in the communities where the land is located. The consolidated balance sheet as of October 31, 2012 was reclassified to conform to the fiscal 2013 presentation.

During fiscal 2013 and 2012, the Company contributed $54.8 million and $5.8 million, respectively, of inventory and other assets to several unconsolidated entities. See Note 4, "Investments in and Advances to Unconsolidated Entities" for more information related these transfers.

During fiscal 2013 and 2011, the Company reclassified $5.6 million and $20.0 million, respectively, of inventory related to commercial retail space located in two of its high-rise projects to property, construction and office equipment. The amounts were reclassified due to the substantial completion of these projects.

4. INVESTMENTS IN AND ADVANCES TO UNCONSOLIDATED ENTITIES

The Company has investments in and advances to various unconsolidated entities. The Company's investments in these entities are accounted for using the equity method of accounting. These entities include development joint ventures, home building joint ventures, rental joint ventures, the Trust, Trust II and a structured asset joint venture. At October 31, 2013, the Company had investments in and advances to these unconsolidated entities of $403.1 million and was committed to invest or advance up to an additional $92.1 million to these entities if they require additional funding. At October 31, 2013, the Company has guaranteed approximately $25.2 million of loans, $9.6 million of ground lease payments and $2.0 million of insurance policy deductibles.

In fiscal 2013 and 2012, the Company recognized income from the unconsolidated entities in which it had an investment of $14.4 million and $23.6 million, respectively. In fiscal 2011, the Company recognized a loss from the unconsolidated entities in which it had an investment of $1.2 million including $40.9 million of impairment losses related to the settlement of a lawsuit by one of its development joint ventures and an impairment of one of its home building joint ventures. The Company did not recognize any impairment charges in connection with its joint ventures in fiscal 2013 or 2012. In fiscal 2012, the Company recovered $2.3 million of costs it previously incurred.

In fiscal 2011, the Company recognized impairment charges in connection with the settlement of a lawsuit by one of its development joint ventures as noted above. As a result of the settlement, the Company recorded a charge of $25.7 million above amounts previously provided. This fiscal 2011 impairment and recovery in fiscal 2012 was attributable to the Company's investment in South Edge LLC, and its successor entity, Inspirada Builders, LLC (collectively, "Inspirada"). Inspirada 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 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.

In addition, in fiscal 2011, due to the deterioration of the market in which one of its home building joint ventures operates, the Company determined that there was an other than temporary impairment of its investment in this joint venture. Based on this determination, the Company recognized $15.2 million of impairment charges against the carrying value of the Company's investment in this joint venture.

More specific information regarding its investments in, advances to and future commitments to these entities is provided below.

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, 2013, the Company had approximately $142.4 million invested in or advanced to its Development Joint Ventures. In addition, the Company has a funding commitment of $26.0 million to three Development Joint Ventures should an additional investment in these ventures be required.

In the fourth quarter of fiscal 2013, the Company entered into a joint venture with an unrelated party to develop a parcel of land in Maryland. The property consists of 945 acres which the joint venture expects to develop into approximately 1,300 home sites. The Company has a 50% interest in this joint venture. The current plan is to develop the property and sell approximately 50% of the home sites to each of the members of the joint venture. The Company contributed $11.8 million of cash to the joint venture.

In the second quarter of fiscal 2013, the Company entered into a joint venture with an unrelated party to develop a parcel of land in Texas as a master planned community consisting of approximately 2,900 home sites. The Company has a 50% interest in this joint venture. The current plan is to develop the property in multiple phases and sell groups of home sites to the members of the joint venture and to other home builders. The Company contributed $15.5 million of cash to the joint venture. The joint venture entered into a $25.0 million line of credit with a bank, secured by a deed of trust on the property, which can be expanded up to $40.0 million under certain conditions. At October 31, 2013, the joint venture had $22.9 million of borrowings under this line of credit. At October 31, 2013, the Company had an investment of $20.1 million in this joint venture and was committed to make additional contributions to this joint venture of up to $12.5 million.

In the third quarter of fiscal 2012, the Company acquired for approximately $110.0 million, a 50% interest in a joint venture with an unrelated party that owns and is developing over 2,000 home sites in Orange County, California. Under the terms of the operating agreement, the Company will acquire 266 home sites in the first phase of the property from the joint venture. The Company intends to acquire approximately 545 additional home sites in future phases from the joint venture. At October 31, 2013, the Company had an investment of $105.2 million in this joint venture and was committed to make additional contributions of up to $10.0 million to this joint venture, if needed. The joint venture has an $80.0 million credit facility from a bank to fund the development of the property. At October 31, 2013, the venture had borrowed $42.8 million under the facility.

Home Building Joint Ventures

At October 31, 2013, the Company had an aggregate of $166.3 million of investments in and advances to various joint ventures with unrelated parties to develop luxury for-sale homes. At October 31, 2013, the Company had $38.2 million of funding commitments to three of these joint ventures. One of the joint ventures expects to finance future construction with external financing.

In the first quarter of fiscal 2012, the Company entered into a joint venture in which it has a 50% interest to develop a high-rise luxury for-sale/rental project in the metro-New York market. At October 31, 2013, the Company had an investment of $119.5 million and was committed to make additional investments of $8.1 million in this joint venture. Under the terms of the agreement, upon completion of the construction of the building the Company will acquire ownership of the top 18 floors of the building to sell, for its own account, luxury condominium units and its partner will receive ownership of the lower floors containing residential rental units and retail space.

In the third quarter of fiscal 2012, the Company invested in a joint venture in which it has a 50% interest that will develop a high-rise luxury condominium project in the metro-New York market. At October 31, 2013, the Company had invested $8.3 million in this joint venture. The Company expects to make additional investments of approximately $21.8 million for the development of this property. The joint venture expects to borrow additional funds to complete the construction of this project. The Company has also guaranteed approximately $7.4 million of payments related to the ground lease on this project.

Rental Joint Ventures

At October 31, 2013, the Company had an aggregate of $68.7 million of investments in and advances to several joint ventures with unrelated parties to develop luxury for-rent apartments, commercial space and a hotel. At October 31, 2013, the Company had funding commitments to these joint ventures of $27.9 million. At October 31, 2013, three of these joint ventures had aggregate loan commitments of $193.8 million and outstanding borrowings against these commitments of $14.4 million.

In the fourth quarter of fiscal 2013, the Company entered into a joint venture with an unrelated party to develop a luxury, 287-unit apartment building in the Capitol Riverfront of Washington, D.C. on land that the Company owned and conveyed to the joint venture. The Company has a 50% interest in this joint venture. As part of the Company's initial capital contribution, it contributed land and improvements with a fair value of $27.1 million to the joint venture and subsequently received a cash distribution of $12.5 million to align the capital accounts of each of the members of the joint venture. The joint venture entered into a $54 million construction loan agreement with a bank to finance the development of this project. At October 31, 2013, the joint venture had no borrowings under the construction loan agreement. At October 31, 2013, the Company had an investment of $14.7 million in this joint venture.

In the second quarter of fiscal 2013, the Company entered into a joint venture with an unrelated party to develop a luxury, 38-story apartment building and retail space in Jersey City, New Jersey on land that the Company owned and conveyed to the joint venture. The Company has a 50% interest in this joint venture. As part of the Company's initial capital contribution, it contributed land and improvements with a fair value of $27.6 million to the joint venture and subsequently received cash distributions of $10.6 million and a $1.2 million cash payment by the joint venture on the Company's behalf to align the capital accounts of each of the members of the joint venture. The joint venture entered into a $120 million construction loan agreement with a bank to finance the development of this project. At October 31, 2013, the joint venture had no borrowings under the construction loan agreement. At October 31, 2013, the Company had an investment of $22.5 million in this joint venture and was committed to make additional contributions to this joint venture of up to $8.0 million.

In the fourth quarter of fiscal 2012, the Company invested in a joint venture in which it has a 50% interest that will develop a multi-family residential apartment project containing approximately 398 units in suburban Philadelphia. At October 31, 2013, the Company had an investment of $15.6 million in this joint venture. The joint venture expects to borrow funds to complete the construction of this project. The Company does not have any additional commitment to fund this joint venture.

In the third quarter of fiscal 2012, the Company invested in a joint venture in which it has a 50% interest that will develop a luxury hotel in conjunction with a high-rise luxury condominium project in the metro-New York market. At October 31, 2013, the Company had invested $4.9 million in this joint venture. The Company expects to make additional investments of approximately $17.8 million for the development of this property. The joint venture expects to borrow additional funds to complete the construction of this project. The Company has also guaranteed approximately $2.1 million of payments related to the ground lease on this project.

Structured Asset Joint Venture

In July 2010, the Company, through Gibraltar Capital and Asset Management LLC ("Gibraltar"), invested in a joint venture in which it is a 20% participant with two unrelated parties to purchase a 40% interest in an entity that owns and controls a portfolio of loans and real estate ("Structured Asset Joint Venture"). At October 31, 2013, the Company had an investment of $25.7 million in this Structured Asset Joint Venture. At October 31, 2013, 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.

Toll Brothers Realty Trust and Toll Brothers Realty Trust II

In fiscal 2005, the Company, together with the Pennsylvania State Employees Retirement System ("PASERS"), formed 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, 2013, the Company had an investment of $2.2 million in Trust II. In December 2013, Trust II sold substantially all of its assets to an unrelated party. See Note 1 — "Significant Accounting Policies — Subsequent Events" for more information.

Prior to the formation of Trust II, the Company formed 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), 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, 2013, the Company had a negative investment in the Trust of $0.9 million resulting from a loss recognized by the Trust in the fourth quarter of fiscal 2013 due to the expensing of financing costs incurred in the refinancing of its debt. The Company expects that the Trust will return to profitability in fiscal 2014. The Company provides development, finance and management services to the Trust and recognized fees under the terms of various agreements in the amounts of $4.2 million, $2.7 million and $2.9 million in fiscal 2013, 2012 and 2011, respectively.

Guarantees

The unconsolidated entities in which the Company has investments generally finance their activities with a combination of partner equity and debt financing. In some instances, the Company and its partners have guaranteed debt of certain unconsolidated entities which may include any or all of the following: (i) project completion including any cost overruns, in whole or in part, (ii) repayment guarantees, generally covering a percentage of the outstanding loan, (iii) indemnification of the lender as to environmental matters affecting the unconsolidated entity and (iv) indemnification of the lender from "bad boy acts" of the unconsolidated entity.

In some instances, the guarantees provided in connection with loans to an unconsolidated entity are joint and several. In these situations, the Company generally has a reimbursement agreement with its partner that provides that neither party is responsible for more than its proportionate share of the guarantee; however, if the joint venture partner does not have adequate financial resources to meet its obligations under the reimbursement agreement, the Company may be liable for more than its proportionate share.

The Company believes that as of October 31, 2013, in the event it becomes legally obligated to perform under a guarantee of the obligation of an unconsolidated entity due to a triggering event, the collateral should be sufficient to repay a significant portion of the obligation. If it is not, the Company and its partners would need to contribute additional capital to the venture. At October 31, 2013, the unconsolidated entities that have guarantees related to debt had loan commitments aggregating $279.0 million and had borrowed an aggregate of $65.7 million. The term of these guarantees generally range from 30 months to 48 months. The Company estimates that the maximum potential exposure under these guarantees, if the full amount of the loan commitments were borrowed, would be $279.0 million before any reimbursement from the Company's partners. Based on the amounts borrowed at October 31, 2013, the Company's maximum potential exposure under these guarantees is estimated to be approximately $65.7 million before any reimbursement from the Company's partners.

