

Toll Brothers

America's Luxury Home Builder®



2015 ANNUAL REPORT



CORPORATE OVERVIEW*

FOR NEARLY 50 YEARS WE HAVE ACHIEVED GREAT SUCCESS. WE BELIEVE OUR MARKET BREADTH, DIVERSITY OF PRODUCT, STRONG BALANCE SHEET, AND NATIONAL BRAND PREPARE US FOR EVEN GREATER SUCCESS IN THE NEXT 50 YEARS.

LUXURY HOME AND COMMUNITY DEVELOPER

National presence in the luxury market:
50 markets in 19 states and Washington, DC
Average delivered home price of \$755,000;
average price in backlog of \$862,000
High-volume home production with
extensively personalized homes

VARIETY OF COMMUNITY TYPES:

- Luxury move-up homes
- Elegant empty-nester, active-adult, and second homes
- Urban low-, mid-, and high-rise condos
- Large multiproduct, multigenerational master planned communities
- Suburban high-density communities
- Resort-style golf, country club, and marina living
- Urban and suburban rental communities

INDUSTRY-LEADING BRANDS

America's Luxury Home Builder®
Toll Brothers City Living®: luxury mid- and high-rise urban for-sale communities
Toll Brothers Apartment Living and Toll Brothers Campus Living: luxury urban and suburban for-rent communities

RECENT AWARDS:

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

FINANCIAL AND MANAGEMENT STRENGTH

Founded in 1967; NYSE (TOL) since 1986
Delivered approximately 80,000 homes (\$49 billion) since FY 2000
Strong corporate credit ratings: Standard & Poor's (BB+), Moody's (Ba1), and Fitch (BBB-) Liquidity of \$1.5 billion: \$929 million in cash and marketable securities and \$566 million available under our 15-bank, 5-year \$1.035 billion credit facility
\$500 million, 5-year term loan
Raised over \$4.5 billion in corporate and joint venture financing since beginning of FY 2013
Net debt-to-capital ratio‡ of 39.5%
Laddered long-term public and bank debt maturities with an average of 4.9 years remaining
Seasoned management: average 20-year tenure
Distressed real estate/loan portfolio expertise and land banking/joint venture financing services via Gibraltar Capital and Asset Management

DIVERSIFIED LAND AND BUILDING PROGRAM

Control 44,300 home sites
Land planning, acquisition, approval, and development skills
Selling from 288 communities at FYE 2015
Buyers averaged \$134,000 in upgrades and site premiums, 21% above base house price
Predesign and prebudget custom features via Toll Architecture and Toll Integrated Systems
Toll Brothers City Living: 45 towers totaling 5,700 units built, in construction, or planned in New York City, northern New Jersey, Philadelphia, and metro Washington, DC
Toll Brothers Apartment Living and Toll Brothers Campus Living: own or control 7,500 units built, in construction, or planned in a pipeline stretching from Massachusetts to Atlanta
Ancillary businesses: mortgage, land development and sales, title, golf course development and management, landscape, home security, architecture, engineering, and house component manufacturing

*Information for and as of FYE October 31, 2015, unless otherwise noted. †Toll Brothers received the highest numerical score in the United States in the proprietary *Lifestory Research* 2015 America's Most Trusted Home Builder™ study. Study based on 43,200 new home shoppers in 27 markets. Proprietary study results are based on experiences and perceptions of consumers surveyed between January and December 2014. ‡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.



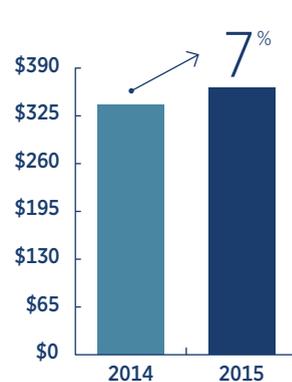
REVENUES

In FY (in millions)



NET INCOME

In FY (in millions)



STOCKHOLDERS' EQUITY

At FYE (in millions)



CONTRACTS

In FY (in millions)



BACKLOG

At FYE (in millions)



FINANCIAL SUMMARY (FYE)

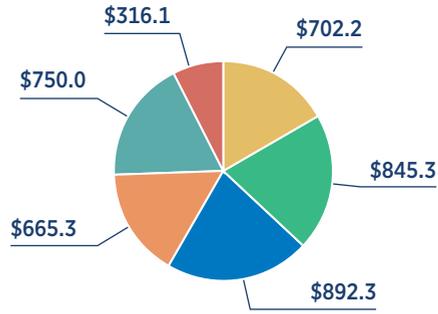
Balance Sheet Data (amounts in 000s, except per-share data)	2015	2014	2013	2012	2011	2010	2009	2008	2007	2006
Cash and marketable securities	\$ 928,994	\$ 598,341	\$ 825,480	\$ 1,217,892	\$ 1,139,912	\$ 1,236,927	\$ 1,908,894	\$ 1,633,495	\$ 900,337	\$ 632,524
Home building debt*	\$ 3,690,240	\$ 3,290,860	\$ 2,412,987	\$ 2,165,151	\$ 1,590,760	\$ 1,630,496	\$ 2,098,902	\$ 2,095,553	\$ 2,183,543	\$ 2,221,433
Stockholders' equity	\$ 4,222,557	\$ 3,854,376	\$ 3,332,987	\$ 3,121,700	\$ 2,586,353	\$ 2,555,453	\$ 2,513,199	\$ 3,237,653	\$ 3,527,234	\$ 3,415,926
Book value per share	\$ 23.73	\$ 21.66	\$ 19.68	\$ 18.51	\$ 15.61	\$ 15.36	\$ 15.26	\$ 20.19	\$ 22.47	\$ 22.20
Home building debt-to-capital ratio*	46.6%	46.1%	42.0%	41.0%	38.1%	39.0%	45.5%	39.3%	38.2%	39.4%
Home building net debt-to-capital ratio ¹	39.5%	41.1%	32.3%	23.3%	14.8%	13.3%	7.0%	12.5%	26.7%	31.7%

Operations Data (amounts in 000s)	2015	2014	2013	2012	2011	2010	2009	2008	2007	2006
Total revenues	\$ 4,171,248	\$ 3,911,602	\$ 2,674,299	\$ 1,882,781	\$ 1,475,881	\$ 1,494,771	\$ 1,755,310	\$ 3,148,166	\$ 4,635,093	\$ 6,115,280
Income (loss) before income taxes	\$ 535,562	\$ 504,582	\$ 267,697	\$ 112,942	\$ (29,366)	\$ (117,187)	\$ (496,465)	\$ (466,787)	\$ 70,680	\$ 1,126,616
Net income (loss)	\$ 363,167	\$ 340,032	\$ 170,606	\$ 487,146	\$ 39,795	\$ (3,374)	\$ (755,825)	\$ (297,810)	\$ 35,651	\$ 687,213
Total contracts	\$ 4,955,579	\$ 3,896,490	\$ 3,633,908	\$ 2,557,917	\$ 1,604,827	\$ 1,472,030	\$ 1,304,656	\$ 1,608,191	\$ 3,010,013	\$ 4,460,734
Backlog	\$ 3,504,004	\$ 2,719,673	\$ 2,629,466	\$ 1,669,857	\$ 981,052	\$ 852,106	\$ 874,837	\$ 1,325,491	\$ 2,854,435	\$ 4,488,400

*Home building debt is calculated as 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. *Home building 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.

HOUSING REVENUES

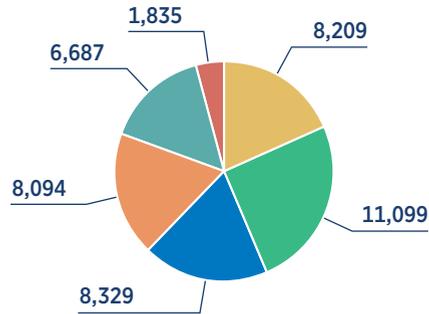
By segment in FY 2015 (in millions)



TOTAL: \$4,171.2

HOME SITES CONTROLLED

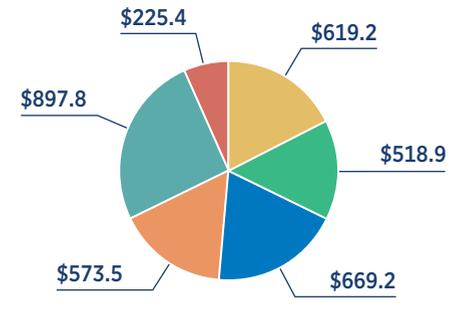
By segment at FYE 2015



TOTAL: 44,253

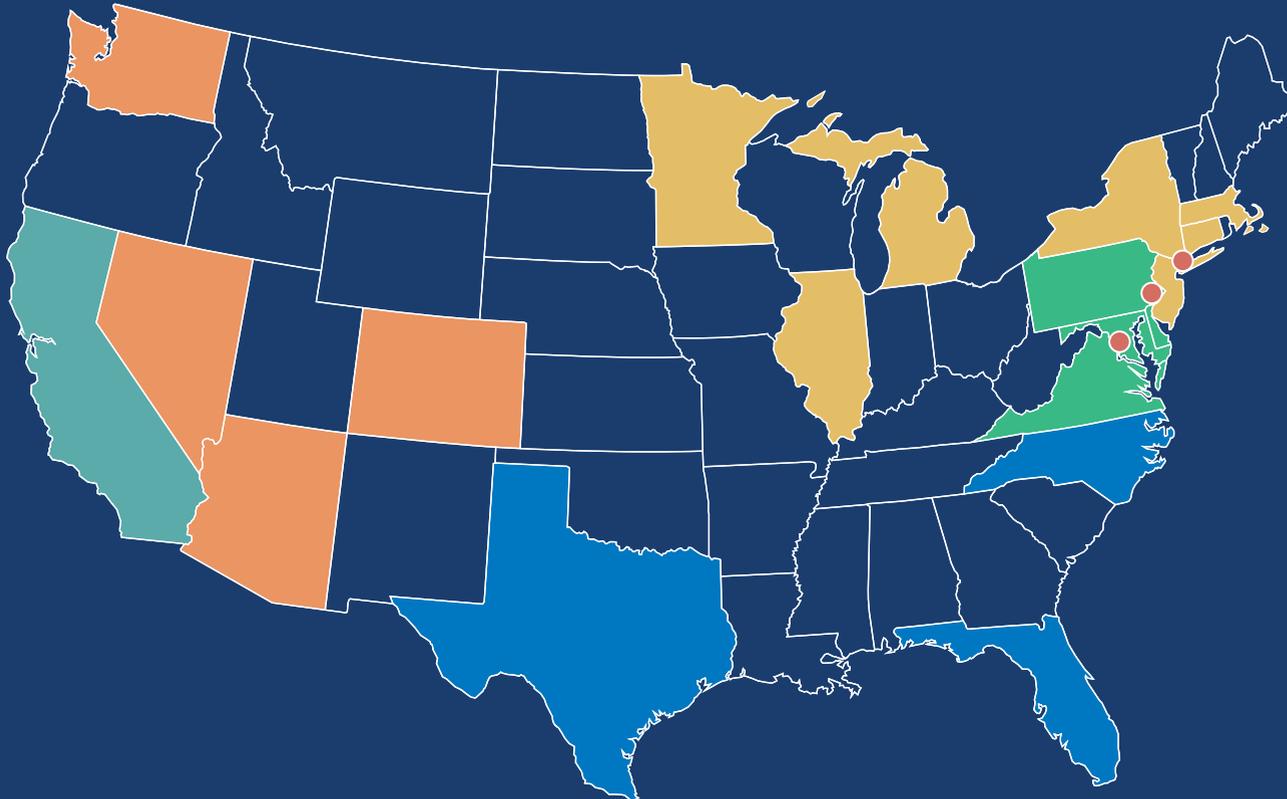
BACKLOG

By segment at FYE 2015 (in millions)



TOTAL: \$3,504.0

GEOGRAPHIC DIVERSIFICATION



NORTH

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

MID-ATLANTIC

Delaware, Maryland, Pennsylvania, Virginia

SOUTH

Florida, North Carolina, Texas

WEST

Arizona, Colorado, Nevada, Washington

CALIFORNIA

Metro areas of: Los Angeles, San Francisco, San Jose, Palm Springs, San Diego, Sacramento

CITY LIVING

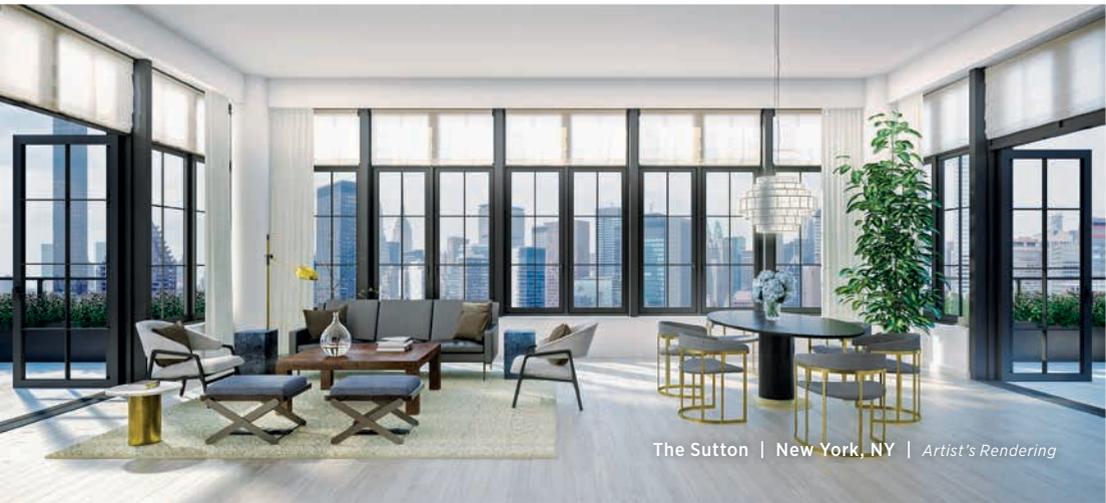
Manhattan, Brooklyn, and Queens, NYC; Hoboken and Jersey City, NJ; Philadelphia, PA; metro Washington, DC



The Massiano | Royal Cypress Preserve | Orlando, FL



The Putnam | Westborough Village | Westborough, MA



The Sutton | New York, NY | Artist's Rendering



The Meadows at Loudoun Valley | Ashburn, VA



The Whistler | Pinecrest at Issaquah Highlands | Issaquah, WA



The Villa Lago | Royal Palm Polo | Boca Raton, FL

DEAR SHAREHOLDER

AT TOLL BROTHERS, WE ASPIRE TO EXCEL AT LUXURY RESIDENTIAL REAL ESTATE IN ALL ITS FORMS IN THE BEST MARKETS IN AMERICA.