In addition, the Company has guaranteed approximately $11.6 million of ground lease payments and insurance deductibles for three joint ventures.

As of October 31, 2013, the estimated aggregate fair value of the guarantees was approximately $1.6 million. The Company has not made payments under any of the guarantees, nor has it been called upon to do so.

Variable Interest Entities

At October 31, 2013, the Company determined that three of its joint ventures were VIEs under the guidance within ASC 810. The Company has, however, concluded that it was not the primary beneficiary of the VIEs because the power to direct the activities of these VIEs that most significantly impact their performance was shared by the Company and the VIEs' other members. Business plans, budgets and other major decisions are required to be unanimously approved by all members. Management and other fees earned by the Company are nominal and believed to be at market rates and there is no significant economic disproportionality between the Company and other members.

The information presented below regarding the investments, commitments and guarantees in unconsolidated entities deemed to be VIEs is also included in the information provided above. At October 31, 2013 and 2012, the Company's investments in its unconsolidated joint ventures deemed to be VIEs, which are included in investments in and advances to unconsolidated entities in the accompanying balance sheets, totaled $22.9 million and $26.5 million, respectively. At October 31, 2013, the maximum exposure of loss to the Company's investments in unconsolidated joint ventures that are VIEs is limited to its investment in the unconsolidated VIEs, except with regard to $41.7 million of additional commitments to the VIEs and a $9.6 million guaranty of ground lease payments. At October 31, 2012, the maximum exposure to loss of the Company's investments in unconsolidated joint ventures that are VIEs was limited to its investment in the unconsolidated VIEs, except with regard to a $47.7 million additional commitment to fund the joint ventures and a $9.8 million guaranty of ground lease payments.

Joint Venture Condensed Financial Information

The condensed balance sheets, as of the dates indicated, and the condensed statements of operations, for the periods indicated, for the Company's unconsolidated entities in which it has an investment, aggregated by type of business, are included below (in thousands). The column titled "Rental Property Joint Ventures" includes the Rental Joint Ventures, the Trust and Trust II described above.

	Development Joint Ventures	Home Building Joint Ventures	Rental Property Joint Ventures	Structured Asset Joint Venture	Total
CONDENSED BALANCE SHEETS:			October 31, 2013		
Cash and cash equivalents	$ 30,826	$ 31,164	$ 35,014	$ 40,097	$ 137,101
Inventory	350,150	338,814	4,998		693,962
Non-performing loan portfolio				107,411	107,411
Rental properties			164,325		164,325
Rental properties under development			133,081		133,081
Real estate owned ("REO")				202,259	202,259
Other assets (1)	12,700	70,180	18,526	155,921	257,327
Total assets	$ 393,676	$ 440,158	$ 355,944	$ 505,688	$ 1,695,466
Debt (1)	135,200	11,977	235,226	155,900	538,303
Other liabilities	21,015	19,636	9,461	379	50,491
Members' equity	237,461	408,545	111,257	139,764	897,027
Noncontrolling interest				209,645	209,645
Total liabilities and equity	$ 393,676	$ 440,158	$ 355,944	$ 505,688	$ 1,695,466
Company's net investment in unconsolidated entities (2)	$ 142,448	$ 166,271	$ 68,711	$ 25,703	$ 403,133
			October 31, 2012		
Cash and cash equivalents	$ 17,189	$ 24,964	$ 26,167	$ 44,176	$ 112,496
Inventory	255,561	251,030	5,643		512,234
Non-performing loan portfolio				226,315	226,315
Rental properties			173,767		173,767
Rental properties under development			43,695		43,695
Real estate owned ("REO")				254,250	254,250
Other assets (1)	12,427	72,289	9,193	237,476	331,385
Total assets	$ 285,177	$ 348,283	$ 258,465	$ 762,217	$ 1,654,142
Debt (1)	96,362	11,755	213,725	311,801	633,643
Other liabilities	14,390	9,438	5,534	561	29,923
Members' equity	174,425	327,090	39,206	179,942	720,663
Noncontrolling interest				269,913	269,913
Total liabilities and equity	$ 285,177	$ 348,283	$ 258,465	$ 762,217	$ 1,654,142
Company's net investment in unconsolidated entities (2)	$ 116,452	$ 135,688	$ 41,134	$ 37,343	$ 330,617

(1) Included in other assets at October 31, 2013 and 2012 of the Structured Asset Joint Venture is $155.9 million and $237.5 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 are primarily a result of the difference in the purchase price of a joint venture interest and its underlying equity, impairments related to the Company's investments in unconsolidated entities, a loan made to one of the entities by the Company, interest capitalized on the Company's investment and distributions from entities in excess of the carrying amount of the Company's net investment.

CONDENSED STATEMENTS OF OPERATIONS:	Development Joint Ventures	Home Building Joint Ventures	Rental Property Joint Ventures	Structured Asset Joint Venture	Total
	For the year ended October 31, 2013				
Revenues	$ 43,937	$ 40,386	$ 38,727	$ 37,492	$ 160,542
Cost of revenues	20,142	36,208	16,704	30,496	103,550
Other expenses	1,146	2,554	20,875	3,399	27,974
Total expenses	21,288	38,762	37,579	33,895	131,524
Gain on disposition of loans and REO				68,323	68,323
Income from operations	22,649	1,624	1,148	71,920	97,341
Other income	11	571	86	329	997
Net income	22,660	2,195	1,234	72,249	98,338
Less: income attributable to noncontrolling interest				(43,349)	(43,349)
Net income attributable to controlling interest	22,660	2,195	1,234	28,900	54,989
Other comprehensive income			922		922
Total comprehensive income	$ 22,660	$ 2,195	$ 2,156	$ 28,900	$ 55,911
Company's equity in earnings of unconsolidated entities (3)	$ 3,288	$ 1,471	$ 3,965	$ 5,668	$ 14,392
	For the year ended October 31, 2012				
Revenues	$ 39,278	$ 89,947	$ 37,035	$ 31,686	$ 197,946
Cost of revenues	36,315	65,068	13,985	32,828	148,196
Other expenses	1,414	3,477	21,226	8,646	34,763
Total expenses	37,729	68,545	35,211	41,474	182,959
Gain on disposition of loans and REO				42,244	42,244
Income from operations	1,549	21,402	1,824	32,456	57,231
Other income	2,658	153	4	691	3,506
Net income	4,207	21,555	1,828	33,147	60,737
Less: income attributable to noncontrolling interest				(19,888)	(19,888)
Net income attributable to controlling interest	4,207	21,555	1,828	13,259	40,849
Other comprehensive income					—
Total comprehensive income	$ 4,207	$ 21,555	$ 1,828	$ 13,259	$ 40,849
Company's equity in earnings of unconsolidated entities (3)	$ 3,995	$ 15,303	$ 1,602	$ 2,692	$ 23,592
	For the year ended October 31, 2011				
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	6,988	20,774	10,624	39,913
Total expenses	5,523	198,910	36,139	41,101	281,673
Gain on disposition of loans and REO				61,406	61,406
Income from operations	(899)	43,416	1,589	66,492	110,598
Other income	9,498	68	1,537	252	11,355
Net income	8,599	43,484	3,126	66,744	121,953
Less: income attributable to noncontrolling interest				(40,048)	(40,048)
Net income attributable to controlling interest	8,599	43,484	3,126	26,696	81,905
Other comprehensive income					—
Total comprehensive income	$ 8,599	$ 43,484	$ 3,126	$ 26,696	$ 81,905
Company's equity in earnings of unconsolidated entities (3)	$ (25,272)	$ 14,895	$ 3,844	$ 5,339	$ (1,194)

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

5. INVESTMENTS IN DISTRESSED LOANS AND FORECLOSED REAL ESTATE

Investments in Distressed Loans

The Company's investment in distressed loans consisted of the following at October 31, 2013 and 2012 (amounts in thousands):

	2013	2012
Unpaid principal balance	$ 63,381	$ 99,693
Discount on acquired loans	(27,007)	(62,524)
Carrying value	$ 36,374	$ 37,169

The Company's investment in distressed loans includes performing loans and non-performing loans and also includes investments in loan participations classified as secured borrowings under ASC 860, "Transfers and Servicing."

For acquired distressed loans where it is probable that the Company will collect less than the contractual amounts due under the terms of the loan based, at least in part, on the assessment of the credit quality of the borrowers, the loans are accounted for under ASC 310-30. Under ASC 310-30, provided the Company does not presently have the intention to utilize real estate secured by the loans for use in its operations or to significantly improve the collateral for resale, the amount by which the future cash flows expected to be collected at the acquisition date exceeds the estimated fair value of the loan, or accretable yield, is recognized in other income — net over the estimated remaining life of the loan using a level yield methodology. 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.

The Company may acquire distressed loans where it has determined that (1) it is possible to collect all contractual amounts due under the terms of the loan, (2) it expects to utilize the real estate secured by the loans in its operations, or (3) forecasted cash flows cannot be reasonably estimated. For non-performing loans acquired meeting any of these conditions, in accordance with ASC 310-10, "Receivable," ("ASC 310-10") the loans are classified as nonaccrual and interest income is not recognized. When a loan is classified as non-accrual, any subsequent cash receipt is accounted for using the cost recovery method. For performing loans, payments are applied to principal and interest in accordance with the terms of the loan when received. As of October 31, 2013, the Company had investments in performing and non-performing loans, accounted for in accordance with ASC 310-10, of $0.8 million and $21.4 million, respectively. At October 31, 2012, the Company had investments in non-performing loans, accounted for in accordance with ASC 310-10, of $9.2 million. The Company had no investments in performing loans at October 31, 2012.

For the year ended October 31, 2013, the Company, through Gibraltar purchased distressed loans for approximately $26.0 million. The purchases included performing and non-performing loans secured by retail shopping centers, residential land and golf courses located in seven states.

The following table summarizes, for the distressed loans acquired in fiscal 2012 that were accounted for in accordance with ASC 310-30, the accretable yield and the nonaccretable difference of the Company's investment in these loans as of their acquisition date (amounts in thousands).

	2012
Contractually required payments, including interest	$ 58,234
Non-accretable difference	(8,235)
Cash flows expected to be collected	49,999
Accretable yield	(20,514)
Distressed loans carrying amount	$ 29,485

There were no distressed loans purchased during the year ended October 31, 2013 that met the requirements of ASC 310-30.

The accretable yield activity for the Company's investment in distressed loans accounted for under ASC 310-30 for the years ended October 31, 2013 and 2012 was as follows (amounts in thousands):

	2013	2012
Balance, beginning of period	$ 17,196	$ 42,326
Loans acquired		20,514
Additions	1,654	5,539
Deletions	(7,728)	(40,227)
Accretion	(4,516)	(10,956)
Balance, end of period	$ 6,606	$ 17,196

Additions primarily represent the reclassification to accretable yield from nonaccretable yield and the impact of impairments. Deletions primarily represent loan dispositions, which include foreclosure of the underlying collateral and resulting removal of the loans from the accretable yield portfolios, and reclassifications from accretable yield to nonaccretable yield. The reclassifications between accretable and nonaccretable yield and the accretion of interest income are based on various estimates regarding loan performance and the value of the underlying real estate securing the loans. As the Company continues to gather additional information regarding the loans and the underlying collateral, the accretable yield may change. Therefore, the amount of accretable income recorded in the years ended October 31, 2013 and 2012 is not necessarily indicative of future results.