The housing market continues on a pace of steady growth, and we are well-positioned to take advantage of it. On a compound average annual basis, our revenues, fiscal year-end backlog (in dollars), and contracts (in dollars) have grown 30%, 33%, and 25% respectively since their recent respective lows in FY 2011, 2010, and 2009.

In FY 2015, our net income of \$363.2 million, or \$1.97 per share, rose 7%, and our pretax income of \$535.6 million rose 6%, compared to FY 2014. Revenues of \$4.17 billion and home building deliveries of 5,525 units increased 7% in dollars and 2% in units, compared to FY 2014. Net signed contracts of \$4.96 billion and 5,910 units grew 27% in dollars and 12% in units, compared to FY 2014. And we ended the year with a backlog of \$3.5 billion and 4,064 units, an increase of 29% and 10% respectively, compared to FY 2014. The \$862,000 average price of homes in backlog at FYE 2015 was the highest in our history.

We enjoyed solid demand throughout this fiscal year. FY 2015's fourth quarter was our fifth consecutive quarter of year-over-year growth in contract units and dollars. Net signed contracts of \$1.25 billion and 1,437 units rose 29% in dollars and 12% in units, compared to FY 2014's fourth quarter. The average price of net signed contracts, at \$872,000, was the highest average price for any quarter in our history, driven by an increase in the number and average price of California contracts. On a per-community basis, FY 2015's fourth-quarter net signed contracts rose 4% to 5.21 units, compared to 5.01 units in FY 2014's fourth quarter.

This momentum has continued into FY 2016's first quarter. We enter FY 2016 with a backlog up 29% in dollars and are experiencing a healthier housing market in many regions. As of

this writing, through the first five weeks of FY 2016, our contracts in units are up 21%, compared to FY 2015's same period. Therefore, we believe FY 2016 will be a year of strong growth in revenues and profit. We ended FY 2015 with 288 selling communities, compared to 267 one year ago. We expect similar community growth in FY 2016.

With our solid backlog, we believe we will produce home building revenues of between \$4.5 billion and \$5.6 billion in FY 2016, based on delivering between 5,600 and 6,600 homes in FY 2016 at an average price of between \$800,000 and \$850,000 per home.

Our balance sheet and access to liquidity remain strong. We ended FY 2015 with \$929 million of cash and marketable securities and \$566 million available under our \$1.035 billion, 15-bank revolving credit facility. Our net debt-to-capital ratio* was 39.5%. In our fourth quarter, we raised \$350 million of 10-year debt in the public capital markets at a rate of 4.875%.

The various initiatives we have pursued over the past several years to diversify the Company, both geographically and by product mix, are starting to pay dividends. While the Boston-to-Washington, DC, corridor, where we have a dominant presence in the luxury market, still represents the greatest concentration of wealth in the United States, other markets have also appealed to our high-end residential customers. This is attributable to many factors and differentiated locational characteristics, such as technology industry concentration, job creation, attractive climate, immigration trends, and lifestyle alternatives. Our growth in California, New York City, and Texas, our entry into Seattle, the geographic



(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*

expansion of our active-adult product, and the growth of our Apartment Living division are all responses to the diversified appetite of our customers and our ability to capitalize on new opportunities. We believe this diversity and flexibility, coupled with our national brand, should all contribute to our continued success.

The expansion in California that was jump-started by our acquisition of Shapell Homes in February 2014, as well as the purchase of a number of other premier properties over the past several years, has proven well-timed. Our contracts and fiscal year-end backlog in dollars in California grew by 93% and 195% in FY 2015 from a year ago, with our average price of homes in backlog reaching \$1.5 million at the end of FY 2015.

Our rental apartment business continues to outperform our expectations. We are managing two stabilized communities of over 1,400 units, and leasing up four new communities of over 1,500 units—one in Washington, DC, one in suburban Philadelphia, our first student housing community at the University of Maryland, and a 417-unit, 38-story tower in Jersey City.

We are currently in construction on three other rental communities totaling approximately 1,000 units and have nearly 3,500 additional units in our pipeline stretching from Massachusetts to Atlanta. We plan to expand this business nationally.

Our City Living for-sale condominiums business is also performing well. We are currently offering condominiums in nine projects totaling 918 units in New York City, Hoboken,

Philadelphia, and Bethesda, just outside Washington, DC. We have an attractive pipeline of future deals totaling 1,180 units in various stages of design and approval, and we continue to explore expansion beyond our current markets.

Since 1970, the nation has averaged housing starts of 1.6 million homes annually. With nationwide housing starts signaling about 1.1 million in 2015, the industry still has a lot of runway ahead even to reach its average historical production volumes. According to the Federal Reserve, homeowner equity has doubled since 2011, the start of the housing recovery, and is now approaching pre-downturn levels. With the economy still improving and home equity growing, we believe our future should be bright.

In 2015 we were named by *Fortune* magazine as **The Most Admired Company in the Homebuilding Sector** and **America's Most Trusted Home Builder™** by *Lifestory Research* based on a survey of 43,200 home shoppers in 27 markets. These honors are a tribute to the tremendous effort of our entire team at Toll Brothers. As the year ends, we thank our colleagues for their dedication and hard work.

ROBERT I. TOLL
Executive Chairman of the Board

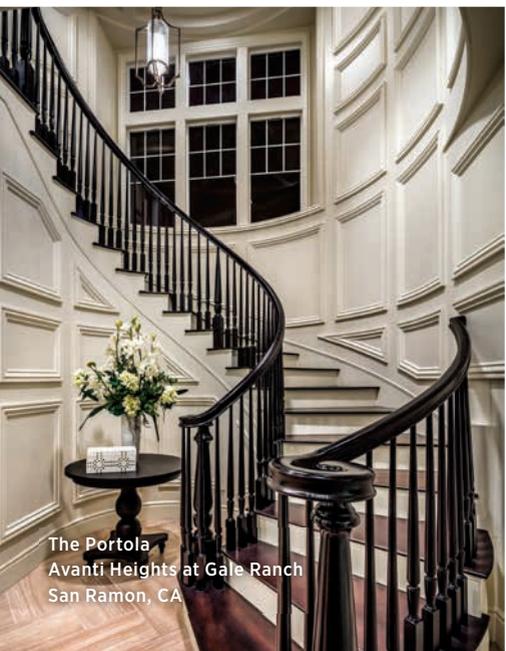
DOUGLAS C. YEARLEY, JR.
Chief Executive Officer

*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.





The Weatherstone | Liseter | Newtown Square, PA



The Portola
Avanti Heights at Gale Ranch
San Ramon, CA



The Sutton | New York, NY | Artist's Rendering



The Stansbury | Glastonbury Estates | Glastonbury, CT

DEMOGRAPHICS AND GEOGRAPHY DRIVE OUR EVOLVING STRATEGY

As the drivers and demographics of housing have shifted, so too has Toll Brothers evolved its strategies to pursue new opportunities for growth and profit that have arisen. This evolution is consistent with our history. At the start of the 1990s, we were a regional builder focused primarily on the suburban Boston-to-Baltimore move-up market. Since then, we have built a national operation and a nationwide brand of luxury home product lines.

In response to demographic trends—namely, the rise of the millennials (a generation of 83.1 million that outnumbers the 75.4 million baby boomers), the maturation of the baby boomers, an increased appetite for urban living, the growing appeal of U.S. homeownership among affluent international buyers, and a taste among upscale customers for the lifestyle flexibility that renting can offer—we have broadened our product lines.

Geographically, we have made a dramatic push to expand our presence in high-growth/high-affluence markets beyond the Northeast and Mid-Atlantic regions. This has been true not only for our move-up homes but for other product lines as well. Our expansion in California, our entry into Seattle, and our growth in Texas are examples of this strategy. We are also looking to increase our presence in Florida, another state that has experienced significant population growth.

As the baby boomers have matured, we have expanded our active-adult product lines from the Mid-Atlantic, Northeast, and Midwest to the West Coast, and we now are building active-adult homes in Colorado and Nevada, with prospects on the horizon in California, Florida, and Arizona. We offer high-amenity living for maturing boomers in active-adult as well as multigenerational communities. Some buy urban or suburban second homes from us or rent in our luxurious suburban and urban communities.

As net immigration has increased from a recent low of 700,000 in 2011 to nearly 1 million in 2014, and as international buyers seek the stability of U.S. homeownership, we have created new interior layouts, designed new floor plans, and expanded our structural and designer option offerings to serve these customers. We have also hired multilingual sales associates and mortgage personnel to attract an increasing number of international buyers and improve the customer buying experience.

The revitalization that has occurred in many American cities has led us to grow Toll Brothers City Living in New York City, expand to Washington, DC, and explore additional markets. Some Toll Brothers towers now grace the Manhattan skyline, while others offer views of the skyline east across the Hudson River from Hoboken and Jersey City and west from Brooklyn. Rental projects in Jersey City, two train stops from downtown Manhattan, and Washington, DC, are attracting residents for whom high-amenity renting offers flexibility and luxury.

According to the U.S. Census Bureau, since the start of the housing downturn in 2006, the United States has added 23 million new people: the nation's population now stands at an all-time high. But household formations have not kept pace with population growth in recent years. The reasons for this include delays in homeownership and family formations among millennials, the still-healing balance sheets of American households, and the hesitancy of some who suffered during the downturn to become homeowners again.

The good news is that household formations are starting to accelerate. According to the U.S. Census Bureau, they have grown from a recession-driven low of 414,000 in 2008 to a current level of 1 million in 2014, although they are still well below their 40-year annual

WE HAVE DIVERSIFIED FROM A HEAVY CONCENTRATION IN THE NORTHEAST AND MID-ATLANTIC REGIONS TO A BROAD PLATFORM WITH A STRONG PRESENCE ON THE WEST COAST, IN COLORADO, AND IN THE SUN BELT MARKETS OF FLORIDA, TEXAS, ARIZONA, AND NEVADA.

average of 1.4 million. Similarly, housing production has lagged behind population growth based on historical correlations. The homeownership rate now stands at 63.7%, with 2015's rate shaping up to be the lowest in 30 years. Nonetheless, housing values are approaching pre-recession levels, and owners are beginning to once again enjoy real equity in their homes.

Although housing starts are trending up—to an estimated 1.1 million in 2015, according to a recent Bloomberg survey of economists—production is still below that of any year since 1970, excluding the most recent seven years. Thus, there appears to be a deficit of over 6 million new homes that represents over five years of pent-up demand to be fulfilled as personal balance sheets improve, buyer confidence increases, and first-time home buyers jump into the market. This likely pent-up demand will support the entire home buying chain.

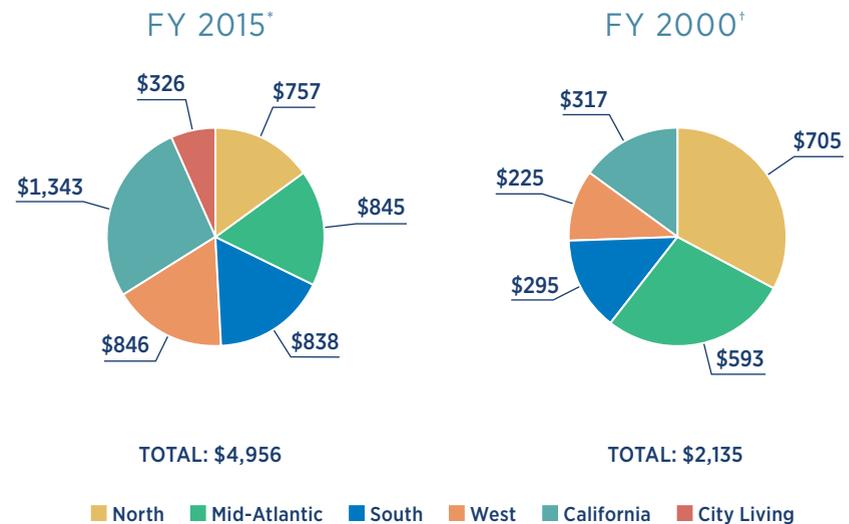
While, compared to previous generations, millennials have deferred forming their own households and entering the housing market, their desire for homeownership remains strong. A recent study by the National Association of REALTORS® indicates that 84% of millennials think buying a home is a good financial investment, the largest percentage of any generation.

Meanwhile, our target population—generally, households in the \$100,000+ income bracket—has grown to 30.8 million households today (in constant 2014 dollars) versus 19.4 million 20 years ago. This population represents 24.7% of all U.S. households, compared to 19.6% in 1994. The unemployment rate among college graduates is now at 2.5%, according to the U.S. Bureau of Labor Statistics, compared to 5.0% for total civilian households.

We own or control 44,300 home sites in affluent markets across the United States. With this land supply, our national presence, and broad product lines, we are well-positioned to help satisfy this pent-up demand and navigate and take advantage of the evolving drivers and demographic trends in the housing industry's future.

GEOGRAPHIC DIVERSIFICATION

Net signed contracts (in millions)



*Numbers may not tie due to rounding. *FY 2000's information adjusted to reflect current regional breakout.



PRODUCT DIVERSITY AND CUSTOMIZATION

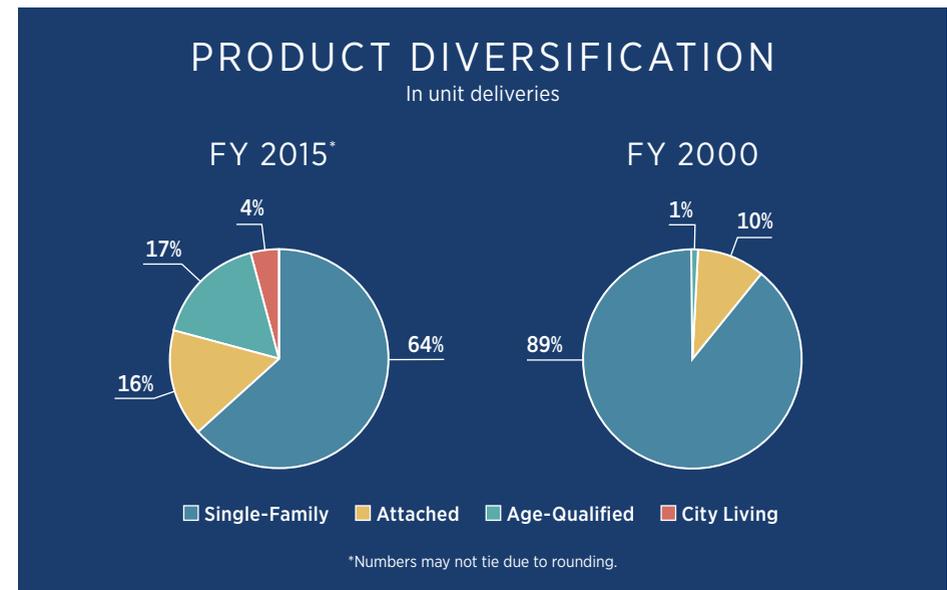
With communities in 50 markets, 19 states, and Washington, DC, the tremendous diversity of our product offerings enables us to reach a very wide universe of upscale luxury buyers and renters.

In the suburbs, growing families can select move-up homes of various sizes and styles from our single-family, executive, estate, and signature product lines. In cities, we offer large condominium units for families who want to raise their kids in a culturally rich and vibrant urban setting.

Empty nesters can purchase in age-qualified suburban active-adult communities in the East, Mid-Atlantic, Midwest, and now the West. They can also buy in communities without formal age qualifications but with designs that promote one-story living. They can add second-floor guest suites, install elevators, and customize their homes to accommodate guests and evolving lifestyles that will enable them to mature in place. In cities, we offer empty nesters high-amenity buildings with large and small units in some of the world's great urban neighborhoods.

Millennials may begin their relationship with Toll Brothers by living in our university-centered upscale student rental housing or renting in our urban or suburban Toll Brothers Apartment Living communities. Small but luxurious urban condominiums in exciting neighborhoods are also an attractive option. As millennials begin to form families and climb the homeownership ladder, our town, carriage, patio, and other attached product lines, as well as our smaller single-family homes, are a great way to get started. As their households expand, our larger homes are in their futures.

Toll Brothers buyers add, on average, approximately \$134,000, or 21%, in upgrades to their base house price. Customers can extensively personalize their homes by expanding foundation footprints and adding extra rooms and floor levels, which can increase the physical size of their living spaces. Extra bedrooms, expanded kitchens, in-law suites, sunrooms, and indoor/outdoor lifestyle features all enhance luxurious living. By extensively customizing their interiors with upgrades in carpeting, cabinetry, countertops, wine cellars, fitness centers, and media rooms, they can create their own unique lifestyles no matter where, or at what stage of life, they are.





The Meadows | Westborough Village | Westborough, MA



Hasentree | Wake Forest, NC



Hampden Row | Bethesda, MD | Artist's Rendering



Parc Riverside | Washington, DC



The Siena | Royal Palm Polo | Boca Raton, FL



The Saratoga | The Bluffs at Porter Ranch | Porter Ranch, CA



The Capri | Toll Brothers at Hidden Canyon | Irvine, CA



The Avalon | Toll Brothers at Hidden Canyon | Irvine, CA



The Santa Monica | Toll Brothers at Hidden Canyon | Irvine, CA



CALIFORNIA LIFESTYLE



Our California communities are concentrated primarily in the coastal regions around San Francisco and Los Angeles. These areas have benefited from solid post-recession job growth, a surge in wealth creation, and strong home price increases. Demand is supported by a renowned lifestyle second to none.

The region's desirable climate has encouraged Toll Brothers to reimagine the traditional elements of a home to suit the lifestyle aspirations of today's California families. In Coastal California, where development is tightly controlled, home buyers are looking to maximize their living and entertaining spaces, whether elegant or casual. With our extensive customization offerings, buyers can transcend the traditional boundaries of a home and create wonderful living spaces that expand indoor living to the outdoors.

With greater emphasis on outdoor design and high-end finishes, outdoor spaces have become extensions of interior living. Luxurious interactive indoor/outdoor living spaces, backyards, and courtyards invite the beauty of the outdoors in. Entire glass walls recede to enable residents to move effortlessly from pool to kitchen to bedroom and back outdoors. Versatile flooring materials provide the elegant look appropriate for interiors but the toughness to be extended to the outdoors, creating a seamless integration of interior and exterior. Toll Brothers has added outdoor living custom features such as multi-slide panel glass doors, generous covered patios and decks, al fresco kitchens and dining rooms, and outdoor offices too. Buyers can further personalize their homes with features such as fireplaces and heaters, outdoor bonus and game rooms, and resort-style pools with outdoor wet bars, TVs, and showers.

Based on the success of our California lifestyle designs, we are now offering these features in our other western markets from Seattle to Las Vegas and Reno to metro Phoenix and Tucson. In addition, we are exploring their appropriateness for mild climates in the South and Mid-Atlantic regions, where buyers also want to maximize their living spaces and enjoy the luxury of indoor/outdoor living.

The Tuscan | Avanti Heights at Gale Ranch | San Ramon, CA



CITY LIVING FOR BUYERS AND RENTERS

THE ALLURE OF LUXURY CITY LIVING IS ATTRACTING RENTERS AND CONDOMINIUM BUYERS, FROM MILLENNIALS THROUGH BABY BOOMERS, TO OUR SPECTACULAR URBAN COMMUNITIES IN NEW YORK CITY, NORTH JERSEY'S GOLD COAST, PHILADELPHIA, AND WASHINGTON, DC.

With nearly 15 years of experience in the urban development market, Toll Brothers is unique among the major publicly listed U.S. home building companies. Our urban projects range from high-rise towers with magnificent New York City views, to boutique luxury buildings with carefully crafted amenities, to dramatic new developments where our capital and capabilities have transformed former industrial and brownfield waterfront sites into spectacular lifestyle communities. Our urban for-sale and rental offerings feature transit-oriented locations that provide easy access to culture, work, and recreation, well-located sites where we can create a new sense of place by developing multiple buildings, and already established high-end locations where shopping, fine dining, and elegant living all go hand in hand.

Since entering the urban market in 2001, we have completed 29 condominium buildings totaling over 3,800 units and have a pipeline of another 1,865 units either in construction or in planning. In addition, our urban rental portfolio now totals 1,543 units in four buildings, either leased, under construction, or in planning. Our current offerings stretch from New York City and northern New Jersey south through Philadelphia and into Washington, DC.

More than a decade in the urban market has taught us the need to develop differentiated products based on micromarket analysis of the neighborhoods that make up the mosaic of U.S. cities. Within two miles, we might have a classically designed, graceful, old-world, European-style building of full-floor, duplex, and triplex condominiums; a chic, bold, prismatic glass tower designed by a globally renowned architect; and an exciting condominium-hotel community nestled in a waterfront park overlooking one of New York City's great rivers. Each neighborhood is different: large units may be appropriate in one neighborhood where families abound, while in another neighborhood, millennials, singles, and empty and never-nesters will trade off unit size for overall price, building location, in-building amenities, and trendy neighborhood lifestyle.

While our rental projects may be as large as 525 units in appropriate markets, on the for-sale condominium side, we have decided to generally focus on projects in the 50-150 unit range in extremely well-established locations, which can be planned, built, and sold out based on a shorter time cycle. Our brand, creativity, and capital give us an advantage that will drive our success in urban markets going forward.



1110 Park Avenue | New York, NY

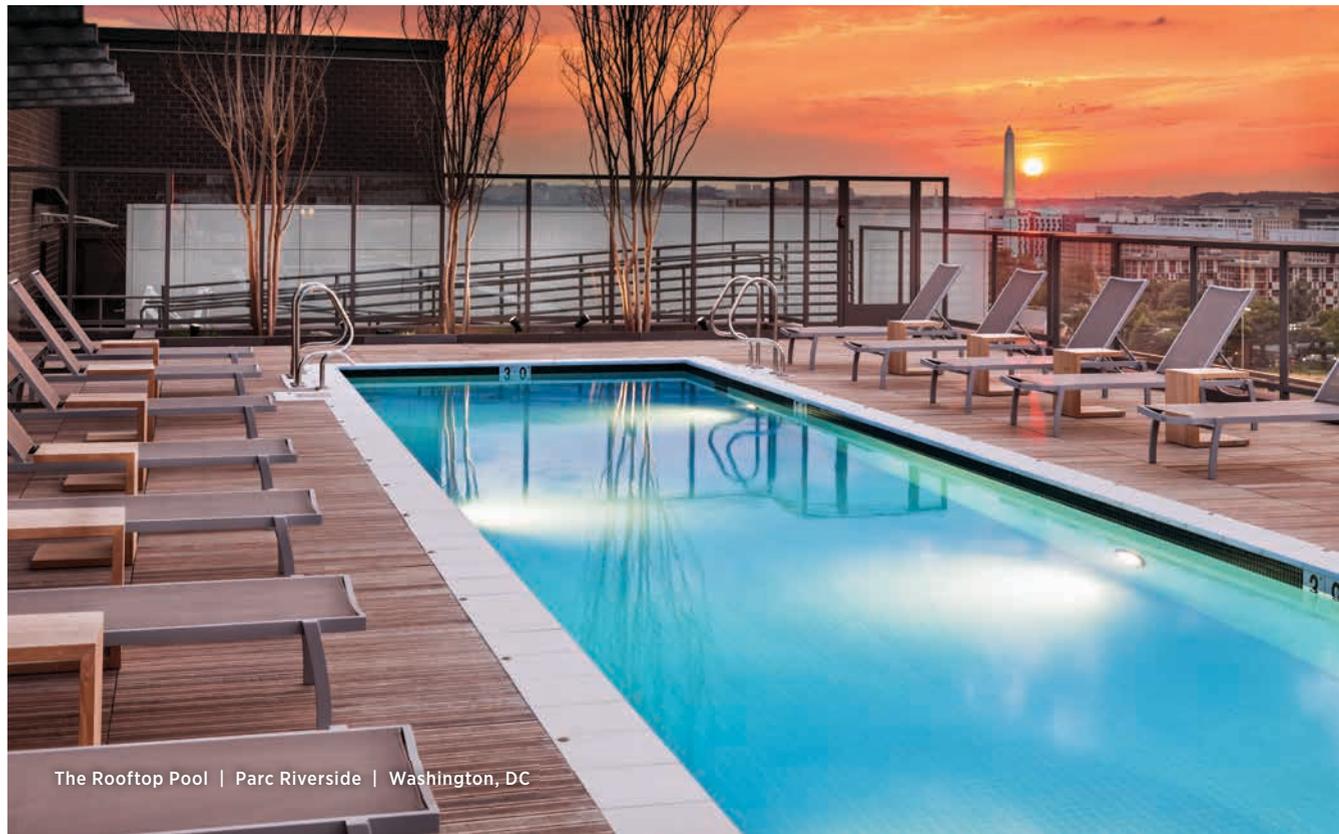


400 Park Avenue South | New York, NY



55 West 17th Street | New York, NY

Artist's Rendering



The Rooftop Pool | Parc Riverside | Washington, DC



The Hampton | Green Level Crossing | Cary, NC

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TOLL BROTHERS' 30-YEAR FINANCIAL SUMMARY 1986-2015

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

Year Ended October 31,	2015	2014	2013	2012	2011	2010	2009	2008	2007	2006	2005	2004	2003
Revenues	\$ 4,171,248	\$ 3,911,602	\$ 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	\$ 535,562	\$ 504,582	\$ 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)	\$ 363,167	\$ 340,032	\$ 170,606	\$ 487,146	\$ 39,795	\$ (3,374)	\$ (755,825)	\$ (297,810)	\$ 35,651	\$ 687,213	\$ 806,110	\$ 409,111	\$ 259,820
Income (loss) per share — Basic	\$ 2.06	\$ 1.91	\$ 1.01	\$ 2.91	\$ 0.24	\$ (0.02)	\$ (4.68)	\$ (1.88)	\$ 0.23	\$ 4.45	\$ 5.23	\$ 2.75	\$ 1.84
Weighted-average number of shares — Basic	176,425	177,578	169,288	167,346	167,140	165,666	161,549	158,730	155,318	154,300	154,272	148,646	141,339
Income (loss) per share — Diluted	\$ 1.97	\$ 1.84	\$ 0.97	\$ 2.86	\$ 0.24	\$ (0.02)	\$ (4.68)	\$ (1.88)	\$ 0.22	\$ 4.17	\$ 4.78	\$ 2.52	\$ 1.72
Weighted-average number of shares — Diluted	184,703	185,875	177,963	170,154	168,381	165,666	161,549	158,730	164,166	164,852	168,552	162,330	151,083