Foreclosed Real Estate Owned

The following table presents the activity in REO at October 31, 2013, 2012, and 2011 (amounts in thousands):

	2013	2012	2011
Balance, beginning of period	$ 58,353	$ 5,939	$ —
Additions	23,470	54,174	5,939
Sales	(7,842)	(1,353)	
Impairments	(505)	(126)	
Depreciation	(504)	(281)	
Balance, end of period	$ 72,972	$ 58,353	$ 5,939

As of October 31, 2013, approximately $7.6 million and $65.3 million of REO was classified as held-for-sale and held-and-used, respectively. As of October 31, 2012, approximately $5.9 million and $52.4 million of REO was classified as held-for-sale and held-and-used, respectively. For the years ended

October 31, 2013 and October 31, 2012, the Company recorded gains of $3.6 million and $0.6 million from acquisitions of REO through foreclosure, respectively.

General

The Company's earnings from Gibraltar's operations, excluding its investment in the Structured Asset Joint Venture, are included in other income — net in its Condensed Consolidated Statements of Operations. In the years ended October 31, 2013 and 2012, the Company recognized $10.2 million and $4.5 million of earnings (excluding earnings from its investment in the Structured Asset Joint Venture), respectively, from Gibraltar's operations.

6. CREDIT FACILITY, LOANS PAYABLE, SENIOR NOTES AND MORTGAGE COMPANY WAREHOUSE LOAN

Credit Facility

On August 1, 2013, the Company entered into a $1.04 billion ("Aggregate Credit Commitment") unsecured, five-year credit facility ("Credit Facility") with 15 banks which extends to August 1, 2018. Up to 75% of the Aggregate Credit Commitment is available for letters of credit. The Credit Facility has an accordion feature under which the Company may, subject to certain conditions set forth in the agreement, increase the Credit Facility up to a maximum aggregate amount of $2.0 billion. The Company may select interest rates for the Credit Facility equal to (i) LIBOR plus an applicable margin or (ii) the lenders' base rate plus an applicable margin, which in each case is based on the Company's credit rating and leverage ratio. The Company is obligated to pay an undrawn commitment fee which is based on the average daily unused amount of the Aggregate Credit Commitment and the Company's credit ratings and leverage ratio. Any proceeds from borrowings under the Credit Facility may be used for general corporate purposes.

Under the terms of the 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 Credit Facility) of no less than approximately $2.28 billion. Under the terms of the Credit Agreement, at October 31, 2013, the Company's leverage ratio was approximately 0.49 to 1.00 and its tangible net worth was approximately $3.28 billion. Based upon the minimum tangible net worth requirement at October 31, 2013, the Company's ability to pay dividends would have been limited to an aggregate amount of approximately $1.0 billion or the repurchase of our common stock of approximately $1.49 billion.

The Credit Facility replaced the Company's revolving credit facility entered into as of October 22, 2010 (the "2010 Facility"). Upon entering into the Credit Facility, the Company voluntarily terminated the 2010 Facility on August 1, 2013. No early termination penalties were incurred by the Company as a result of the termination of the 2010 Facility. At October 31, 2013, the Company had no outstanding borrowings under the Credit Facility but had outstanding letters of credit of approximately $76.6 million.

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, 2013 and 2012 is included in the table below ($ amounts in thousands).

		2013		2012
Aggregate loans payable at October 31	$	107,222	$	99,817
Weighted-average interest rate		4.53%		3.64%
Interest rate range		0.14%–7.87%		0.26%–7.87%
Loans secured by assets				
Carrying value of loans secured by assets	$	106,358	$	98,952
Carrying value of assets securing loans	$	372,833	$	311,104

The contractual maturities of loans payable as of October 31, 2013 ranged from less than 1 month to 22 years.

Senior Notes

At October 31, 2013 and 2012, the Company's senior notes consisted of the following (amounts in thousands):

		2013		2012
6.875% Senior Notes due November 15, 2012			$	59,068
5.95% Senior Notes due September 15, 2013				104,785
4.95% Senior Notes due March 15, 2014	$	267,960		267,960
5.15% Senior Notes due May 15, 2015		300,000		300,000
8.91% Senior Notes due October 15, 2017		400,000		400,000
6.75% Senior Notes due November 1, 2019		250,000		250,000
5.875% Senior Notes due February 15, 2022		419,876		419,876
0.5% Exchangeable Senior Notes due September 15, 2032		287,500		287,500
4.375% Senior Notes due April 15, 2023		400,000		
Bond discount		(3,894)		(8,726)
	$	2,321,442	$	2,080,463

The senior notes are the unsecured obligations of Toll Brothers Finance Corp., a 100%-owned subsidiary of the Company. The payment of principal and interest is fully and unconditionally guaranteed, jointly and severally, by the Company and a majority of its home building subsidiaries (together with Toll Brothers Finance Corp., the "Senior Note Parties"). The senior notes rank equally in right of payment with all the Senior Note Parties' existing and future unsecured senior indebtedness, including the Credit Facility. The senior notes are structurally subordinated to the prior claims of creditors, including trade creditors, of the subsidiaries of the Company that are not guarantors of the senior notes. The senior notes, other than the 0.5% Exchangeable Senior Notes due 2032 ("0.5% Senior Notes"), are redeemable in whole or in part at any time at the option of the Company, at prices that vary based upon the then-current rates of interest and the remaining original term of the notes. The 0.5% Senior Notes are not redeemable by the Company prior to September 15, 2017.

In September 2013, the Company repaid the outstanding $104.8 million of its 5.95% Senior Notes due September 15, 2013.

On April 3, 2013, the Company, through Toll Brothers Finance Corp., issued $300.0 million principal amount of 4.375% Senior Notes due 2023 (the "4.375% Senior Notes") at par. The Company received $298.1 million of net proceeds from this issuance of 4.375% Senior Notes.

On May 13, 2013, the Company, through Toll Brothers Finance Corp., issued an additional $100.0 million principal amount of 4.375% Senior Notes at a price equal to 103% of par value. The Company received $102.3 million of net proceeds from this additional issuance of 4.375% Senior Notes.

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

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

In February 2012, the Company, through Toll Brothers Finance Corp., issued $300 million principal amount of 5.875% Senior Notes due 2022 (the "5.875% Senior Notes"). The Company received $296.2 million of net proceeds from the issuance of the 5.875% Senior Notes. In March 2012, the Company, through Toll Brothers Finance Corp., issued an additional $119.9 million principal amount of its 5.875% Senior Notes in exchange for $80.7 million principal amount of its 6.875% Senior Notes due 2012 and $36.9 million principal amount of its 5.95% Senior Notes due 2013. The Company recognized a charge of $1.2 million in fiscal 2012 representing the aggregate costs associated with the exchange of both series of notes; these expenses are included in selling, general and administrative expenses in the Consolidated Statement of Operations.

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

In November 2013, the Company issued $600 million of senior notes. See Note 1 — "Significant Accounting Policies — Subsequent Events" for more information.

Mortgage Company Loan Facility

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 22, 2014 and bears interest at LIBOR plus 2.00%, with a minimum rate of 3.00%. Borrowings under this facility are included in the fiscal 2013 maturities.

At October 31, 2013 and 2012, there were $75.0 million and $72.7 million, respectively, outstanding under the Repurchase Agreement, which are included in liabilities in the accompanying Consolidated Balance Sheets. At October 31, 2013 and 2012, amounts outstanding under the Repurchase Agreement were collateralized by $113.5 million and $86.4 million, respectively, of mortgage loans held for sale, which are included in assets in the Company's Consolidated Balance Sheets. As of October 31, 2013, 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, 2013, 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
2014	$ 373,049
2015	$ 317,365
2016	$ 9,332
2017	$ 404,415
2018	$ 1,989

7. ACCRUED EXPENSES

Accrued expenses at October 31, 2013 and 2012 consisted of the following (amounts in thousands):

	2013	2012
Land, land development and construction	$ 152,674	$ 124,731
Compensation and employee benefit	111,561	111,093
Insurance and litigation	89,104	101,908
Warranty	43,819	41,706
Interest	25,675	28,204
Commitments to unconsolidated entities	3,804	2,135
Other	96,350	66,573
	$ 522,987	$ 476,350

The Company accrues for expected warranty costs at the time each home is closed and title and possession are transferred to the home buyer. Warranty costs are accrued based upon historical experience. The table below provides a reconciliation of the changes in the Company's warranty accrual during fiscal 2013, 2012 and 2011 as follows (amounts in thousands):

	2013	2012	2011
Balance, beginning of year	$ 41,706	$ 42,474	$ 45,835
Additions — homes closed during the year	14,652	10,560	8,809
Addition — liabilities acquired		731	
(Decrease) increase in accruals for homes closed in prior years	(184)	479	(828)
Charges incurred	(12,355)	(12,538)	(11,342)
Balance, end of year	$ 43,819	$ 41,706	$ 42,474

8. INCOME TAXES

The following table provides a reconciliation of the Company's effective tax rate from the federal statutory tax rate for the fiscal years ended October 31, 2013, 2012 and 2011 ($ amounts in thousands).

	2013		2012		2011	
	$	%*	$	%*	$	%*
Federal tax provision (benefit) at statutory rate	93,694	35.0	39,530	35.0	(10,278)	35.0
State tax provision (benefit), net of federal benefit	11,363	4.2	4,711	4.2	(954)	3.2
Reversal of accrual for uncertain tax positions	(5,580)	(2.1)	(34,167)	(30.3)	(52,306)	178.1
Accrued interest on anticipated tax assessments	3,704	1.4	5,000	4.4	3,055	(10.4)
Increase in unrecognized tax benefits		—	5,489	4.9		—
Increase in deferred tax assets, net	(4,914)	(1.8)		—	(25,948)	88.4
Valuation allowance — recognized	3,232	1.2		—	43,876	(149.4)
Valuation allowance — reversed	(4,569)	(1.7)	(394,718)	(349.5)	(25,689)	87.5
Other	161	0.1	(49)	—	(917)	3.1
Income tax provision (benefit)*	97,091	36.3	(374,204)	(331.3)	(69,161)	235.5

*Due to rounding, amounts may not add.

The Company currently operates in 19 states and is subject to various state tax jurisdictions. The Company estimates its state tax liability based upon the individual taxing authorities' regulations, estimates of income by taxing jurisdiction and the Company's ability to utilize certain tax-saving strategies. Based on the Company's estimate of the allocation of income or loss among the various taxing jurisdictions and changes in tax regulations and their impact on the Company's tax strategies, the Company estimated its rate for state income taxes at 6.5%, 6.5% and 5.0% in fiscal 2013, 2012 and 2011.

The following table provides information regarding the provision (benefit) for income taxes for each of the fiscal years ended October 31, 2013, 2012 and 2011 (amounts in thousands).