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

At October 31,	2015	2014	2013	2012	2011	2010	2009	2008	2007	2006	2005	2004	2003
Cash and marketable securities	\$ 928,994	\$ 598,341	\$ 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
Inventory	\$ 6,997,516	\$ 6,490,321	\$ 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
Total assets	\$ 9,206,515	\$ 8,398,457	\$ 6,811,782	\$ 6,165,915	\$ 5,048,478	\$ 5,163,450	\$ 5,624,972	\$ 6,582,350	\$ 7,214,739	\$ 7,576,873	\$ 6,336,251	\$ 4,897,626	\$ 3,779,440
Debt													
Loans payable	\$ 1,000,439	\$ 652,619	\$ 107,222	\$ 99,817	\$ 106,556	\$ 94,491	\$ 472,854	\$ 613,594	\$ 696,814	\$ 736,934	\$ 250,552	\$ 340,380	\$ 281,697
Senior notes	2,689,801	2,638,241	2,305,765	2,065,334	1,484,204	1,536,005	1,578,212	1,139,895	1,138,065	1,136,235	1,134,575	840,737	543,170
Subordinated notes							47,836	342,064	348,664	348,264	347,864	446,976	615,548
Mortgage company loan facility	100,000	90,281	75,000	72,664	57,409	72,367	27,015	37,867	76,730	119,705	89,674	92,053	49,939
Collateralized mortgage obligations													
Total	\$ 3,790,240	\$ 3,381,141	\$ 2,487,987	\$ 2,237,815	\$ 1,648,169	\$ 1,702,863	\$ 2,125,917	\$ 2,133,420	\$ 2,260,273	\$ 2,341,138	\$ 1,822,665	\$ 1,720,146	\$ 1,490,354
Stockholders' Equity	\$ 4,222,557	\$ 3,854,376	\$ 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
Number of shares outstanding	177,931	177,930	169,353	168,637	165,729	166,408	164,725	160,369	157,008	153,899	154,943	149,642	146,644
Book value per share	\$ 23.73	\$ 21.66	\$ 19.68	\$ 18.51	\$ 15.61	\$ 15.36	\$ 15.26	\$ 20.19	\$ 22.47	\$ 22.20	\$ 17.84	\$ 12.83	\$ 10.07
Return on beginning stockholders' equity	9.4%	10.2%	5.5%	18.8%	1.6%	(0.1%)	(23.3%)	(8.4%)	1.0%	24.9%	42.0%	27.7%	23.0%

Home Data

Year Ended October 31,	2015	2014	2013	2012	2011	2010	2009	2008	2007	2006	2005	2004	2003
Number of homes closed ⁽¹⁾	5,525	5,397	4,184	3,286	2,611	2,642	2,965	4,743	6,687	8,601	8,769	6,627	4,911
Sales value of homes closed (in 000s) ⁽¹⁾	\$ 4,171,248	\$ 3,911,602	\$ 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
Revenues — Percentage of completion (in 000s)								41,873	139,493	170,111			
Number of homes contracted	5,910	5,271	5,294	4,159	2,784	2,605	2,450	2,927	4,440	6,164	10,372	8,684	6,132
Sales value of homes contracted (in 000s)	\$ 4,955,579	\$ 3,896,490	\$ 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
At October 31,	2015	2014	2013	2012	2011	2010	2009	2008	2007	2006	2005	2004	2003
Number of homes in backlog	4,064	3,679	3,679	2,569	1,667	1,494	1,531	2,046	3,950	6,533	8,805	6,709	4,652
Sales value of homes in backlog (in 000s) ⁽²⁾	\$ 3,504,004	\$ 2,719,673	\$ 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
Number of selling communities	288	263	232	224	215	195	200	273	315	300	230	220	200
Home sites													
Owned	35,872	36,224	33,967	31,327	30,199	28,891	26,872	32,081	37,139	41,808	35,838	29,804	29,081
Optioned	8,381	10,943	14,661	9,023	7,298	5,961	5,045	7,703	22,112	31,960	47,288	30,385	18,977
Total	44,253	47,167	48,628	40,350	37,497	34,852	31,917	39,784	59,251	73,768	83,126	60,189	48,058

(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.

2002	2001	2000	1999	1998	1997	1996	1995	1994	1993	1992	1991	1990	1989	1988	1987	1986
\$2,279,261	\$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
\$ 347,318	\$ 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
\$ 219,887	\$ 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
\$ 1.56	\$ 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
140,945	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
\$ 1.46	\$ 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
150,959	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

2002	2001	2000	1999	1998	1997	1996	1995	1994	1993	1992	1991	1990	1989	1988	1987	1986
\$ 102,337	\$ 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
\$2,551,061	\$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
\$2,888,671	\$2,525,014	\$2,025,633	\$1,662,810	\$1,250,505	\$1,113,012	\$ 833,189	\$ 686,703	\$ 580,148	\$ 470,441	\$ 380,584	\$ 312,424	\$ 316,534	\$ 348,163	\$ 256,611	\$ 181,765	\$ 108,185
\$ 253,194	\$ 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
812,969	662,395	464,878	464,166	265,333	314,310	203,678	215,472	221,224	168,885	124,602	55,513	61,474	69,681	69,635	29,967	29,963
48,996	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			
\$1,115,159	\$1,049,861	\$ 791,415	\$ 678,628	\$ 449,009	\$ 506,466	\$ 338,603	\$ 278,441	\$ 243,416	\$ 204,474	\$ 174,761	\$ 145,320	\$ 179,169	\$ 217,806	\$ 143,683	\$ 85,894	\$ 48,406
\$1,129,509	\$ 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
140,432	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
\$ 8.04	\$ 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
24.1%	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%

2002	2001	2000	1999	1998	1997	1996	1995	1994	1993	1992	1991	1990	1989	1988	1987	1986
4,430	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
\$2,279,261	\$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
5,070	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
\$2,734,457	\$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
2002	2001	2000	1999	1998	1997	1996	1995	1994	1993	1992	1991	1990	1989	1988	1987	1986
3,342	2,702	2,746	2,327	1,892	1,551	1,367	1,078	1,025	892	621	438	251	366	338	460	378
\$1,858,784	\$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
170	155	146	140	122	116	100	97	80	67	62	42	41	40	26	21	15
25,822	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
15,022	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
40,844	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 Securities and Exchange Commission (“SEC”) (as well as information included in oral statements or other written statements made or to be made by us) contains or may contain forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. You can identify these statements by the fact that they do not relate to matters of strictly historical or factual nature and generally discuss or relate to future events. These statements contain words such as “anticipate,” “estimate,” “expect,” “project,” “intend,” “plan,” “believe,” “may,” “can,” “could,” “might,” “should” and other words or phrases of similar meaning. Such statements may include, but are not limited to, information related to: anticipated operating results; home deliveries; financial resources and condition; changes in revenues; changes in profitability; changes in margins; changes in accounting treatment; cost of revenues; selling, general and administrative expenses; interest expense; inventory write-downs; unrecognized tax benefits; anticipated tax refunds; sales paces and prices; effects of home buyer cancellations; growth and expansion; joint ventures in which we are involved; anticipated results from our investments in unconsolidated entities; the ability to acquire land and pursue real estate opportunities; the ability to gain approvals and open new communities; the ability to sell homes and properties; the ability to deliver homes from backlog; the ability to secure materials and subcontractors; the ability to produce the liquidity and capital necessary to expand and take advantage of opportunities; and legal proceedings and claims.

From time to time, forward-looking statements also are included in other 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 market conditions, 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 together with, and is qualified in its entirety by, the 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 year refer to our fiscal years ended or ending October 31.

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 (“Traditional Home Building Product”). We also build and sell homes in urban infill markets through Toll Brothers City Living® (“City Living”). At October 31, 2015, we were operating in 19 states. In the five years ended October 31, 2015, we delivered 21,003 homes from 571 communities, including 5,525 homes from 352 communities in fiscal 2015.

We are developing several land parcels for master planned communities in which we intend to build homes on a portion of the lots and sell the remaining lots to other builders. Two of these master planned communities are being developed 100% by us, and the remaining communities are being developed through joint ventures with other builders or financial partners.

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 7,450 units. These projects, which are located in the metro Boston to metro Washington, D.C. corridor, and Atlanta, are being developed or will be developed with partners under the brand names Toll Brothers Apartment Living, Toll Brothers Campus Living and Toll Brothers Realty Trust (the “Trust”).

In February 2014, we acquired the home building business of Shapell Industries, Inc., a Delaware corporation (“Shapell”), for \$1.49 billion in cash, net of cash acquired. Prior to the acquisition, Shapell designed, constructed, and marketed single-family detached and attached homes and developed land in master planned communities and neighborhoods throughout coastal Northern and Southern California. See “Acquisition” below for more information.

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 land to partially and fully improved developments, as well as commercial opportunities.

We operate our own land development, architectural, engineering, mortgage, title, landscaping, security monitoring, lumber distribution, house component assembly, and manufacturing operations. In addition, in certain markets, we develop land for sale to other builders, often through joint venture structures with other builders or with financial partners. 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 various unconsolidated entities. We have investments in joint ventures (i) to develop land for the joint venture participants and for sale to outside builders (“Land Development Joint Ventures”); (ii) to develop for-sale homes (“Home Building Joint Ventures”); (iii) to develop luxury for-rent residential apartments, commercial space and a hotel (“Rental Property Joint Ventures”); and (iv) to invest in a portfolio of distressed loans and real estate (“Structured Asset Joint Venture”).

Financial Highlights

In fiscal 2015, we recognized \$4.17 billion of revenues and net income of \$363.2 million, as compared to \$3.91 billion of revenues and net income of \$340.0 million in fiscal 2014.

In fiscal 2015 and 2014, the value of net contracts signed was \$4.96 billion (5,910 homes) and \$3.90 billion (5,271 homes), respectively. The value of our backlog at October 31, 2015 was \$3.50 billion (4,064 homes), as compared to our backlog at October 31, 2014 of \$2.72 billion (3,679 homes).

At October 31, 2015, we had \$929.0 million of cash, cash equivalents, and marketable securities on hand and approximately \$566.1 million for borrowing available under our \$1.035 billion revolving credit facility (“Credit Facility”) that matures in August 2018. At October 31, 2015, we had \$350.0

million of outstanding borrowings under the Credit Facility and had outstanding letters of credit of approximately \$118.9 million.

At October 31, 2015, our total equity and our debt to total capitalization ratio were \$4.23 billion and 0.47 to 1:00, respectively.

Acquisition

On February 4, 2014, we completed our acquisition of Shapell Industries, Inc. (“Shapell”) pursuant to the Purchase and Sale Agreement (the “Purchase Agreement”) dated November 6, 2013, with Shapell Investment Properties, Inc. (“SIPI”). We acquired all of the equity interests in Shapell from SIPI for \$1.49 billion net of cash acquired (the “Acquisition”). We acquired the single-family residential real property development business of Shapell, including a portfolio of approximately 4,950 home sites in California, some of which we have sold to other builders. The Acquisition provides us with a premier California land portfolio, including 11 active selling communities as of the acquisition date, in affluent, high-growth markets: the San Francisco Bay area, metro Los Angeles, Orange County, and the Carlsbad market. As part of the Acquisition, we assumed contracts to deliver 126 homes with an aggregate value of approximately \$105.3 million. The Shapell operations have been fully integrated into our operations.

We did not acquire the apartment and commercial rental properties owned and operated by Shapell (the “Shapell Commercial Properties”) or Shapell’s mortgage lending activities relating to its home building operations. Accordingly, the Purchase Agreement provides that SIPI will indemnify us for any loss arising out of or resulting from, among other things, (i) any liability (other than environmental losses, subject to certain exceptions) related to the Shapell Commercial Properties, and (ii) any liability (other than environmental losses, subject to certain exceptions) to the extent related to Shapell Mortgage, Inc. See Note 2, “Acquisition” of our consolidated financial statements for further details.

Our 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. Beginning in the fourth quarter of fiscal 2013, we experienced a leveling in demand that continued through the second quarter of fiscal 2014, and was followed by a decline in demand in the third quarter of fiscal 2014. Since the third quarter of fiscal 2014, we have seen a strengthening in customer demand.

In fiscal 2015, we signed 5,910 contracts with an aggregate value of \$4.96 billion, compared to 5,271 contracts with an aggregate value of \$3.90 billion in fiscal 2014. We are optimistic that the strengthening in customer demand will continue for the foreseeable future. We believe that, as the national economy improves and as the millennial generation comes of age, pent-up demand for homes 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 (“Census Bureau”), the number of households earning \$100,000 or more (in constant 2014 dollars) at September 2015 stood at 30.8 million, or approximately 24.7% 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 2015 report, “The State of the Nation’s Housing,” demographic forces are likely to drive the addition of just under 1.2 million new households per year during the next decade.

Housing starts, which encompass the units needed for household formations, second homes, and the replacement of obsolete or demolished units, have not kept pace with this projected household growth. According to the Census Bureau’s October 2015 New Residential Sales Report, new home

inventory stands at a supply of just 5.5 months, based on current sales paces. If demand and pace increase significantly, the supply of 5.5 months could quickly be drawn down. During the period 1970 through 2007, total housing starts in the United States averaged approximately 1.6 million per year, while during the period 2008 through 2014, total housing starts averaged approximately 0.8 million per year according to the Census Bureau.