	2013	2012	2011
Federal	$ 93,451	$ (329,277)	$ (21,517)
State	3,640	(44,927)	(47,644)
	$ 97,091	$ (374,204)	$ (69,161)
Current	$ 23,209	$ (21,296)	$ (43,212)
Deferred	73,882	(352,908)	(25,949)
	$ 97,091	$ (374,204)	$ (69,161)

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

The following table provides a reconciliation of the change in the unrecognized tax benefits for the years ended October 31, 2013, 2012 and 2011 (amounts in thousands).

	2013	2012	2011
Balance, beginning of year	$ 80,991	$ 104,669	$ 160,446
Increase in benefit as a result of tax positions taken in prior years	5,699	5,000	8,168
Increase in benefit as a result of tax positions taken in current year		5,489	
Decrease in benefit as a result of settlements			(17,954)
Decrease in benefit as a result of completion of audits		(1,782)	(33,370)
Decrease in benefit as a result of lapse of statute of limitation	(8,585)	(32,385)	(12,621)
Balance, end of year	$ 78,105	$ 80,991	$ 104,669

The statute of limitation has expired on the Company's federal tax returns for fiscal years through 2009.

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

The Company recognizes in its tax provision (benefit), potential interest and penalties. The following table provides information as to the amounts recognized in its tax provision (benefit), 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, 2013, 2012 and 2011, and the amounts accrued for potential interest and penalties at October 31, 2013 and 2012 (amounts in thousands).

Expense recognized in statements of operations		
Fiscal year		
2013	$	5,699
2012	$	5,000
2011	$	4,700
Accrued at:		
October 31, 2013	$	28,362
October 31, 2012	$	24,906

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

The components of net deferred tax assets and liabilities at October 31, 2013 and 2012 are set forth below (amounts in thousands).

		2013		2012
Deferred tax assets:				
Accrued expenses	$	53,992	$	56,598
Impairment charges		262,346		319,818
Inventory valuation differences		28,448		30,424
Stock-based compensation expense		48,014		44,336
Amounts related to unrecognized tax benefits		35,603		36,934
State tax, net operating loss carryforward		55,763		50,006
Federal tax net operating loss carryforward				25,170
Other		20,369		21,345
Total assets		504,535		584,631
Deferred tax liabilities:				
Capitalized interest		100,514		102,713
Deferred income		7,388		7,784
Expenses taken for tax purposes not for book		29,257		36,811
Depreciation		4,548		3,994
Deferred marketing		21,089		18,229
Total liabilities		162,796		169,531
Net deferred tax assets before valuation allowances		341,739		415,100
Cumulative valuation allowance - state		(55,707)		(57,044)
Net deferred tax assets	$	286,032	$	358,056

As of October 31, 2012, the Company reclassed $1.1 million of deferred tax assets from accrued expenses to inventory valuation differences and $1.2 million of deferred tax liabilities from other to deferred income. These amounts were reclassified to conform to the fiscal 2013 presentation.

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

At October 31, 2012, the Company considered the need for a valuation allowance against its deferred tax assets considering all available and objectively verifiable positive and negative evidence. That evidence principally consisted of (i) an indication that the events and conditions that gave rise to significant losses in prior years were unlikely to recur in the foreseeable future, (ii) a return to profitability in fiscal 2012 together with expectations of continuing profitability in fiscal 2013, supported by existing backlog, and beyond, and (iii) the term of the statutory operating loss carry-forward periods provide evidence that it is more likely than not that these deferred tax assets will be realized. At October 31, 2012, the Company determined that the valuation allowance on its federal deferred tax assets and certain state valuation allowances were no longer needed. Accordingly, in fiscal 2012, the Company reversed a valuation allowance in the amount of $394.7 million; this has been reported as a component of income tax provision (benefit) in the accompanying Consolidated Statements of Operations. During fiscal 2013, the Company continued to re-evaluate the need for its remaining state valuation allowance and updated its fiscal 2012 analysis. Based upon the Company's better than forecasted operating results in fiscal 2013, its significantly higher backlog at October 31, 2013 and improved forecast of results of operations in fiscal 2014, it reversed an additional $4.6 million of state deferred tax asset valuation allowance in fiscal 2013. The Company will continue to review its deferred tax assets in accordance with ASC 740. The remaining valuation allowance at October 31, 2013 of $55.7 million relates to deferred tax assets in states that had not met the "more-likely-than-not" realization threshold criteria.

At October 31, 2013, the Company expects to utilize all prior year federal tax loss carryforwards resulting from losses incurred for federal income tax purposes during fiscal years 2011 and 2012 on its fiscal 2013 federal income tax return.

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

9. STOCKHOLDERS' EQUITY

The Company's authorized capital stock consists of 400 million shares of common stock, $.01 par value per share and 15 million shares of preferred stock, $.01 par value per share. At October 31, 2013, the Company had 169.4 million shares of common stock issued and outstanding, 11.0 million shares of common stock reserved for outstanding stock options and restricted stock units, 4.4 million shares of common stock reserved for future stock option and award issuances, 5.9 million shares of common stock reserved for the conversion of its 0.5% senior notes and 0.6 million shares of common stock reserved for issuance under the Company's employee stock purchase plan. As of October 31, 2013, the Company had issued no shares of preferred stock.

In November 2013, the Company issued 7.2 million shares of its common stock in a public offering. See Note 1 — Significant Accounting Policies — "Subsequent Events" for more information.

Issuance of Restricted Common Stock

In fiscal 2012 and 2011, the Company issued 1,350 and 1,250 shares of restricted common stock, respectively, pursuant to its stock incentive plans to certain outside directors. The Company is amortizing the fair market value of the awards on the date of grant over the period of time that each award vests. At October 31, 2013, 675 shares of the restricted stock awards were unvested.

Stock Repurchase Program

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

The following table provides information about the Company's share repurchase program for the fiscal years ended October 31, 2013, 2012 and 2011.

	2013	2012	2011
Number of shares purchased (in thousands)	498	20	3,068
Average price per share	$ 30.90	$ 25.62	$ 16.00
Remaining authorization at October 31 (in thousands)	8,268	8,766	8,786

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, 2013.

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

10. STOCK-BASED BENEFIT PLANS

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

The Company grants stock options, restricted stock and various types of restricted stock units to its employees and its non-employee directors under its stock incentive plans. Beginning in fiscal 2012, the Company changed the mix of stock-based compensation to its employees by reducing the number of stock options it grants and, in their place, issued non-performance-based restricted stock units as a form of compensation. At October 31, 2013, 2012 and 2011, the Company had 4,397,000, 5,489,000 and 6,712,000 shares, respectively, available for grant under its stock incentive plans.

The Company has one additional stock incentive plan for employees, officers and directors that is inactive except for outstanding stock option awards at October 31, 2013. No additional options may be granted under this plan. Stock options granted under this plan were made with a term of up to ten years at a price not less than the market price of the stock at the date of grant and generally vested over a four-year period for employees and a two-year period for non-employee directors.

The following table provides information regarding the amount of total stock-based compensation expense recognized by the Company for fiscal 2013, 2012 and 2011 (amounts in thousands):

	2013	2012	2011
Total stock-based compensation expense recognized	$ 19,041	$ 15,575	$ 12,548
Income tax benefit recognized	$ 7,378	$ 5,711	$ 4,793

At October 31, 2013, 2012 and 2011, the aggregate unamortized value of outstanding stock-based compensation awards was approximately $19.9 million, $14.2 million and $12.7 million, respectively.

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

Stock Options:

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

The fair value of each option award is estimated on the date of grant using a lattice-based option valuation model that uses assumptions noted in the following table. Expected volatilities were based on implied volatilities from traded options on the Company's stock, historical volatility of the Company's stock and other factors. The expected lives of options granted were derived from the historical exercise patterns and anticipated future patterns and represent the period of time that options granted are expected to be outstanding; the range given below results from certain groups of employees exhibiting different behaviors. The risk-free rate for periods within the contractual life of the option is based on the U.S. Treasury yield curve in effect at the time of grant.

The following table summarizes the weighted-average assumptions and fair value used for stock option grants in each of the fiscal years ended October 31, 2013, 2012 and 2011.

	2013	2012	2011
Expected volatility	44.04%–48.13%	44.20%–50.24%	45.38%–49.46%
Weighted-average volatility	46.70%	46.99%	47.73%
Risk-free interest rate	0.64%–1.56%	0.78%–1.77%	1.64%–3.09%
Expected life (years)	4.48–8.88	4.59–9.06	4.29–8.75
Dividends	none	none	none
Weighted-average fair value per share of options granted	$ 13.05	$ 8.70	$ 7.94

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. Information regarding the stock compensation expense, related to stock options, for fiscal 2013, 2012 and 2011 was as follows (amounts in thousands):

	2013	2012	2011
Stock compensation expense recognized — options	$ 7,703	$ 7,411	$ 8,626

At October 31, 2013, total compensation cost related to non-vested stock option awards not yet recognized was approximately $9.8 million and the weighted-average period over which the Company expects to recognize such compensation costs and tax benefit is approximately 2.6 years.

The following table summarizes stock option activity for the Company's plans during each of the fiscal years ended October 31, 2013, 2012 and 2011 (amounts in thousands, except per share amounts):

	2013		2012		2011	
	Number of options	Weighted-average exercise price	Number of options	Weighted-average exercise price	Number of options	Weighted-average exercise price
Balance, beginning	10,669	$ 23.23	12,868	$ 20.94	14,339	$ 19.36
Granted	768	32.22	777	20.50	1,103	19.32
Exercised	(1,454)	19.21	(2,941)	12.52	(2,467)	11.07
Canceled	(59)	25.09	(35)	20.67	(107)	20.12
Balance, ending	9,924	$ 24.51	10,669	$ 23.23	12,868	$ 20.94
Options exercisable, at October 31,	7,996	$ 24.49	8,540	$ 24.09	10,365	$ 21.24

The weighted average remaining contractual life (in years) for options outstanding and exercisable at October 31, 2013 was 4.3 and 3.4, respectively.

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

The following table provides information pertaining to the intrinsic value of options outstanding and exercisable at October 31, 2013, 2012 and 2011 (amounts in thousands):

	2013	2012	2011
Intrinsic value of options outstanding	$ 84,938	$ 106,084	$ 16,839
Intrinsic value of options exercisable	$ 68,920	$ 77,936	$ 16,839

Information pertaining to the intrinsic value of options exercised and the fair value of options that became vested or modified in each of the fiscal years ended October 31, 2013, 2012 and 2011 is provided below (amounts in thousands):

	2013	2012	2011
Intrinsic value of options exercised	$ 19,632	$ 39,730	$ 23,573
Fair value of options vested	$ 8,334	$ 10,079	$ 11,027

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

The following table provides information regarding the use of the net exercise method for fiscal 2013, 2012 and 2011.

	2013	2012	2011
Options exercised	531,000	303,412	194,000
Shares withheld	405,838	151,889	98,918
Shares issued	125,162	151,523	95,082
Average market value per share withheld	$ 32.22	$ 22.68	$ 18.94
Aggregate market value of shares withheld (in thousands)	$ 13,076	$ 3,445	$ 1,873

In addition, pursuant to the provisions of the Company's stock incentive plans, optionees are permitted to use the value of the Company's common stock that they own to pay for the exercise of options ("stock swap method").

The following table provides information regarding the use of the stock swap method for fiscal 2013, 2012 and 2011.