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

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

In addition, there are fewer and more selective lenders serving our industry as compared to prior years and we believe that these lenders gravitate to the home building companies that offer them the greatest security, the strongest balance sheets, and the broadest array of potential business opportunities.

Land Acquisition and Development

Our business is subject to many risks, because of the extended 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. 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”), which enable us to obtain necessary governmental approvals 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.

During fiscal 2015 and 2014, we acquired control of approximately 2,611 home sites (net of options terminated and home sites sold) and, approximately 3,936 home sites (net of options terminated and home sites sold), respectively. At October 31, 2015, we controlled approximately 44,253 home sites, as compared to approximately 47,167 home sites at October 31, 2014, and 48,628 home sites at October 31, 2013. In addition, at October 31, 2015, we expect to purchase approximately 3,600 additional home sites from several land development joint ventures in which we have an interest, at prices not yet determined.

Of the approximately 44,253 total home sites that we owned or controlled through options at October 31, 2015, we owned approximately 35,872 and controlled approximately 8,381 through options. Of the 44,253 home sites, approximately 16,505 were substantially improved.

In addition, at October 31, 2015, our Land Development Joint Ventures owned approximately 12,000 home sites (including 378 home sites included in the 8,381 controlled through options), and our Homebuilding Joint Ventures owned approximately 500 home sites.

At October 31, 2015, we were selling from 288 communities, compared to 263 communities at October 31, 2014, and 232 communities at October 31, 2013.

Customer Mortgage Financing

We maintain relationships with a widely diversified group of mortgage financial institutions, many of which are among the largest 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.

Toll Brothers Apartment Living/Toll Brothers Campus Living/ Toll Brothers Realty Trust

Over the past several years, we acquired control of a number of land parcels as for-rent apartment projects, including two student housing sites. At October 31, 2015, we controlled 20 land parcels as for-rent apartment projects containing approximately 7,450 units. These projects, which are located in the metro Boston to metro Washington, D.C. corridor and Atlanta, are being developed or will be developed with partners under the brand names Toll Brothers Apartment Living, Toll Brothers Campus Living and the Trust. A number of these sites were acquired by us as part of a larger purchase or were originally acquired to be developed as for-sale homes.

At October 31, 2015, we had approximately 1,450 units in for-rent apartment projects that were occupied or ready for occupancy, 1,100 units in the lease-up stage, 1,400 units under active development, and 3,500 units in the planning stage. Of the 7,450 units at October 31, 2015, 3,950 were owned by joint ventures in which we have an interest; approximately 1,450 were owned by us; 1,700 were under contract to be purchased by us; and 350 were under a letter of intent.

CONTRACTS AND BACKLOG

The aggregate value of net sales contracts signed increased 27.2% in fiscal 2015, as compared to fiscal 2014, and 7.2% in fiscal 2014, as compared to fiscal 2013. The value of net sales contracts signed was \$4.96 billion (5,910 homes) in fiscal 2015, \$3.90 billion (5,271 homes) in fiscal 2014, and \$3.63 billion (5,294 homes) in fiscal 2013.

The increase in the aggregate value of net contracts signed in fiscal 2015, as compared to fiscal 2014, was the result of a 13.4% increase in the average value of each contract signed, and a 12.1% increase in the number of net contracts signed. The increase in the average value of each contract signed in fiscal 2015, as compared to fiscal 2014, was due primarily to a change in mix of contracts signed to more expensive areas and/or higher priced products. The increase in the number of net contracts signed in fiscal 2015, as compared to fiscal 2014, was primarily due to the continued recovery in the U.S. housing market in fiscal 2015. The demand we saw in fiscal 2015 has continued into the first quarter of fiscal 2016.

In fiscal 2014, we signed 328 contracts at communities we acquired from Shapell. Excluding the net contracts signed at the communities acquired in the Acquisition, net contracts signed declined 6.6% in fiscal 2014 as compared to fiscal 2013. The decline in units was due to an overall softening of demand in fiscal 2014. Beginning in the fourth quarter of fiscal 2013, we experienced a leveling

in demand that continued through the second quarter of fiscal 2014, declined in the third quarter of fiscal 2014 and strengthened in the fourth quarter of fiscal 2014. Fiscal 2014's fourth-quarter, net signed contracts of 1,282 units rose 10%, compared to fiscal 2013's fourth-quarter net signed contracts of 1,163 units.

Backlog consists of homes under contract but not yet delivered to our home buyers ("backlog"). The value of our backlog at October 31, 2015, 2014, and 2013 was \$3.50 billion (4,064 homes), \$2.72 billion (3,679 homes), and \$2.63 billion (3,679 homes), respectively. Approximately 96% of the homes in backlog at October 31, 2015 are expected to be delivered by October 31, 2016. The 28.8% increase in the value of homes in backlog at October 31, 2015, as compared to October 31, 2014, was due to a 27.2% increase in the value of net contracts signed in fiscal 2015, as compared to fiscal 2014, and the higher backlog at the beginning of fiscal 2015, as compared to the beginning of fiscal 2014, offset, in part, by a 6.6% increase in the aggregate value of our deliveries in fiscal 2015, as compared to the aggregate value of deliveries in fiscal 2014.

The 3.4% increase in the value of homes in backlog at October 31, 2014, as compared to October 31, 2013, was due to the higher backlog at the beginning of fiscal 2014, as compared to the beginning of fiscal 2013, an increase in the value of net contracts signed in fiscal 2014, as compared to fiscal 2013, and backlog acquired in the Shapell acquisition, offset, in part, by the increase in the aggregate value of our deliveries in fiscal 2014, as compared to the aggregate value of deliveries in fiscal 2013.

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 reopens, 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 10 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.

OPERATING COMMUNITIES: When the profitability of an operating 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 operating 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 operating 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, 2015, 2014, and 2013, as shown in the table below (amounts in thousands):

	2015	2014	2013
Land controlled for future communities	\$ 809	\$ 3,123	\$ 1,183
Land owned for future communities	12,600		
Operating communities	22,300	17,555	3,340
	<u>\$ 35,709</u>	<u>\$ 20,678</u>	<u>\$ 4,523</u>

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

Three months ended:	Number of communities tested	Impaired operating communities		
		Number of communities	Fair value of communities, net of impairment charges	Impairment charges
Fiscal 2015:				
January 31	58	4	\$ 24,968	\$ 900
April 30	52	1	\$ 16,235	11,100
July 31	40	3	\$ 13,527	6,000
October 31	44	3	\$ 8,726	4,300
				<u>\$ 22,300</u>
Fiscal 2014:				
January 31	67	1	\$ 7,131	\$ 1,300
April 30	65	2	\$ 6,211	1,600
July 31	63	1	\$ 14,122	4,800
October 31	55	7	\$ 38,473	9,855
				<u>\$ 17,555</u>
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
				<u>\$ 3,340</u>

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 unconsolidated entities. In accordance with GAAP, we assess 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. At October 31, 2015 and 2014, we determined that it was more-likely-than-not that our deferred assets would be realized for federal purposes. Accordingly, at October 31, 2015 and 2014, we did not record any valuation allowances against our federal deferred tax assets.

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 five years to 20 years.

For state tax purposes, due to past and projected losses in certain jurisdictions where we do not have carryback potential and/or cannot sufficiently forecast future taxable income, we recognized net cumulative valuation allowances against our state deferred tax assets at October 31, 2015 and 2014. During fiscal 2015, 2014, and 2013, due to improved actual and/or operating results, we reversed \$16.3 million, \$13.3 million, and \$4.6 million of state deferred tax asset valuation allowance, respectively. In addition, we establish valuation allowances for newly created deferred tax assets in certain jurisdictions where it is more-likely-than-not that the deferred tax asset would not be realized. During fiscal 2015, 2014, and 2013, we recognized new valuation allowances of \$3.7 million, \$1.3 million, and \$3.2 million, respectively. We will continue to review our deferred tax assets in accordance with ASC 740. The valuation allowance at October 31, 2015 of \$31.1 million relates to deferred tax assets in states that had not met the “more-likely-than-not” realization threshold criteria.

Revenue and Cost Recognition

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

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

Warranty and Self-Insurance

WARRANTY: We provide all of our home buyers with a limited warranty as to workmanship and mechanical equipment. We also provide many of our home buyers with a limited 10-year warranty as to structural integrity. We accrue 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. Adjustments to our warranty liabilities related to homes delivered in prior years are recorded in the period in which a change in our estimate occurs.

SELF-INSURANCE: We maintain, and require the majority of our subcontractors to maintain, general liability insurance (including construction defect and bodily injury coverage) and workers’ compensation insurance. These insurance policies protect us against a portion of our risk of loss from claims related to our home building activities, subject to certain self-insured retentions, deductibles and other coverage limits (“self-insured liability”). We also provide general liability insurance for our subcontractors in Arizona, California, Nevada and Washington, where eligible subcontractors are enrolled as insureds under our general liability insurance policies in each community in which they perform work. For those enrolled subcontractors, we absorb their general liability associated with the work performed on our homes within the applicable community as part of our overall general liability insurance and our self-insurance through our captive insurance subsidiary.

We record expenses and liabilities based on the estimated costs required to cover our self-insured liability and the estimated costs of potential claims and claim adjustment expenses that are above our coverage limits or that are not covered by our insurance policies. These estimated costs are based on an analysis of our historical claims and industry data, and include an estimate of claims incurred but not yet reported (“IBNR”).

We engage a third-party actuary that uses our historical claim and expense data, input from our internal legal and risk management groups, as well as industry data, to estimate our liabilities related to unpaid claims, IBNR associated with the risks that we are assuming for our self-insured liability and other required costs to administer current and expected claims. These estimates are subject to uncertainty due to a variety of factors, the most significant being the long period of time between the delivery of a home to a home buyer and when a structural warranty or construction defect claim is made, and the ultimate resolution of the claim. Though state regulations vary, construction defect claims are reported and resolved over a prolonged period of time, which can extend for 10 years or longer. As a result, the majority of the estimated liability relates to IBNR. Adjustments to our liabilities related to homes delivered in prior years are recorded in the period in which a change in our estimate occurs.

The projection of losses related to these liabilities requires actuarial assumptions that are subject to variability due to uncertainties regarding construction defect claims relative to our markets and the types of product we build, insurance industry practices and legal or regulatory actions and/or interpretations, among other factors. Key assumptions used in these estimates include claim frequencies, severities and settlement patterns, which can occur over an extended period of time. In addition, changes in the frequency and severity of reported claims and the estimates to settle claims can impact the trends and assumptions used in the actuarial analysis, which could be material to our consolidated financial statements. Due to the degree of judgment required, the potential for variability in these underlying assumptions, our actual future costs could differ from those estimated, and the difference could be material to our consolidated financial statements.

OFF-BALANCE SHEET ARRANGEMENTS

We also operate through a number of joint ventures. These joint ventures (i) develop land for the joint venture participants and for sale to outside builders (“Land Development Joint Ventures”); (ii) develop for-sale homes (“Home Building Joint Ventures”); (iii) develop luxury for-rent residential apartments, commercial space and a hotel (“Rental Property Joint Ventures”); and (iv) invest in a portfolio of distressed loans and real estate (“Structured Asset Joint Venture”). We earn construction and management fee income from many of these joint ventures.

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

At October 31, 2015, we had investments in these entities of \$412.9 million, and were committed to invest or advance up to an additional \$195.6 million to these entities if they require additional funding. At October 31, 2015, we had an understanding to acquire 378 home sites from one of these Land Development Joint Ventures for an estimated aggregate purchase price of \$136.3 million. In addition, we expect to purchase approximately 3,600 additional home sites from several joint ventures in which we have interests; the purchase price of these home sites will be determined at a future date.

We invested in a joint venture in which we have a 50% voting interest to develop 400 Park Avenue South, a high-rise luxury for-sale/rental project in New York City. Pursuant to the terms of the joint venture agreement, with the completion of the construction of the building’s structure in the third quarter of fiscal 2015, we acquired, with no additional consideration due from us, ownership of the top 18 floors of the building to sell, for our own account, luxury condominium units. Our partner received ownership of the lower floors containing residential rental units and retail space, with no additional consideration due from them. Upon our acquisition of the top 18 floors of the building, we transferred our investment of \$132.3 million in this joint venture from “Investments in unconsolidated entities” on our Consolidated Balance Sheets to “Inventory.”

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. These guarantees may include any or all of the following: (i) project completion guarantees, including any cost overruns; (ii) repayment guarantees, generally covering a percentage of the outstanding loan; (iii) guarantees of indemnities provided to the lender by the unconsolidated entity with regard to environmental matters; (iv) a hazardous material indemnity that holds the lender harmless against any liability it may suffer from the threat or presence of any hazardous or toxic substances at or near the property covered by a loan; and (v) 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, we generally have a reimbursement agreement with our partner that provides that neither party is responsible for more than its proportionate share or agreed-upon 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, 2015, 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, 2015, the unconsolidated entities that have guarantees related to debt had loan commitments aggregating \$980.2 million and had borrowed an aggregate of \$514.3 million. We estimate that our maximum potential exposure under these guarantees, if the full amount of the loan commitments were borrowed, would be \$980.2 million, without taking into account any recoveries from the underlying collateral or any reimbursement from our partners. Based on the amounts borrowed at October 31, 2015, our maximum potential exposure under these guarantees is estimated to be \$514.3 million, without taking into account any recoveries from the underlying collateral or any reimbursement from our partners.

In addition, we have guaranteed approximately \$10.3 million of ground lease payments and insurance deductibles for three joint ventures.

For more information regarding these joint ventures, see Note 4, “Investments in Unconsolidated Entities” in the Notes to Consolidated Financial Statements.

The trends, uncertainties or other factors that negatively impact our business and the industry in general also impact the unconsolidated entities in which we have investments. We review each of our investments on a quarterly basis for indicators of impairment. A series of operating losses of an investee, the inability to recover our invested capital, or other factors may indicate that a loss in value of our investment in the unconsolidated entity has occurred. If a loss exists, we further review to determine if the loss is other than temporary, in which case we write down the investment to its fair value. The evaluation of our investment in unconsolidated entities entails a detailed cash flow analysis using many estimates including but not limited to expected sales pace, expected sales prices, expected incentives, costs incurred and anticipated, sufficiency of financing and capital, competition, market conditions and anticipated cash receipts, in order to determine projected future distributions. Each of the unconsolidated entities evaluates its inventory in a similar manner. In addition, for rental properties, we review rental trends, expected future expenses, and expected future cash flows to determine estimated fair values of the properties. See “Critical Accounting Policies - Inventory” contained in this MD&A for more detailed disclosure on our evaluation of inventory. If a valuation adjustment is recorded by an unconsolidated entity related to its assets, our proportionate share is reflected in income from unconsolidated entities with a corresponding decrease to our investment in unconsolidated entities. Based upon our evaluation of the fair value of our investments in unconsolidated entities, we determined that no impairments of our investments occurred in fiscal 2015, 2014 and 2013.

RESULTS OF OPERATIONS

The following table compares certain items in our Consolidated Statements of Operations and Comprehensive Income for fiscal 2015, 2014, and 2013 (\$ amounts in millions):

	2015		2014		2013	
	\$	%	\$	%	\$	%
Revenues	4,171.2		3,911.6		2,674.3	
Cost of revenues	3,269.3	78.4	3,081.8	78.8	2,133.3	79.8
Selling, general and administrative	455.1	10.9	432.5	11.1	339.9	12.7
	3,724.4	89.3	3,514.4	89.8	2,473.2	92.5
Income from operations	446.9		397.2		201.1	
Other:						
Income from unconsolidated entities	21.1		41.1		14.4	
Other income-net	67.6		66.2		52.2	
Income before income taxes	535.6		504.6		267.7	
Income tax provision	172.4		164.6		97.1	
Net income	363.2		340.0		170.6	

Note: Amounts may not add due to rounding.

FISCAL 2015 COMPARED TO FISCAL 2014

Revenues and Cost of Revenues

Revenues in fiscal 2015 were higher than those for fiscal 2014 by approximately \$259.6 million, or 6.6%. This increase was attributable to a 4.2% increase in the average price of the homes delivered and a 2.4% increase in the number of homes delivered. In fiscal 2015, we delivered 5,525 homes with a value of \$4.17 billion, as compared to 5,397 homes in fiscal 2014 with a value of \$3.91 billion. The increase in the number of homes delivered was principally due to a greater number of homes being sold and delivered in fiscal 2015, as compared to fiscal 2014. The increase in the average price of homes delivered was primarily attributable to a shift in the number of homes delivered to more expensive areas and/or products and increased selling prices of homes delivered in fiscal 2015, as compared to fiscal 2014.

Cost of revenues as a percentage of revenues was 78.4% in fiscal 2015, as compared to 78.8% in fiscal 2014. In fiscal 2015 and 2014, we recognized inventory impairment charges of \$35.7 million and \$20.7 million, respectively. In addition, in fiscal 2015 and 2014 we recognized charges related to warranty and litigation, net of other reversals, of \$11.0 and \$24.0 million, respectively. (See Note 7, "Accrued Expenses," in the Notes to the Consolidated Financial Statements for more information on the warranty and litigation related charges). Cost of revenues as a percentage of revenues, excluding impairments and charges related to warranty and litigation, net of other reversals, was 77.3% of revenues in fiscal 2015, as compared to 77.6% in fiscal 2014. The decrease in cost of revenues as a percentage of revenues, excluding inventory impairment charges and charges related to warranty and litigation, net of other reversals, in fiscal 2015, as compared to fiscal 2014, was due primarily to a change in product mix/areas to higher-margin areas, increased prices of homes delivered in fiscal 2015, as compared to fiscal 2014, and the lower impact of the application of purchase accounting from the homes delivered from the Acquisition in fiscal 2015, as compared to fiscal 2014. These decreases were offset, in part, by increased construction costs. In fiscal 2015, inventory write-offs

of \$22.3 million were attributable to operating communities, \$12.6 million were attributable to land owned for future communities, and \$0.8 million were attributable to land controlled for future communities. Inventory write-offs in fiscal 2014 of \$17.6 million were attributable to operating communities and \$3.1 million were attributable to land controlled for future communities.

Interest cost in fiscal 2015 was \$142.9 million or 3.4% of revenues, as compared to \$137.5 million or 3.5% of revenues in fiscal 2014.

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

SG&A increased by \$22.6 million in fiscal 2015, as compared to fiscal 2014. As a percentage of revenues, SG&A decreased to 10.9% in fiscal 2015, from 11.1% in fiscal 2014. Fiscal 2014 SG&A includes \$6.1 million of expenses incurred in the Acquisition. The dollar increase in SG&A costs, excluding the acquisition costs, was due primarily to increased compensation costs due to our increased number of employees, and increased sales and marketing costs. The higher sales and marketing costs were the result of the increased spending on advertising and increased operating costs due to the increased number of selling communities that we had in fiscal 2015, as compared to fiscal 2014.

Income From Unconsolidated Entities

We recognize our proportionate share of the earnings and losses from the various unconsolidated entities in which we have an investment. Many of our unconsolidated entities are land development projects or high-rise/mid-rise condominium construction projects, which 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 2015, we recognized \$21.1 million of income from unconsolidated entities, as compared to \$41.1 million in fiscal 2014. The decrease in income from unconsolidated entities was due primarily to our recognition of a \$23.5 million gain representing our share of the gain on the sale by Toll Brothers Realty Trust II ("Trust II") of substantially all of its assets to an unrelated party in December 2013 and a \$12.0 million distribution from the Trust in April 2014 due to the refinancing of one of the Trust's apartment properties. This was offset, in part, by higher income realized from several of our Land Development Joint Ventures and one Home Building Joint Venture in fiscal 2015, as compared to fiscal 2014. The higher income from these joint ventures was attributable primarily to higher sales activity and/or price increases in fiscal 2015, as compared to fiscal 2014.

Other Income-Net

The table below provides the components of "Other Income-net" for the years ended October 31, 2015 and 2014 (amounts in thousands):

	2015	2014
Income from ancillary businesses	\$ 23,530	\$ 10,653
Gibraltar	10,168	14,364
Management fee income from unconsolidated entities	11,299	7,306
Income from land sales	13,150	25,489
Other	9,426	8,380
Total other income-net	\$ 67,573	\$ 66,192

In fiscal 2015, our security monitoring business recognized an \$8.1 million gain from a bulk sale of security monitoring accounts, which is included in income from ancillary businesses above. The decrease in income from Gibraltar's operations in fiscal 2015, as compared to fiscal 2014, was primarily due to a reduction in gains recognized from the disposition of real estate owned ("REO") and from the acquisition of REO through foreclosure. The increase in management fee income in fiscal 2015, as compared to fiscal 2014, was primarily due to the increase in activity from the unconsolidated entities that we manage. The decrease in income from land sales was due to fewer land parcels being available for sale in fiscal 2015, as compared to fiscal 2014.

Income Before Income Taxes

In fiscal 2015, we reported income before income taxes of \$535.6 million, as compared to \$504.6 million in fiscal 2014.

Income Tax Provision

We recognized a \$172.4 million income tax provision in fiscal 2015. The tax provision in fiscal 2015 included the reversal of \$16.3 million of state deferred tax asset valuation allowances and the recording of \$3.7 million of new state tax deferred 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 \$185.0 million tax provision in fiscal 2015. Based upon the federal statutory rate of 35%, our federal tax provision would have been \$187.4 million. The difference between our tax provision recognized, excluding the changes in the deferred tax valuation allowance, and the tax provision based on the federal statutory rate was due mainly to the reversal of \$15.3 million of previously accrued tax provisions on uncertain tax positions that were no longer necessary due to the expiration of the statute of limitations and settlements with certain taxing jurisdictions; a \$12.3 million tax benefit from the utilization of domestic production activities deductions; and \$7.8 million of other permanent deductions; offset, in part, by the recognition of a \$21.9 million provision for state income taxes; the recognition of a \$3.2 million provision for uncertain tax positions taken; \$2.6 million of accrued interest and penalties for previously accrued taxes on uncertain tax positions; and \$5.3 million of other differences.

We recognized a \$164.6 million income tax provision in fiscal 2014. The tax provision in fiscal 2014 included the reversal of \$13.3 million of state deferred tax asset valuation allowances and the recording of \$1.3 million of new state tax deferred asset valuation allowances.

Excluding the changes in the deferred tax valuation allowances, we recognized a \$176.5 million tax provision in fiscal 2014. Based upon the federal statutory rate of 35%, our federal tax provision would have been \$176.6 million. The difference between our tax provision recognized, excluding the changes in the deferred tax valuation allowance, and the tax provision based on the federal statutory rate was due principally to the reversal of \$11.0 million of previously accrued tax provisions on uncertain tax positions that were no longer necessary due to the expiration of the statute of limitations and the settlement of state income tax audits; a \$14.8 million tax benefit from our utilization of domestic production activities deductions; and a \$6.2 million tax benefit related to other miscellaneous permanent deductions, offset, in part, by a \$23.8 million provision for state income taxes; the recognition of a \$5.7 million provision for uncertain tax positions taken; and \$1.8 million of accrued interest and penalties for previously accrued taxes on uncertain tax positions.

FISCAL 2014 COMPARED TO FISCAL 2013

Revenues and Cost of Revenues

Revenues in fiscal 2014 were higher than those for fiscal 2013 by approximately \$1.24 billion, or 46.3%. This increase was attributable to a 29.0% increase in the number of homes delivered and a

13.4% increase in the average price of the homes delivered. In fiscal 2014, we delivered 5,397 homes with a value of \$3.91 billion, as compared to 4,184 homes in fiscal 2013 with a value of \$2.67 billion. The increase in the number of homes delivered in fiscal 2014, as compared to fiscal 2013, was primarily due to the 43.2% higher number of homes in backlog at the beginning of fiscal 2014, as compared to the beginning of fiscal 2013, and the backlog of homes acquired from Shapell in February 2014. The increase in the average price of homes delivered in fiscal 2014, as compared to fiscal 2013, was primarily attributable to a shift in the number of homes delivered to more expensive areas and/or products in fiscal 2014.

Cost of revenues as a percentage of revenues was 78.8% in fiscal 2014, as compared to 79.8% in fiscal 2013. We recognized inventory impairment charges and write-offs of \$20.7 million and \$32.0 million in charges related to warranty and litigation in fiscal 2014 (See Note 7, "Accrued Expenses", in the Notes to the Consolidated Financial Statements for more information on the warranty and litigation related charges). In fiscal 2013, we recognized inventory impairment charges and write-offs of \$4.5 million. Cost of revenues as a percentage of revenues, excluding impairments and charges related to warranty and litigation, was 77.4% of revenues in fiscal 2014, as compared to 79.6% in fiscal 2013. The decrease in cost of revenues as a percentage of revenues, excluding inventory impairment charges and charges related to warranty and litigation, in fiscal 2014, as compared to fiscal 2013, was due primarily to lower cost of land, construction and interest costs in fiscal 2014, as compared to fiscal 2013; offset, in part, by the impact on costs in fiscal 2014 from the application of purchase accounting on the homes delivered from the Acquisition. The lower cost of revenues as a percentage of revenues was the result of price increases in the October 31, 2013 backlog that exceeded cost increases on the homes delivered, and a change in product mix to higher margin communities.

Interest cost in fiscal 2014 was \$137.5 million or 3.5% of revenues, as compared to \$112.3 million or 4.2% of revenues in fiscal 2013.

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

SG&A increased by \$92.6 million in fiscal 2014, as compared to fiscal 2013. As a percentage of revenues, SG&A was 11.1% in fiscal 2014, as compared to 12.7% in fiscal 2013. The amounts for fiscal 2014 and 2013 include \$6.1 million and \$1.4 million of expenses incurred in connection with the Acquisition, respectively. The decline in SG&A, excluding the acquisition costs, as a percentage of revenues, was due to SG&A spending increasing by 25.4% while revenues increased 46.3%. The dollar increase in SG&A costs, excluding the acquisition costs, was due primarily to increased compensation costs due to our increased number of employees and higher sales commissions, increased sales and marketing costs, and increased insurance costs. The higher sales commissions and a portion of the increased marketing costs were the result of the increase in the number of homes delivered and the increased sales revenues in fiscal 2014 over fiscal 2013.

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. Many of our unconsolidated entities are land development projects or high-rise/mid-rise condominium 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 2014, we recognized \$41.1 million of income from unconsolidated entities, as compared to \$14.4 million in fiscal 2013. The \$26.7 million increase in income from unconsolidated entities in fiscal 2014, as compared to fiscal 2013, was due primarily to our recognition of a \$23.5 million gain,

representing our share of the gain on the sale by Trust II of substantially all of its assets to an unrelated party in December 2013, a \$12.0 million distribution from the Trust in April 2014 due to the refinancing of one of the Trust's apartment properties, and an increase in income from one of our home building joint ventures due to increased activity in fiscal 2014 as compared to fiscal 2013. These increases were offset, in part, by lower income realized from Gibraltar's Structured Asset Joint Venture, lower income from our land development joint ventures due to decreased activity from these joint ventures in fiscal 2014 as compared to fiscal 2013, and a settlement of litigation at one of our unconsolidated entities resulting in a charge to our earnings of \$2.6 million in the fourth quarter of fiscal 2014.