	2013	2012	2011
Options exercised	6,534	19,686	28,900
Shares tendered	4,034	8,224	14,807
Shares issued	2,500	11,462	14,093
Average market value per share withheld	$ 32.61	$ 25.52	$ 20.53
Aggregate market value of shares tendered (in thousands)	$ 132	$ 210	$ 304

Performance Based Restricted Stock Units:

In fiscal 2013 and 2012, the Executive Compensation Committee approved awards of performance-based restricted stock units ("Performance-Based RSUs") relating to shares of the Company's common stock to certain of its senior management. The use of Performance-Based RSUs replaced the use of stock price-based restricted stock units awarded in prior years. The Performance-Based RSUs are based on the attainment of certain performance metrics of the Company in year of grant. The number of shares underlying the Performance-Based RSUs that will be issued to the recipients may range from 90% to 110% of the base award depending on actual performance metrics as compared to the target performance metrics. The Performance-Based RSUs vest over a four-year period provided the recipients continue to be employed by the Company or serve on the Board of Directors of the Company (as applicable) as specified in the award document.

The value of the Performance-Based RSUs was determined to be equal to the estimated number of shares of the Company's common stock to be issued multiplied by the closing price of the Company's common stock on the New York Stock Exchange ("NYSE") on the date the Performance-Based RSU awards were approved by the Executive Compensation Committee. The Company evaluates the performance-based metrics quarterly and estimates the number of shares underlying the RSUs that are probable of being issued. The following table provides information regarding the issuance, valuation assumptions and amortization of the Company's Performance-Based RSUs issued in fiscal 2013 and 2012 .

	2013		2012
Number of shares underlying Performance-Based RSUs to be issued	302,511		370,176
Closing price of the Company's common stock on date performance goals were approved	$ 37.78	$	20.50
Estimated aggregate fair value of Performance-Based RSUs issued (in thousands)	$ 11,429	$	7,589
Aggregate number of Performance-Based RSUs outstanding at October 31	672,687		370,176
Performance-Based RSU expense recognized (in thousands)	$ 6,946	$	3,952
Unamortized value of Performance-Based RSUs at October 31 (in thousands)	$ 8,120	$	3,636

Stock Price-Based Restricted Stock Units:

In each of December 2010, 2009 and 2008, the Executive Compensation Committee approved awards to certain of its executives of market performance-based restricted stock units ("Stock Price-Based RSUs") relating to shares of the Company's common stock. In fiscal 2012, the Company adopted a Performance-Based Restricted Stock Award program to replace the Stock Price-Based RSU program. The Stock Price-Based RSUs will vest and the recipients will be entitled to receive the underlying shares if the average closing price of the Company's common stock on the NYSE, measured over any 20 consecutive trading days ending on or prior to five years from date of issuance of the Stock Price-Based RSUs increases 30% or more over the closing price of the Company's common stock on the NYSE on the date of issuance ("Target Price"), provided the recipients continue to be employed by the Company or serve on the Board of Directors of the Company (as applicable) as specified in the award document.

In fiscal 2012, the Target Price of the Stock Price-Based RSUs issued in December 2010, 2009 and 2008 were met. The Stock Price-Based RSUs issued in December 2008 were paid in fiscal 2012. The recipient of this RSU elected to use a portion of the shares underlying the RSUs to pay the required income withholding taxes on the payout. The gross value of the RSU payout was $5.9 million (200,000 shares), the income tax withholding was $2.4 million (81,200 shares) and the net value of the shares delivered was $3.5 million (118,800 shares).

The Stock Price-Based RSUs issued in December 2009 were paid in fiscal 2013. The recipient of these RSUs elected to use a portion of the shares underlying the RSUs to pay the required income withholding taxes on the payout. The gross value of the payout was $6.5 million (200,000 shares), the income tax withholding was 2.6 million (81,201 shares) and the net value of the shares delivered was $3.8 million (118,799 shares).

In December 2010, the Executive Compensation Committee approved the award of a Stock Price-Based RSUs relating to 306,000 shares of the Company's common stock to certain senior management of the Company; the closing price of the Company's common stock on the NYSE on the date of the award was $19.32 and the Target Price was $25.12. Using a lattice based option pricing model and assuming an expected volatility of 48.22%, a risk-free interest rate of 1.99%, and an expected life of 3.0 years, the Company determined the aggregate value of the Stock Price-Based RSUs to be $5.0 million. At October 31, 2013, 306,000 Stock Price-Based RSUs were outstanding and the unamortized value of these RSUs was $0.2 million. In fiscal 2013, the Company recognized $1.8 million of expense related to Stock Price-Based RSUs. The Company expects to distribute these Stock Price-Based RSUs in December 2013.

Non-performance Based Restricted Stock Units:

In December 2013, 2012 and 2011, the Company issued restricted stock units ("RSUs") to various officers, employees and directors. These RSUs generally vest in annual installments over a two- to four-year period. The value of the RSUs was determined to be equal to the number of shares of the Company's common stock to be issued pursuant to the RSUs, multiplied by the closing price of the Company's common stock on the NYSE on the date the RSUs were awarded. The following table provides information regarding these RSUs for fiscal 2013, 2012 and 2011.

	2013		2012		2011
Non-performance-Based RSUs issued:					
Number issued	94,080		107,820		15,497
Closing price of the Company's common stock on date of issuance	$ 32.22	$	20.50	$	19.32
Aggregate fair value of RSUs issued (in thousands)	$ 3,031	$	2,210	$	299
Non-performance-Based RSU expense recognized (in thousands):	$ 2,490	$	156	$	144

	2013		2012		2011
At October 31:					
Aggregate Non-performance-Based RSUs outstanding	225,252		137,764		30,994
Cumulative unamortized value of Non-performance-Based RSUs (in thousands)	$ 1,706	$	1,326	$	379

Restricted Stock Units in Lieu of Compensation

In December 2008, the Company issued restricted stock units ("RSUs in Lieu") 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 in Lieu vested in annual installments over a four-year period. Because the RSUs in Lieu are non-forfeitable, the value of the RSUs in Lieu was determined to be equal to the number of shares of the Company's common stock to be issued pursuant to the RSUs in Lieu multiplied by $21.70, the closing price of the Company's common stock on the NYSE on December 19, 2008, the date the RSUs in Lieu 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 RSUs in Lieu 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 RSUs in Lieu participant.

The following table provides information relating to the distribution of shares and the withholding of taxes on the RSUs in Lieu for fiscal 2013, 2012 and 2011.

	2013	2012	2011
Shares withheld	8,509	356	741
Shares issued	29,460	7,982	8,975
Value of shares withheld (in thousands)	$ 308	$ 10	$ 15

At October 31, 2013, 2012 and 2011, 0, 38,000 and 46,000 RSUs in Lieu, respectively, were outstanding.

Employee Stock Purchase Plan

The Company's employee stock purchase plan enables substantially all employees to purchase the Company's common stock at 95% of the market price of the stock on specified offering dates without restriction or at 85% of the market price of the stock on specified offering dates subject to restrictions. The plan, which terminates in December 2017, provides that 1.2 million shares be reserved for purchase. At October 31, 2013, 574,000 shares were available for issuance.

The following table provides information regarding the Company's employee stock purchase plan for fiscal 2013, 2012 and 2011.

	2013	2012	2011
Shares issued	20,362	18,456	23,079
Average price per share	$ 28.71	22.58	15.59
Compensation expense recognized (in thousands)	$ 77	$ 63	$ 54

11. INCOME PER SHARE INFORMATION

Information pertaining to the calculation of income per share for each of the fiscal years ended October 31, 2013, 2012 and 2011 is as follows (amounts in thousands):

	2013	2012	2011
Numerator:			
Net income as reported	$ 170,606	$ 487,146	$ 39,795
Plus: Interest and costs attributable to 0.5% Exchangeable Senior Notes, net of income tax benefit	1,604	78	
Numerator for diluted earnings per share	$ 172,210	$ 487,224	$ 39,795
Denominator:			
Basic weighted-average shares	169,288	167,346	167,140
Common stock equivalents (a)	2,817	1,996	1,241
Shares attributable to 0.5% Exchangeable Senior Notes	5,858	812	
Diluted weighted-average shares	177,963	170,154	168,381
Other information:			
Weighted-average number of anti-dilutive options and restricted stock units (b)	1,509	3,646	7,936
Shares issued under stock incentive and employee stock purchase plans	1,213	2,927	2,390

(a) Common stock equivalents represent the dilutive effect of outstanding in-the-money stock options using the treasury stock method, Stock Price-Based RSUs whose Target Price criteria have been met but are unpaid and shares expected to be issued under Performance-Based Restricted Stock Units.

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

12. FAIR VALUE DISCLOSURES

Financial Instruments

A summary of assets and (liabilities) at October 31, 2013 and 2012 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, 2013	Fair Value October 31, 2012
Corporate Securities	Level 2	$ 52,508	$ 260,772
Certificates of Deposit	Level 2		$ 148,112
Short-Term Tax-Exempt Bond Fund	Level 1		$ 30,184
Residential Mortgage Loans Held for Sale	Level 2	$ 113,517	$ 86,386
Forward Loan Commitments — Residential Mortgage Loans Held for Sale	Level 2	$ (496)	$ (102)
Interest Rate Lock Commitments ("IRLCs")	Level 2	$ (181)	$ (202)
Forward Loan Commitments — IRLCs	Level 2	$ 181	$ 202

At October 31, 2013 and 2012, the carrying value of cash and cash equivalents and restricted cash approximated fair value.

Mortgage Loans Held for 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. These gains and losses are included in other income — net. Interest income on mortgage loans held for sale is calculated based upon the stated interest rate of each loan and is included in other income — net.

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

	Aggregate unpaid principal balance	Fair value	Excess
At October 31, 2013	$ 111,896	$ 113,517	$ 1,621
At October 31, 2012	$ 84,986	$ 86,386	$ 1,400

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

Marketable Securities

As of October 31, 2013 and 2012, the amortized cost, gross unrealized holding gains, gross unrealized holding losses, and fair value of marketable securities were as follows (amounts in thousands):

	October 31, 2013	October 31, 2012
Amortized cost	$ 52,502	$ 438,755
Gross unrealized holding gains	71	451
Gross unrealized holding losses	(65)	(138)
Fair value	$ 52,508	$ 439,068

The estimated fair values of corporate securities and certificates of deposit are based on quoted prices provided by brokers. The remaining contractual maturities of marketable securities as of October 31, 2013 ranged from 3 months to 25 months.

Inventory

The Company recognizes inventory impairment charges based on the difference in the carrying value of the inventory and its fair value at the time of the evaluation. The fair value of the aforementioned inventory was determined using Level 3 criteria. See Note 1, "Significant Accounting Policies — Inventory" for additional information regarding the Company's methodology on determining fair value. As further discussed in Note 1, determining the fair value of a community's inventory involves a number of variables, many of which are interrelated. If the Company used a different input for any of the various unobservable inputs used in its impairment analysis, the results of the analysis may have been different, absent any other changes. The table below summarizes, for the periods indicated, the ranges of certain quantitative unobservable inputs utilized in determining the fair value of impaired communities.