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 2014 and 2013, other income-net was \$66.2 million and \$52.2 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 2014, as compared to fiscal 2013, was due to a \$21.1 million increase in earnings from land sales, a \$4.2 million increase in income from our Gibraltar operations, and a \$4.4 million increase in management fee income in fiscal 2014, as compared to fiscal 2013. These increases were offset, in part, by lower interest income and miscellaneous income in fiscal 2014, as compared to fiscal 2013. The increase in income from land sales was due to our sale of land to reduce land concentration and outstanding borrowings as a result of the Acquisition. The increase in management fee income is the result of the increase in activity in the various joint ventures in which we have investments.

Income Before Income Taxes

In fiscal 2014, we reported income before income taxes of \$504.6 million, as compared to \$267.7 million in fiscal 2013.

Income Tax Provision

We recognized a \$164.6 million income tax provision in fiscal 2014. The tax provision in fiscal 2014 included the reversal of \$13.3 million of state deferred tax asset valuation allowances and the recording of \$1.3 million of new state tax deferred 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 \$176.5 million tax provision in fiscal 2014. Based upon the federal statutory rate of 35%, our federal tax provision would have been \$176.6 million. Our tax provision, excluding the changes in the deferred tax valuation allowance, included the recognition of a \$23.8 million provision for state income taxes, the recognition of a \$5.7 million provision for uncertain tax positions taken; and \$1.8 million of accrued interest and penalties for previously accrued taxes on uncertain tax positions, offset, in part, by the reversal of \$11.0 million of previously accrued tax provisions on uncertain tax positions that were no longer necessary due to the expiration of the statute of limitations and the settlement of state income tax audits; a \$14.8 million tax benefit from our utilization of domestic production activities deductions; and a \$6.2 million tax benefit related to other miscellaneous permanent deductions.

We recognized an income tax provision of \$97.1 million in fiscal 2013. 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.

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 an \$11.4 million provision for state income taxes and \$3.7 million of accrued interest and penalties, offset, in part, by the reversal of \$5.6 million of previously accrued taxes and related interest. 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.

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, 2015, we had \$929.0 million of cash, cash equivalents, and marketable securities on hand and approximately \$566.1 million available for borrowing under our Credit Facility.

Cash provided by operating activities during fiscal 2015 was \$60.2 million. It was generated primarily from \$494.8 million of net income before stock-based compensation, depreciation and amortization, inventory impairments and write-offs, and deferred taxes; a \$46.5 million increase in customer deposits; and an increase of \$28.7 million in accounts payable and accrued expenses; offset, in part, by the net purchase of \$352.0 million of inventory; a \$65.5 million decrease in income taxes payable; a \$55.6 million increase in receivables, prepaid expenses, and other assets; and an increase of \$21.4 million in mortgage loans originated, net of the sale of mortgage loans to outside investors.

Cash used in our investing activities during fiscal 2015 was \$52.8 million. The cash used in investing activities was primarily related to \$123.9 million used to fund investments in unconsolidated entities, \$9.4 million for the purchase of property and equipment, offset, in part, by \$77.4 million of cash received as returns on our investments in unconsolidated entities, foreclosed real estate, and distressed loans.

We generated \$325.3 million of cash from financing activities in fiscal 2015, primarily from the issuance of \$350.0 million of 4.875% Senior Notes due 2025; \$350.0 million of borrowing under our Credit Facility; and \$39.5 million from the proceeds of our stock-based benefit plans, offset, in part, by the repayment of \$300.0 million of senior notes; the repurchase of \$56.9 million of our common stock; and the repayment of \$55.0 million of other loans payable, net of new borrowings.

At October 31, 2014, we had \$598.3 million of cash, cash equivalents, and marketable securities on hand and approximately \$940.2 million available for borrowing under our \$1.035 billion revolving credit facility, which extends to August 2018. Cash provided by operating activities during fiscal 2014 was \$313.2 million. It was generated primarily from \$440.9 million of net income before stock-based compensation, depreciation and amortization, inventory impairments and write-offs, and deferred taxes; an \$82.1 million increase in accounts payable and accrued expenses; and a \$52.4 million increase in income taxes payable; offset, in part, by the net purchase of \$272.0 million of inventory. Cash used in our investing activities during fiscal 2014 was \$1.45 billion. The cash used in investing activities was primarily related to the \$1.49 billion used to acquire Shapell, \$113.0 million used to fund investments in unconsolidated entities, \$15.1 million for the purchase of property and equipment, offset, in part, by \$127.0 million of cash received as returns on our investments in unconsolidated entities, distressed loans, and foreclosed real estate, and \$40.2 million of sales of marketable securities. We generated \$952.2 million of cash from financing activities in fiscal 2014, primarily from the issuance of 7.2 million shares of our common stock in November 2013 that raised \$220.4 million; \$595.3 million from the issuance in November 2013 of \$350.0 million of 4.0% Senior Notes due 2018 and \$250.0 million of 5.625% Senior Notes due 2024; the borrowing of \$500.0 million under a five-year term loan from a syndicate of eleven banks; and \$28.4 million from the

proceeds of our stock-based benefit plans, offset, in part, by the repayment of \$268.0 million of our 4.95% Senior Notes in March 2014; the repurchase of \$90.8 million of our common stock; and the repayment of \$40.8 million of other loans payable, net of new borrowings.

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 \$1.035 billion revolving credit facility. 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, by pretax 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 unconsolidated entities, \$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, \$24.4 million from the proceeds of our stock-based benefit plans, and a tax benefit of \$15.8 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.

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 a supply of several years 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. 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 we have 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, 2015, we owned or controlled through options 44,253 home sites, as compared to 47,167 at October 31, 2014; 48,628 at October 31, 2013; and 91,200 at April 30, 2006, the high point of our home sites owned and controlled. Of the 44,253 home sites owned or controlled through options at October 31, 2015, we owned 35,872. Of our owned home sites at October 31, 2015, significant improvements were completed on approximately 16,505 of them.

In February 2014, we acquired all of the equity interests in Shapell, consisting of Shapell's single-family residential real property development business, including a portfolio of approximately 4,950 home sites in California. See "Overview - Acquisition" in this MD&A for more information about the Shapell acquisition.

At October 31, 2015, the aggregate purchase price of land parcels under option and purchase agreements was approximately \$1.22 billion (including \$136.3 million of land to be acquired from joint ventures in which we have invested). Of the \$1.22 billion of land purchase commitments, we had paid or deposited \$79.1 million and, if we acquire all of these land parcels, we will be required to pay an additional \$1.14 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.

During the past several years, we have made a number of investments in unconsolidated entities related to the acquisition and development of land for future home sites, the construction of luxury for-sale condominiums, and for-rent apartments. Our investment activities related to investments in and distributions of investments from unconsolidated entities are contained in the Consolidated Statements of Cash Flows under "Cash flow (used in) provided by investing activities." At October 31, 2015, we had investments in these entities of \$412.9 million, and were committed to invest or advance up to an additional \$195.6 million to these entities if they require additional funding.

In August 2013, we entered into a \$1.035 billion revolving credit facility with a syndicate of banks, which extends to August 2018. At October 31, 2015, we had \$350.0 million of borrowings under the credit facility and had outstanding letters of credit of approximately \$118.9 million. At October 31, 2015, interest was payable on borrowings under our credit facility at a rate per annum of 1.70% (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 0.25% (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 \$2.64 billion at October 31, 2015. At October 31, 2015, our leverage ratio was approximately 0.68 to 1.00, and our tangible net worth was approximately \$4.19 billion. At October 31, 2015, based upon the minimum tangible net worth requirement, our ability to pay dividends was limited to an aggregate amount of approximately \$1.56 billion or the repurchase of our common stock of approximately \$1.97 billion.

We believe that we will have adequate resources and sufficient access to the capital markets and external financing sources to continue to fund our current operations and meet our contractual obligations. 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 enter into contracts to acquire land a significant period of time before development and sales efforts begin. Accordingly, to the extent land acquisition costs are fixed, subsequent increases or decreases in the sales prices of homes will affect our profits. 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.

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 could 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, 2015 (amounts in millions):

	2016	2017-2018	2019-2020	Thereafter	Total
Senior notes (a)	\$ 141.2	\$ 646.9	\$ 781.8	\$ 1,938.6	\$ 3,508.5
Loans payable (a)	84.9	415.4	518.9	47.6	1,066.8
Mortgage company loan facility (a)	102.2				102.2
Operating lease obligations	11.1	16.2	6.5	0.3	34.1
Purchase obligations (b)	969.3	425.5	108.9	58.3	1,562.0
Retirement plans (c)	10.4	14.1	10.7	51.4	86.6
Other	0.3				0.3
	\$ 1,319.4	\$ 1,518.1	\$ 1,426.8	\$ 2,096.2	\$ 6,360.5

(a) Amounts include estimated annual interest payments until maturity of the debt. Of the amounts indicated, \$2.7 billion of the senior notes, \$1.00 billion of loans payable, and \$100.0 million of the mortgage company loan facility were recorded on the October 31, 2015 Consolidated Balance Sheet. In addition, the thereafter amount includes \$287.5 million principal amount of 0.5% Exchangeable Senior Notes due 2032 (the "0.5% Exchangeable Senior Notes"). The 0.5% Exchangeable Senior Notes are exchangeable into shares of our 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 common stock. Holders of the 0.5% Exchangeable 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. We will have the right to redeem the 0.5% Exchangeable Senior Notes on or after September 15, 2017, for cash equal to 100% of their principal amount, plus accrued but unpaid interest.

(b) Amounts represent our expected acquisition of land under purchase agreements and the estimated remaining amount of the contractual obligation for land development agreements secured by letters of credit and surety bonds.

(c) Amounts represent our obligations under our deferred compensation plan, supplemental executive retirement plans and our 401(k) salary deferral savings plans. Of the total amount indicated, \$61.6 million was recorded on the October 31, 2015 Consolidated Balance Sheet.

SEGMENTS

We operate in two segments: Traditional Home Building and City Living, our urban development division. Within Traditional Home Building, we operate in five geographic segments around the United States: (1) the North, consisting of Connecticut, Illinois, Massachusetts, Michigan, Minnesota, New Jersey, and New York; (2) the Mid-Atlantic, consisting of Delaware, Maryland, Pennsylvania, and Virginia; (3) the South, consisting of Florida, North Carolina, and Texas; (4) the West, consisting of Arizona, Colorado, Nevada, and Washington, and (5) California. Due to the increase in our assets and operations in California, it is now presented as a separate geographic segment; it was previously included in West geographic segment. Prior year amounts presented below have been reclassified to conform to the fiscal 2015 presentation.

The following tables summarize information related to revenues, net contracts signed, and income (loss) before income taxes by segment for fiscal years 2015, 2014, and 2013. Information related to backlog and assets by segment at October 31, 2015 and 2014, has also been provided.

Units Delivered and Revenues (\$ amounts in millions):

	2015	2014	2013	2015	2014	2013
	Units	Units	Units	\$	\$	\$
Traditional Home Building:						
North	1,126	1,110	874	702.2	662.7	485.0
Mid-Atlantic	1,342	1,292	1,146	845.3	817.3	652.9
South	1,175	1,204	1,018	892.3	836.5	641.3
West	994	814	653	665.3	517.9	369.7
California	669	713	356	750.0	795.8	354.7
Traditional Home Building	5,306	5,133	4,047	3,855.1	3,630.2	2,503.6
City Living	219	264	137	316.1	281.4	170.7
Total	5,525	5,397	4,184	4,171.2	3,911.6	2,674.3

Net Contracts Signed (\$ amounts in millions):

	2015	2014	2013	2015	2014	2013
	Units	Units	Units	\$	\$	\$
Traditional Home Building:						
North	1,138	1,040	1,197	756.8	664.8	697.5
Mid-Atlantic	1,323	1,220	1,414	844.7	763.9	851.3
South	1,036	1,211	1,225	838.3	886.2	831.4
West	1,221	951	765	846.2	618.2	461.0
California	1,003	639	412	1,343.2	694.2	505.6
Traditional Home Building	5,721	5,061	5,013	4,629.2	3,627.3	3,346.8
City Living	189	210	281	326.4	269.2	287.1
Total	5,910	5,271	5,294	4,955.6	3,896.5	3,633.9

Backlog at October 31 (\$ amounts in millions):

	2015	2014	2013	2015	2014	2013
	Units	Units	Units	\$	\$	\$
Traditional Home Building:						
North	890	878	948	619.2	564.6	562.5
Mid-Atlantic	811	830	902	518.9	519.5	573.0
South	824	963	956	669.2	723.2	673.5
West	816	589	452	573.5	392.6	292.4
California	609	275	223	897.8	304.6	300.8
Traditional Home Building	3,950	3,535	3,481	3,278.6	2,504.5	2,402.2
City Living	114	144	198	225.4	215.2	227.3
Total	4,064	3,679	3,679	3,504.0	2,719.7	2,629.5

Income (Loss) Before Income Taxes (\$ amounts in millions):

	2015	2014	2013
Traditional Home Building:			
North	\$ 59.2	\$ 57.0	\$ 32.7
Mid-Atlantic	69.1	79.0	79.8
South	153.0	113.6	67.9
West	106.4	78.8	42.7
California	139.1	157.5	68.6
Traditional Home Building	526.8	485.9	291.7
City Living	124.3	104.6	53.3
Corporate and other	(115.5)	(85.9)	(77.3)
Total	\$ 535.6	\$ 504.6	\$ 267.7

“Corporate and other” is comprised principally of general corporate expenses such as the offices of our executive officers; the corporate finance, accounting, audit, tax, human resources, risk management, information technology, marketing, and legal groups; interest income; income from our ancillary businesses, including Gibraltar; and income from a number of our unconsolidated entities.