	Selling price per unit (in thousands)	Sales pace per year (in units)	Discount rate
Three months ended October 31, 2013	$315–$362	2–7	15.0%
Three months ended July 31, 2013	$475–$500	2	15.0%
Three months ended April 30, 2013	—	—	—%
Three months ended January 31, 2013	$303–$307	15	15.3%
Three months ended October 31, 2012	$501–$536	11	18.3%
Three months ended July 31, 2012	$175–$571	4–12	14.0%–17.5%
Three months ended April 30, 2012	$413–$472	6–17	17.5%
Three months ended January 31, 2012	$344–$2,287	1–25	13.0%–18.8%

The table below provides, for the periods indicated, the fair value of operating communities whose carrying value was adjusted and the amount of impairment charges recognized on operating communities ($ amounts in thousands).

		Impaired operating communities		
Three months ended:	Number of communities tested	Number of communities	Fair value of communities, net of impairment charges	Impairment charges recognized
Fiscal 2013:				
January 31	60	2	$ 5,377	$ 700
April 30	79	1	$ 749	340
July 31	76	1	$ 191	100
October 31	63	2	$ 6,798	2,200
				$ 3,340
Fiscal 2012:				
January 31	113	8	$ 49,758	$ 6,425
April 30	115	2	$ 22,962	2,560
July 31	115	4	$ 6,609	2,685
October 31	108	3	$ 9,319	1,400
				$ 13,070
Fiscal 2011:				
January 31	143	6	$ 56,105	$ 5,475
April 30	142	9	$ 40,765	10,725
July 31	129	2	$ 867	175
October 31	114	3	$ 3,367	710
				$ 17,085

Investments in Distressed Loans and REO

Gibraltar's distressed loans were recorded at estimated fair value at inception based on the acquisition price as determined by Level 3 inputs and was based on the estimated discounted future cash flows to be generated by the loans discounted at the rates used to value the portfolios at the acquisition dates. The table below provides, as of the dates indicated, the carrying amount and estimated fair value of distressed loans (amounts in thousands).

	October 31, 2013	October 31, 2012
Carrying amount	$ 36,374	$ 37,169
Estimated fair value	$ 45,355	$ 38,109

Gibraltar's REO was recorded at estimated fair value at the time it was acquired through foreclosure or deed in lieu actions using Level 3 inputs. The valuation techniques used to estimate fair value are third-party appraisals, broker opinions of value, or internal valuation methodologies (which may include discounted cash flows, capitalization rate analysis or comparable transactional analysis). Unobservable inputs used in estimating the fair value of REO assets are based upon the best information available under the circumstances and take into consideration the financial condition and operating results of the asset, local market conditions, the availability of capital, interest and inflation rates and other factors deemed appropriate by management.

Acquisition of CamWest

The purchase price allocation performed in connection with our acquisition of CamWest was primarily based on Level 3 inputs. The assets acquired were primarily inventory. The valuation techniques used to value this inventory were similar to the criteria used in valuing inventory as described in Note 1, "Significant Accounting Policies — Inventory."

Debt

The table below provides, as of the dates indicated, the book value and estimated fair value of the Company's debt at October 31, 2013 and 2012 (amounts in thousands).

		October 31, 2013		October 31, 2012	
	Fair value hierarchy	Book value	Estimated fair value	Book value	Estimated fair value
Loans payable (a)	Level 2	$ 107,222	$ 106,988	$ 99,817	$ 99,093
Senior notes (b)	Level 1	2,325,336	2,458,737	2,089,189	2,340,189
Mortgage company warehouse loan (c)	Level 2	75,000	75,000	72,664	72,664
		$ 2,507,558	$ 2,640,725	$ 2,261,670	$ 2,511,946

(a) The estimated fair value of loans payable was based upon 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.

13. EMPLOYEE RETIREMENT AND DEFERRED COMPENSATION PLANS

Salary Deferral Savings Plans

The Company maintains salary deferral savings plans covering substantially all employees. During the first quarter of fiscal 2009, due to the continued downturn in the Company's business, the Company suspended its matching contributions and discretionary contributions to one of the plans. In fiscal 2011, the Company elected to make a discretionary contribution of 1% of eligible compensation for the plan year ended December 31, 2010. The Company made a 1% discretionary contribution for the plan year ended December 31, 2011, made a contribution of 2% of eligible compensation for the plan year ended December 31, 2012, and intends to make a 2% contribution for the plan year ending December 31, 2013. Beginning in the third quarter of fiscal 2011, the Company resumed a matching contribution of up to 1% of eligible compensation for employees electing to contribute via salary deferrals and increased the matching contribution to 2% in January 2012. The Company recognized an expense, net of plan forfeitures, with respect to the plans of $6.4 million, $5.0 million and $2.7 million for the fiscal years ended October 31, 2013, 2012 and 2011, respectively.

Deferred Compensation Plan

The Company has an unfunded, non-qualified deferred compensation plan that permits eligible employees to defer a portion of their compensation. The deferred compensation, together with certain Company contributions, earns various rates of return depending upon when the compensation was deferred and the length of time that it has been deferred. A portion of the deferred compensation and interest earned may be forfeited by a participant if he or she elects to withdraw the compensation prior to the end of the deferral period. At October 31, 2013 and 2012, the Company had accrued $20.4 million and $20.7 million, respectively, for its obligations under the plan.

Defined Benefit Retirement Plans

The Company has two unfunded defined benefit retirement plans. Retirement benefits generally vest when the participant has completed 15 or 20 years of service with the Company and reaches normal retirement age (age 62). Unrecognized prior service costs are being amortized over the period from the date participants enter the plans until their interests are fully vested. The Company used a 4.01%, 3.07% and 4.06% discount rate in its calculation of the present value of its projected benefit obligations at October 31, 2013, 2012 and 2011, respectively. The rates represent the approximate long-term investment rate at October 31 of the fiscal year for which the present value was calculated. Information related to the plans is based on actuarial information calculated as of October 31, 2013, 2012 and 2011.

Information related to the Company's retirement plans for each of the fiscal years ended October 31, 2013, 2012 and 2011 is as follows (amounts in thousands):

	2013	2012	2011
Plan costs:			
Service cost	$ 471	$ 389	$ 305
Interest cost	1,044	1,212	1,290
Amortization of prior service cost	843	737	694
Amortization of unrecognized losses	144	66	
	$ 2,502	$ 2,404	$ 2,289
Projected benefit obligation:			
Beginning of year	$ 34,319	$ 29,766	$ 26,037
Plan amendments adopted during year	826	575	
Service cost	471	389	305
Interest cost	1,044	1,212	1,290
Benefit payments	(888)	(731)	(504)
Change in unrecognized loss (gain)	(3,636)	3,108	2,638
Projected benefit obligation, end of year	$ 32,136	$ 34,319	$ 29,766
Unamortized prior service cost:			
Beginning of year	$ 3,171	$ 3,333	$ 4,027
Plan amendments adopted during year	826	575	
Amortization of prior service cost	(843)	(737)	(694)
Unamortized prior service cost, end of year	$ 3,154	$ 3,171	$ 3,333
Accumulated unrecognized (loss) gain, October 31	$ (527)	$ (4,307)	$ (1,265)
Accumulated benefit obligation, October 31	$ 32,136	$ 34,319	$ 29,766
Accrued benefit obligation, October 31	$ 32,136	$ 34,319	$ 29,766

The table below provides, based upon the estimated retirement dates of the participants in the retirement plans, the amounts of benefits the Company would be required to pay in each of the next five fiscal years and for the five fiscal years ended October 31, 2023 in the aggregate (in thousands).

Year ending October 31,	Amount
2014	$ 888
2015	$ 1,645
2016	$ 1,770
2017	$ 2,008
2018	$ 2,104
November 1, 2018 - October 31, 2023	$ 12,968

14. ACCUMULATED OTHER COMPREHENSIVE (LOSS) INCOME

The table below provides, for the fiscal year ended October 31, 2013, the components of accumulated other comprehensive (loss) income (amounts in thousands):

	Employee retirement plans	Available-for-sale securities	Derivative instruments	Total
Balance, beginning of period	$ (4,446)	$ 181	$ (554)	$ (4,819)
Other comprehensive income (loss) before reclassifications	2,810	(231)	435	3,014
Gross amounts reclassified from accumulated other comprehensive income (loss)	987	(57)		930
Income tax (expense) benefit	(1,463)	102	(151)	(1,512)
Other comprehensive income (loss), net of tax	2,334	(186)	284	2,432
Balance, end of period	$ (2,112)	$ (5)	$ (270)	$ (2,387)

Reclassifications for the amortization of the employee retirement plans are included in selling, general and administrative expense in the Consolidated Statements of Operations. See Note 13 — "Employee Retirement and Deferred Compensation Plans" for additional information. Reclassifications for the realized loss on available-for-sale securities are included in other income — net in the Consolidated Statements of Operations.

15. COMMITMENTS AND CONTINGENCIES

Land Purchase Commitments

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

Information regarding the Company's land purchase commitments at October 31, 2013 and 2012 is provided in the table below (amounts in thousands).

	2013	2012
Aggregate purchase commitments:		
Unrelated parties	$ 1,301,987	$ 742,918
Unconsolidated entities that the Company has investments in	61,738	4,067
Total	$ 1,363,725	$ 746,985
Deposits against aggregate purchase commitments	$ 76,986	$ 42,921
Additional cash required to acquire land	1,286,739	704,064
Total	$ 1,363,725	$ 746,985
Amount of additional cash required to acquire land included in accrued expenses	$ 1,439	$ 4,328

In addition, the Company expects to purchase approximately 545 additional home sites from a joint venture in which it has a 50% interest. The purchase price of the home sites will be determined at a future date.

At October 31, 2013, the Company had purchase commitments to acquire land for apartment developments of approximately $56.0 million, of which it had outstanding deposits in the amount of $2.5 million. At October 31, 2013, the Company also had a purchase commitment to acquire a parcel of land for approximately $79.3 million which it intends to develop with a joint venture partner; the Company expects to purchase up to 1,750 home sites from the joint venture and the joint venture expects to sell the remaining home sites to outside builders. In December 2013, the joint venture was formed and the joint venture acquired the land. In November 2013, the Company entered into an agreement to acquire Shapell for $1.60 billion. See Note 1 — "Significant Accounting Policies — Subsequent Events" for more information on the Shapell acquisition.

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

Legal Proceedings

The Company is involved in various claims and litigation arising principally in the ordinary course of business. The Company believes that adequate provision for resolution of all current claims and pending litigation has been made for probable losses and the disposition of these matters will not have a material adverse effect on the Company's results of operations and liquidity or on its financial condition.

Investments in and Advances to Unconsolidated Entities

At October 31, 2013, the Company had investments in and advances to a number of unconsolidated entities, was committed to invest or advance additional funds and had guaranteed a portion of the indebtedness and/or loan commitments of these entities. See Note 4, "Investments in and Advances to Unconsolidated Entities," for more information regarding the Company's commitments to these entities.

Surety Bonds and Letters of Credit

At October 31, 2013, the Company had outstanding surety bonds amounting to $409.6 million, primarily related to its obligations to various governmental entities to construct improvements in the Company's various communities. The Company estimates that $290.9 million of work remains on these improvements. The Company has an additional $62.2 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, 2013, the Company had outstanding letters of credit of $89.3 million, including $76.6 million under its Credit Facility and $12.7 million collateralized by restricted cash. These letters of credit were issued to secure various financial obligations of the Company including insurance policy deductibles and other claims, land deposits and security to complete improvements in communities in which it is operating. The Company believes it is not probable that any outstanding letters of credit will be drawn upon.

Backlog

At October 31, 2013, the Company had agreements of sale outstanding to deliver 3,679 homes with an aggregate sales value of $2.63 billion.

Mortgage Commitments

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

Information regarding the Company's mortgage commitments at October 31, 2013 and 2012 is provided in the table below (amounts in thousands).

	2013	2012
Aggregate mortgage loan commitments:		
IRLCs	$ 247,995	$ 111,173
Non-IRLCs	645,288	456,825
Total	$ 893,283	$ 567,998
Investor commitments to purchase:		
IRLCs	$ 247,995	$ 111,173
Mortgage loans receivable	107,873	80,697
Total	$ 355,868	$ 191,870

Rent Expense and Future Rent Payments

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

Year ending October 31,	Amount
2013	$ 10,973
2012	$ 11,183
2011	$ 12,405

At October 31, 2013, future minimum rent payments under the Company's operating leases were (amounts in thousands):

Year ending October 31,	Amount
2014	$ 9,619
2015	8,137
2016	6,619
2017	5,141
2018	4,111
Thereafter	3,659
	$ 37,286

16. OTHER INCOME — NET

The table below provides the components of other income — net for the years ended October 31, 2013, 2012 and 2011 (amounts in thousands):

	2013	2012	2011
Interest income	$ 4,457	$ 4,677	$ 5,210
Income from ancillary businesses	9,912	6,608	3,734
Gibraltar	10,185	4,476	1,522
Management fee income	2,890	2,212	5,137
Retained customer deposits	2,534	3,247	2,076
Land sales, net	4,435	1,425	1,350
Income recognized from settlement of litigation	13,229		
Other	4,596	3,276	4,374
Total other income — net	$ 52,238	$ 25,921	$ 23,403

Income recognized from the settlement of litigation was the result of the settlement of three derivative lawsuits brought on behalf of the Company against certain officers and directors of the Company. The gross settlement of $16.2 million was reduced by the payment of attorney's fees of $3.0 million. The Company's insurance carriers paid approximately $9.8 million and certain officers and former officers paid the remainder.

Income from ancillary businesses includes the activity of the Company's non-core businesses which include its mortgage, title, landscaping, security monitoring, and golf course and country club operations. The table below provides revenues and expenses for the Company's non-core ancillary businesses for the years ended October 31, 2013, 2012 and 2011 (amounts in thousands):

	2013	2012	2011
Revenue	$ 89,182	$ 67,137	$ 60,021
Expense	$ 79,270	$ 60,529	$ 56,287

17. INFORMATION ON OPERATING SEGMENTS

The table below summarizes revenue and income (loss) before income taxes for each of the Company's reportable segments for each of the fiscal years ended October 31, 2013, 2012 and 2011 (amounts in thousands):

	Revenues			Income (loss) before income taxes		
	2013	2012	2011	2013	2012	2011
Traditional Home Building:						
North	$ 485,052	$ 350,639	$ 320,797	$ 32,648	$ 13,913	$ 11,504
Mid-Atlantic	652,855	535,710	465,142	79,801	62,970	48,762
South	641,331	361,810	273,303	67,934	18,928	(25,272)
West	724,370	437,922	309,553	111,301	39,383	(27,113)
Traditional Home Building	2,503,608	1,686,081	1,368,795	291,684	135,194	7,881
City Living	170,691	196,700	107,086	53,345	61,910	39,201
Corporate and other				(77,332)	(84,162)	(76,448)
Total	$ 2,674,299	$ 1,882,781	$ 1,475,881	$ 267,697	$ 112,942	$ (29,366)

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

Total assets for each of the Company's operating segments at October 31, 2013 and 2012 are shown in the table below (amounts in thousands):

	2013	2012
North	$ 963,597	$ 757,412
Mid-Atlantic	1,231,438	1,155,715
South	953,955	800,268
West	1,290,388	904,374
Traditional Home Building	4,439,378	3,617,769
City Living	674,302	486,970
Corporate and other	1,713,779	2,076,305
Total	$ 6,827,459	$ 6,181,044

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

The Company provided for inventory impairment charges and the expensing of costs that it believed not to be recoverable and write-downs of investments in unconsolidated entities (including the Company's pro-rata share of impairment charges recognized by the unconsolidated entities in which it has an investment) for the years ended October 31, 2013, 2012 and 2011, 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, 2013 and 2012 is also shown (amounts in thousands).

	Net Carrying Value		Impairments		
	At October 31,		Year ended October 31,		
	2013	2012	2013	2012	2011
Inventory:					
Land controlled for future communities:					
Traditional Home Building					
North	$ 16,267	$ 10,606	$ 822	$ (907)	$ 906
Mid-Atlantic	29,423	25,573	322	238	307
South	14,606	7,724	400	800	313
West	13,371	8,131	(361)	205	16,184
Traditional Home Building	73,667	52,034	1,183	336	17,710
City Living	26,135	2,590		115	42
	99,802	54,624	1,183	451	17,752
Land owned for future communities:					
Traditional Home Building					
North	135,282	29,791			
Mid-Atlantic	308,585	396,562		300	300
South	158,457	141,644		918	16,700
West	448,125	232,546			
Traditional Home Building	1,050,449	800,543	—	1,218	17,000
City Living	237,181	213,022			
	1,287,630	1,013,565	—	1,218	17,000
Operating communities:					
Traditional Home Building					
North	785,175	701,253	940	2,725	2,885
Mid-Atlantic	866,256	707,873	200	5,500	3,700
South	690,302	597,840	2,000	3,445	3,800
West	697,573	528,451	200	600	6,700
Traditional Home Building	3,039,306	2,535,417	3,340	12,270	17,085
City Living	223,674	129,097		800	
	3,262,980	2,664,514	3,340	13,070	17,085
Total	$ 4,650,412	$ 3,732,703	$ 4,523	$ 14,739	$ 51,837
Investments in and advances to unconsolidated entities:					
Traditional Home Building					
Mid-Atlantic	$ 11,850				
South	50,452	31,252			$ 15,170
West	110,467	116,452		$ (2,311)	25,700
Traditional Home Building	172,769	147,704	—	(2,311)	40,870
City Living	135,950	104,436			
Corporate and other	94,414	78,477			
Total	$ 403,133	330,617	$ —	$ (2,311)	$ 40,870

18. SUPPLEMENTAL DISCLOSURE TO CONSOLIDATED STATEMENTS OF CASH FLOWS

The following are supplemental disclosures to the Consolidated Statements of Cash Flows for each of the fiscal years ended October 31, 2013, 2012 and 2011 (amounts in thousands):

	2013	2012	2011
Cash flow information:			
Interest paid, net of amount capitalized	$ 18,187	$ 1,223	$ 18,666
Income tax payment	$ 3,130	$ 4,264	
Income tax refunds	$ 1,190		$ 154,524
Non-cash activity:			
Cost of inventory acquired through seller financing or municipal bonds, net	$ 45,726	$ 26,059	$ 29,320
Financed portion of land sale	$ 7,200		
Reduction in inventory for Company's share of earnings in land purchased from unconsolidated entities	$ 3,035		
Transfer of investment in REO to inventory	$ 764		
Reclassification of deferred income from inventory to accrued liabilities	$ 4,545		
Miscellaneous (decreases) increases to inventory		$ (478)	$ 1,781
Reclassification of inventory to property, construction and office equipment	$ 5,576		$ 20,005
Increase (decrease) in unrecognized losses in defined benefit plans	$ (3,636)	$ 3,108	$ 2,638
Defined benefit plan amendment	$ 826	$ 575	
Income tax benefit related to exercise of employee stock options	$ 24,417	$ 3,885	
Increase in accrued expenses related to Stock Price-Based RSUs paid	$ 2,942		
Income tax (expense) benefit recognized in total comprehensive income	$ (1,512)	$ 1,263	
(Increase) reduction of investments in unconsolidated entities due to increase/reduction in letters of credit or accrued liabilities		$ 448	$ 13,423
Transfer of inventory to investment in distressed loans and foreclosed real estate		$ (802)	
Transfer of inventory to investment in unconsolidated entities	$ 54,761	$ 5,793	
Reclassification of deferred income from investment in unconsolidated entities to accrued liabilities		$ 2,943	
Reclassification of stock-based compensation from accrued liabilities to additional paid-in capital			$ 4,233
Unrealized gain (loss) on derivative held by equity investee	$ 435	$ (875)	

	2013	2012	2011
Non-cash activity, continued:			
Increase in investments in unconsolidated entities for change in the fair value of debt guarantees	$ 1,582		
Miscellaneous decreases to investments in unconsolidated entities	$ (1,811)	$ (276)	$ (2,212)
Acquisition of Business:			
Fair value of assets purchased		$ 149,959	
Liabilities assumed		$ 5,213	
Cash paid		$ 144,746	

19. SUMMARY CONSOLIDATED QUARTERLY FINANCIAL DATA (UNAUDITED)

The table below provides summary income statement data for each quarter of fiscal 2013 and 2012 (amounts in thousands, except per share data).

	Three Months Ended,			
	October 31	July 31	April 30	January 31
Fiscal 2013:				
Revenue	$ 1,044,534	$ 689,160	$ 516,004	$ 424,601
Gross profit	$ 222,273	$ 144,071	$ 95,991	$ 78,664
Income before income taxes	$ 150,150	$ 68,253	$ 40,968	$ 8,326
Net income	$ 94,905	$ 46,595	$ 24,674	$ 4,432
Income per share (1)				
Basic	$ 0.56	$ 0.28	$ 0.15	$ 0.03
Diluted	$ 0.54	$ 0.26	$ 0.14	$ 0.03
Weighted-average number of shares				
Basic	169,440	169,268	169,380	169,064
Diluted (2)	177,952	178,001	178,136	171,903
Fiscal 2012:				
Revenue	$ 632,826	$ 554,319	$ 373,681	$ 321,955
Gross profit	$ 127,088	$ 106,391	$ 66,860	$ 50,347
Income (loss) before income taxes	$ 60,749	$ 42,952	$ 15,649	$ (6,408)
Net income (loss)	$ 411,417	$ 61,643	$ 16,872	$ (2,786)
Income (loss) per share (1)				
Basic	$ 2.44	$ 0.37	$ 0.10	$ (0.02)
Diluted	$ 2.35	$ 0.36	$ 0.10	$ (0.02)
Weighted-average number of shares				
Basic	168,416	167,664	166,994	166,311
Diluted (2)	174,775	170,229	168,503	166,311

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

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

STOCK PRICE

Shares of our common stock are listed on the New York Stock Exchange ("NYSE") under the symbol "TOL." The following table sets forth, for the fiscal quarters indicated, the reported high and low sales prices per share of our common stock as reported on the New York Stock Exchange.

	Three Months Ended			
	October 31	July 31	April 30	January 31
2013				
High	$ 35.01	$ 39.24	$ 37.94	$ 38.35
Low	$ 29.64	$ 30.31	$ 29.87	$ 28.50
2012				
High	$ 37.07	$ 31.33	$ 25.79	$ 23.67
Low	$ 28.39	$ 23.83	$ 21.78	$ 16.78

The closing price of our common stock on the NYSE on the last trading day of our fiscal years ended October 31, 2013, 2012 and 2011 was $32.88, $33.01 and $17.44, respectively. At December 19, 2013, there were approximately 754 record holders of our common stock.

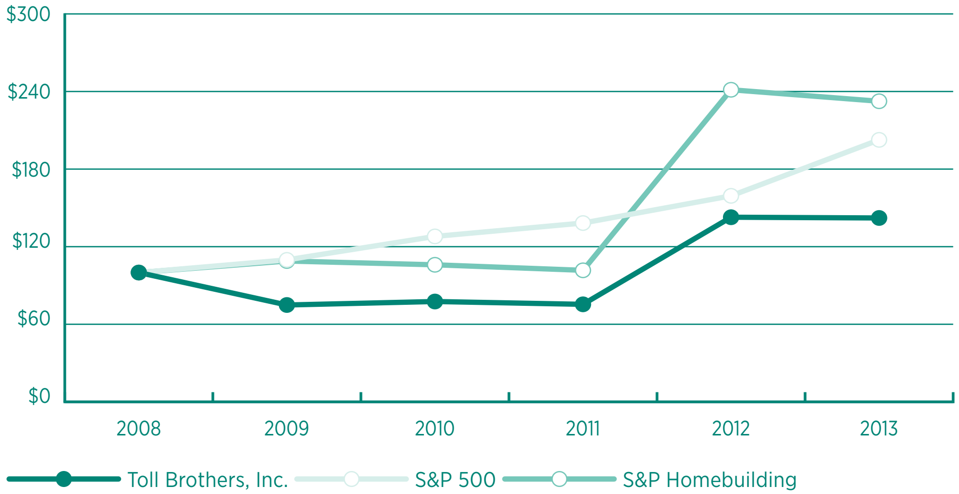
DIVIDENDS

We have not paid any cash dividends on our common stock to date and expect that, for the foreseeable future, we will not do so. Rather, we expect to follow a policy of retaining earnings in order to finance our business and, from time to time, repurchase shares of our common stock. The payment of dividends is within the discretion of our Board of Directors and any decision to pay dividends in the future will depend upon an evaluation of a number of factors, including our results of operations, capital requirements, our operating and financial condition, and any contractual limitations then in effect. Our bank credit agreement requires us to maintain a minimum tangible net worth (as defined in the agreement), which restricts the amount of dividends we may pay. At October 31, 2013, under the most restrictive provisions of our bank credit agreement, we could have paid up to approximately $1.0 billion of cash dividends.

STOCKHOLDER RETURN PERFORMANCE GRAPH

The following graph and chart compares the five-year cumulative total return (assuming an investment of $100 was made on October 31, 2008 and that dividends, if any, were reinvested) from October 31, 2008 to October 31, 2013, for (a) our common stock, (b) the Standard & Poor's Homebuilding Index (the "S&P Homebuilding Index") and (c) the Standard & Poor's 500 Composite Stock Index (the "S&P 500 Index"):

Comparison of 5 Year Cumulative Total Return Among Toll Brothers, Inc., the S&P 500 Index, and the S&P Homebuilding Index



October 31:	2008	2009	2010	2011	2012	2013
Toll Brothers, Inc.	100.00	74.91	77.60	75.43	142.78	142.21
S&P 500	100.00	109.80	127.94	138.29	159.32	202.61
S&P Homebuilding	100.00	108.92	106.00	101.73	241.35	232.47

CORPORATE DIRECTORS AND OFFICERS

Board of Directors

Robert I. Toll*
Executive Chairman of the Board

Bruce E. Toll
Vice Chairman of the Board
Principal — BET Investments, an office and commercial real estate company

Douglas C. Yearley, Jr.* (23)
Chief Executive Officer

Robert S. Blank
Co-Chairman & Co-CEO — Whitney Communications Company, and
Senior Partner — Whitcom Partners, investments

Edward G. Boehne
Retired President — Federal Reserve Bank of Philadelphia

Richard J. Braemer
Senior Counsel — Ballard, Spahr, Andrews & Ingersoll, LLP, Attorneys at Law

Christine N. Garvey
Retired Global Head of Corporate Real Estate Services — Deutsche Bank AG

Carl B. Marbach
President — Greater Marbach Airlines, Inc., and Florida Professional Aviation, Inc., aviation services and consulting companies

Stephen A. Novick
Senior Advisor — The Andrea and Charles Bronfman Philanthropies

Paul E. Shapiro
Chairman — Q Capital Strategies, LLC, a life settlement company

President and Chief Operating Officer

Richard T. Hartman* (34)

Chief Financial Officer

Martin P. Connor* (5)

Senior Vice Presidents

Frederick N. Cooper (20)
Finance, International Development and Investor Relations

Joseph R. DeSanto (10)
Tax

Jonathan C. Downs (21)
Human Resources

Daniel J. Kennedy (19)
Internal Audit

John K. McDonald (11)
General Counsel and Chief Compliance Officer

Kevin J. McMaster (30)
Controller

George W. Nelson (10)
Chief Information Officer

Joseph R. Sicree (21)
Chief Accounting Officer

Michael I. Snyder (33)
Secretary and Chief Planning Officer

Kira Sterling (28)
Chief Marketing Officer

Werner Thiessen (23)
Acquisitions

Gregg L. Ziegler (11)
Treasurer

Home Building Operations

Regional Presidents
James W. Boyd (20)
Barry A. Depew (30)
William J. Gilligan (19)
John G. Mangano (26)
Robert Parahus (27)
Edward D. Weber (34)

Toll Brothers City Living®

Thomas R. Mulvey (9)
President

Group Presidents
Keith L. Anderson (16)
Kevin D. Duermit (26)
John P. Elcano (21)
Christopher G. Gaffney (17)
Gregory E. Kamedulski (21)
Gary M. Mayo (16)
Thomas J. Murray (19)
Douglas C. Shipe (19)

Division Presidents
Eric C. Anderson (17)
David Bauer (9)
Charles W. Bowie (17)
Charles T. Breder (13)
Eric H. Campbell (2)
Robert L. Flaherty (16)
Thomas G. Gestite (24)
David E. Kelly (9)
John S. Lannamann (12)
Jake P. Lucero (13)
James A. McDade (9)

Division Presidents
Karl Mistry (9)
Richard M. Nelson (15)
Gregory S. Netro (13)
Robert G. Paul (12)
Seth J. Ring (10)
Anthony J. Rocco (16)
Andrew J. Semon (11)
Kenneth S. Thirtyacre (16)
David H. Von Spreckelsen (10)
David R. Straub (13)
Daniel C. Zalinsky (20)

Subsidiary and Affiliate Operations

Toll Brothers Apartment Living®

Charles L. Elliott (2)
Managing Director

Golf and Country Club Operations

David H. Richey (11)
President

Land Development Operations

Robert N. McCarron (21)
Executive Vice President

Joseph J. Palka (20)
Executive Vice President

ESE Consultants, Inc.

Mark S. Mayhew
Managing Director

TBI Mortgage® Company

Donald L. Salmon (14)
President

Toll Architecture, Inc.

Jed Gibson (20)
President

Gibraltar Capital and Asset Management, LLC

Roger A. Brush (20)
President

Michael L. LaPat (14)
Chief Financial Officer

Toll Integrated Systems

Keith Fell (5)
Director of Manufacturing

Toll Landscape, LLC

Mark Culichia (16)
President

Westminster Security Company

Felicia Ratka (13)
President

Westminster Title Company, Inc.

William T. Unkel (9)
President

*Executive Officer of the Company.
Director and employee listing as of 1/1/14.
( ) Years of service with Toll Brothers.

CORPORATE INFORMATION

Corporate Office

Toll Brothers, Inc.
250 Gibraltar Road
Horsham, Pennsylvania 19044
215-938-8000 • TollBrothers.com

Transfer Agent and Registrar

American Stock Transfer & Trust Company
59 Maiden Lane, New York, New York 10038
1-800-937-5449 • amstock.com

Independent Auditors

Ernst & Young LLP — Philadelphia, Pennsylvania

Employees

As of October 31, 2013, we had 3,126 full-time employees.

Stockholders

As of December 26, 2013, we had 752 stockholders of record.

Stock Listing

Our common stock is traded on the New York Stock Exchange (symbol "TOL").

Certifications

Our Chief Executive Officer and Chief Financial Officer have filed their certifications as required by the SEC regarding the quality of our public disclosures for each of the periods ended during our fiscal year ended October 31, 2013. Further, our Chief Executive Officer has certified to the New York Stock Exchange ("NYSE") that he is not aware of any violation by our Company of NYSE corporate governance listing standards, as required by Section 303A.12(a) of the NYSE Listed Company Manual.

Demographic and Other Data

Sources for the data included in this annual report include Barron's, Bloomberg Business Week, Bloomberg L.P., Citigroup, Claritas, The Conference Board, Credit Suisse, Deutsche Bank Securities, Fannie Mae, Federal Home Loan Mortgage Corporation, Federal Housing Finance Board, Federal Reserve Bank, Federal Reserve Board, Fitch Ratings, Forbes, Fortune, Harvard Institute of Economic Research, International Strategy & Investment Group, John Burns Real Estate Consulting, Joint Center for Housing Studies – Harvard University, J.P. Morgan Securities, Moody's Economy.com, Moody's Investor Service, Mortgage Bankers Association, National Association of Home Builders, National Association of Realtors,® The New York Times, Office of Federal Housing Enterprises Oversight, Standard & Poor's, Thomson Reuters Corporation, U.S. Bureau of Labor Statistics, ULI/Lachman Associates, Urban Land Institute, U.S. Census Bureau, U.S. Department of Commerce, U.S. Department of Housing and Urban Development, U.S. Department of Labor, UBS Securities, The Wall Street Journal, Wells Fargo, YAHOO! Finance, and Zelman & Associates.

Investor Relations Information Requests

Our Annual Report on Form 10-K, Quarterly Reports on Form 10-Q and other Company information are available without charge either on or through our website, TollBrothers.com, or upon request from the Co-Directors of Investor Relations at our Corporate Office:

Frederick N. Cooper, *Senior Vice President — Finance, International Development and Investor Relations*
fcooper@tollbrothersinc.com • 215-938-8312

Joseph R. Sicree, *Senior Vice President — Chief Accounting Officer*
jsicree@tollbrothersinc.com • 215-938-8045

Our Board of Directors has an audit committee, an executive compensation committee, a nominating and corporate governance committee, and a public debt and equity securities committee. Each of these committees has a formal charter. We also have Corporate Governance guidelines, a Code of Ethics for the Principal Executive Officer and Senior Financial Officers, and a Code of Ethics and Business Conduct which applies to all directors, officers and employees. Copies of these charters, guidelines, and codes can be obtained on our website and are also available upon request from the Co-Directors of Investor Relations listed above.

Production Notes

Front Cover Photo
The Crescenta Mediterranean | Toll Brothers at Amalfi Hills | Yorba Linda, CA

Back Cover Photo
Frenchman's Harbor | North Palm Beach, FL

Photography by:
Erik Figge, Eric Kieley Photography, Alex Maclean at Landslides Aerial Photography, Christopher Mayer, Dave Moser, Bill Taylor, Jim Wilson, William Wright Photography, and Michael Zaccardi

Renderings by:
Imagic, Pure, Christian de Portzamparc, and Kim Wendell Design

TOL LISTED NYSE

The McKinley | Sterling Ridge at the Woodlands | Houston, TX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America's Luxury Home Builder®
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