Total Assets (\$ amounts in millions):

	At October 31,	
	2015	2014
Traditional Home Building:		
North	\$ 1,061.8	\$ 1,053.8
Mid-Atlantic	1,226.0	1,267.6
South	1,196.6	1,165.6
West	949.6	755.9
California	2,243.3	1,920.3
Traditional Home Building	6,677.3	6,163.2
City Living	873.0	834.9
Corporate and other	1,656.2	1,400.4
Total	\$ 9,206.5	\$ 8,398.5

“Corporate and other” is comprised principally of cash and cash equivalents, marketable securities, restricted cash, deferred tax assets, and the assets of our Gibraltar investments, manufacturing facilities, and mortgage subsidiary.

FISCAL 2015 COMPARED TO FISCAL 2014**Traditional Homebuilding****NORTH**

Revenues in fiscal 2015 were higher than those in fiscal 2014 by \$39.5 million, or 6.0%. The increase in revenues was attributable to a 4.4% increase in the average price of the homes delivered and a 1.4% increase in the number of homes delivered. The increase in the average price of homes delivered was primarily attributable to a shift in the number of homes delivered to more expensive

areas and/or products and increases in selling prices of homes delivered in fiscal 2015, as compared to fiscal 2014.

The value of net contracts signed during fiscal 2015 increased by \$92.0 million, or 13.8%. The increase was due to a 9.4% increase in the number of net contracts signed and a 4.0% increase in the average value of each net contract. The increase in the number of net contracts signed was mainly due to improved market conditions in Michigan and New Jersey. The increase in the average sales price of net contracts signed was principally 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 2015, as compared to fiscal 2014.

In fiscal 2015, we reported income before income taxes of \$59.2 million, as compared to \$57.0 million in fiscal 2014. This increase in income was primarily attributable to higher earnings from the increased revenues and lower cost of revenues as a percent of revenues, excluding impairment, in fiscal 2015, as compared to fiscal 2014, offset, in part, by higher inventory impairment charges, higher SG&A costs, and lower earnings from land sales in fiscal 2015, as compared to fiscal 2014. We recognized inventory impairment charges of \$15.0 million and \$9.1 million in fiscal 2015 and 2014, respectively. The decrease in cost of revenues as a percent of revenues, excluding impairments, was mainly due to a change in product mix/areas to higher margin areas in fiscal 2015, as compared to fiscal 2014.

MID-ATLANTIC

Revenues in fiscal 2015 were higher than those in fiscal 2014 by \$28.0 million, or 3.4%. The increase in revenues was primarily attributable to a 3.9% increase in the number of homes delivered. The increase in the number of homes delivered was mainly due to a greater number of homes being sold and delivered in fiscal 2015, as compared to fiscal 2014.

The value of net contracts signed during fiscal 2015 increased by \$80.8 million, or 10.6%, from fiscal 2014. The increase was due to an 8.4% increase in the number of net contracts signed and a 2.0% 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 demand in Pennsylvania and Virginia, offset, in part, by a decrease in the number of net contracts signed in Maryland. The increase in the average sales price of net contracts signed was mainly 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 2015, as compared to fiscal 2014.

We reported income before income taxes in fiscal 2015 and 2014 of \$69.1 million and \$79.0 million, respectively. The decrease in income before income taxes was primarily due to higher impairment charges, higher SG&A costs, and a \$2.8 million decrease in earnings from land sales in fiscal 2015, as compared to fiscal 2014. These decreases were partially offset by higher earnings from increased revenues and lower charges for stucco-related repairs in communities located in Pennsylvania and Delaware in fiscal 2015, as compared to fiscal 2014. Inventory impairment charges, in fiscal 2015 and 2014, were \$19.5 million and \$9.1 million, respectively. The earnings from land sales in fiscal 2014 mainly represented previously deferred gains on our initial sales of properties to Trust II. In fiscal 2015 and 2014, we recognized \$14.7 million and \$25.0 million, respectively, in charges for stucco-related repairs. See Note 7, “Accrued Expenses,” in the Notes to the Consolidated Financial Statements for more information on the stucco-related charges.

SOUTH

Revenues in fiscal 2015 were higher than those in fiscal 2014 by \$55.8 million, or 6.7%. This increase was attributable to a 9.3% increase in the average price of the homes delivered, offset, in part, by a 2.4% decrease in the number of homes delivered. The increase in the average price of the homes delivered was mainly due to a shift in the number of homes delivered to more expensive areas and/or products in fiscal 2015, as compared to fiscal 2014. The decrease in the number of homes

delivered was principally due to a lower number of homes being sold and delivered in fiscal 2015, as compared to fiscal 2014.

In fiscal 2015, the value of net contracts signed decreased by \$47.9 million, or 5.4%, as compared to fiscal 2014. The decrease was attributable to a 14.5% decrease in the number of net contracts signed, offset, in part, by a 10.6% increase in the average value of each contract signed. The decrease in the number of net contracts signed was principally due to decreased demand. The increase in the average sales price of net contracts signed was mainly due to a shift in the number of contracts signed to more expensive areas and/or products and increases in base selling prices, primarily in Florida and Texas, in fiscal 2015 as compared to fiscal 2014.

We reported income before income taxes of \$153.0 million in fiscal 2015, as compared to \$113.6 million in fiscal 2014. The increase in income before income taxes was primarily due to higher earnings from the increased revenues, lower cost of revenues as a percent of revenues, and an \$8.5 million increase in earnings from our investments in unconsolidated entities, in fiscal 2015, as compared to fiscal 2014. These increases were partially offset by higher SG&A costs in fiscal 2015, as compared to fiscal 2014. The decrease in cost of revenues as a percentage of revenue was due mainly to a change in product mix/areas to higher margin areas in fiscal 2015, as compared to fiscal 2014.

WEST

Revenues in fiscal 2015 were higher than those in fiscal 2014 by \$147.4 million, or 28.5%. The increase in revenues was attributable to increases of 22.1% and 5.2% in the number and average price of homes delivered, respectively. The increase in the number of homes delivered was primarily due to a higher backlog at October 31, 2014, as compared to October 31, 2013, and to a greater number of homes being sold and delivered in fiscal 2015, as compared to fiscal 2014. The increase in the average price of the homes delivered was mainly due to a shift in the number of homes delivered to more expensive products and/or locations and increases in selling prices of homes delivered in fiscal 2015, as compared to fiscal 2014.

The value of net contracts signed during fiscal 2015 increased \$228.0 million, or 36.9%, as compared to fiscal 2014. This increase was due to a 28.4% increase in the number of net contracts signed and a 6.6% increase in the average value of each contract signed. The increase in the number of net contracts signed was mainly due to an increase in selling communities in Arizona, Nevada, and Washington in fiscal 2015, as compared to fiscal 2014. 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 2015, as compared to fiscal 2014.

In fiscal 2015, we reported income before income taxes of \$106.4 million, as compared to \$78.8 million in fiscal 2014. The increase in income before income taxes was principally due to higher earnings from increased revenues in fiscal 2015, as compared to fiscal 2014, offset, in part, by higher SG&A costs in fiscal 2015, as compared to fiscal 2014.

CALIFORNIA

Revenues in fiscal 2015 were lower than those in fiscal 2014 by \$45.8 million, or 5.8%. The decrease in revenues was principally attributable to a 6.2% decrease in the number of homes delivered. The decrease in the number of homes delivered was mainly due to a decrease in the number of communities in California where we were delivering homes.

The value of net contracts signed during fiscal 2015 increased \$649.0 million, or 93.5%, as compared to fiscal 2014. This increase was due to increases of 57.0% and 23.3% in the number of net contracts signed and in the average value of each contract signed, respectively. The increase in the number of net contracts signed was mainly due to increased demand, an increase in the number of selling communities, and fiscal 2015 having 12 months of sales activity at communities we acquired through the Acquisition, as compared to nine months in fiscal 2014. The increase in the average

sales price of net contracts signed was principally due to a shift in the number of contracts signed to more expensive areas and/or products and increases in selling prices.

In fiscal 2015, we reported income before income taxes of \$139.1 million, as compared to \$157.5 million in fiscal 2014. The decrease in income before income taxes was mainly due to lower earnings from decreased revenues and a \$10.3 million decrease in earnings from land sales in fiscal 2015, as compared to fiscal 2014, offset, in part, by a \$4.8 million increase in earnings from our investments in unconsolidated entities and the lower impact of the application of purchase accounting from the homes delivered from the Acquisition in fiscal 2015, as compared to fiscal 2014.

City Living

Revenues in fiscal 2015 were higher than those in fiscal 2014 by \$34.7 million, or 12.3%. The increase in revenues was attributable to a 35.5% increase in the average price of the homes delivered, offset, in part, by a 17.0% decrease in the number of homes delivered. The increase in the average price of homes delivered was principally due to closings in fiscal 2015 at high-rise buildings located in New York City, where average prices were higher than in other City Living locations. The decrease in the number of homes delivered was mainly due to a lower backlog at October 31, 2014, as compared to October 31, 2013.

The value of net contracts signed during fiscal 2015 increased by \$57.2 million, or 21.2%, as compared to fiscal 2014. This increase was attributable to a 34.7% increase in the average value of net contracts signed, partially offset by a decrease of 10.0% in the number of net contracts signed. The increase in the average value of net contracts signed was principally due to a shift in the number of net contracts signed from the Philadelphia, Pennsylvania market to the metro New York City market, where the average value of each contract signed is higher. The decrease in the number of net contracts signed was mainly due to slower demand in the first three months of fiscal 2015 and to a decline in the number of net contracts signed in Philadelphia, Pennsylvania, due to lower product availability.

In fiscal 2015, we reported income before income taxes of \$124.3 million, as compared to \$104.6 million in fiscal 2014. This increase in income was primarily attributable to higher earnings from increased revenues in fiscal 2015, as compared to fiscal 2014, \$3.6 million of earnings from the sale of commercial space at one of our high-rise buildings in New York City in fiscal 2015, and a charge of \$2.6 million to our earnings due to a settled litigation at one of our unconsolidated entities in fiscal 2014, partially offset by higher SG&A costs in fiscal 2015, as compared to 2014.

Other

In fiscal 2015 and 2014, corporate and other loss before income taxes was \$115.5 million and \$85.9 million, respectively. The increase in the loss before income taxes was principally due to a decrease in income from unconsolidated entities from \$42.0 million in fiscal 2014 to \$5.7 million in fiscal 2015, decreased income from our Gibraltar operations, and higher SG&A costs in fiscal 2015, as compared to fiscal 2014, offset, in part, by an increase of \$12.9 million in income from ancillary businesses in fiscal 2015, as compared to fiscal 2014. The decrease in income from unconsolidated entities was due primarily to our recognition of a \$23.5 million gain representing our share of the gain on the sale by Trust II of substantially all of its assets to an unrelated party in December 2013 and a \$12.0 million distribution from the Trust in April 2014 due to the refinancing of one of the Trust's apartment properties. The increase in income from ancillary businesses was mainly due to the recognition of an \$8.1 million gain from a bulk sale of security monitoring accounts by our home security monitoring business in fiscal 2015.

FISCAL 2014 COMPARED TO FISCAL 2013

Traditional Home Building

NORTH

Revenues in fiscal 2014 were higher than those in fiscal 2013 by \$177.7 million, or 36.6%. The increase in revenues was primarily attributable to a 27.0% increase in the number of homes delivered and an increase of 7.6% in the average selling price of the homes delivered. The increase in the number of homes delivered in fiscal 2014, as compared to fiscal 2013, was primarily due to a higher backlog at October 31, 2013, as compared to October 31, 2012. The increase in the average price of homes delivered in fiscal 2014, as compared to fiscal 2013, was primarily attributable to a shift in the number of homes delivered to more expensive areas and/or products in fiscal 2014.

The value of net contracts signed in fiscal 2014 was \$664.8 million, a 4.7% decrease from the \$697.5 million of net contracts signed during fiscal 2013. This 4.7% decrease was primarily due to a 13.1% decrease in the number of net contracts signed, offset, in part, by a 9.7% increase in the average value of each net contract. The decrease in the number of net contracts signed was primarily due to weakening in demand driven by uncertainty in the economy and world events, fragile consumer confidence and reduced affordability, and an extended period of limited real personal income growth. The increase in the average sales price of net contracts signed in fiscal 2014, as compared to fiscal 2013, was primarily attributable to a shift in the number of contracts signed to more expensive areas and/or products in fiscal 2014.

In fiscal 2014, we reported income before income taxes of \$57.0 million, as compared to \$32.7 million in fiscal 2013. This increase in income was primarily attributable to higher earnings from the increased revenues and \$3.1 million of earnings from land sales in fiscal 2014, offset, in part, by higher inventory impairment charges and higher SG&A in fiscal 2014, as compared to fiscal 2013. We recognized inventory impairment charges of \$9.1 million and \$1.8 million in fiscal 2014 and 2013, respectively. The increase in SG&A was due primarily to increased compensation, sales, and marketing costs, primarily due to the increase in the number of homes delivered.

MID-ATLANTIC

Revenues in fiscal 2014 were higher than those in fiscal 2013 by \$164.4 million, or 25.2%. The increase in revenues was primarily attributable to a 12.7% increase in the number of homes delivered and an 11.0% increase in the average selling price of the homes delivered. The increase in the number of homes delivered in fiscal 2014, as compared to fiscal 2013, was primarily due to a higher backlog at October 31, 2013, as compared to October 31, 2012, primarily in Maryland, Pennsylvania, and Virginia. The increase in the average price of homes delivered in fiscal 2014, as compared to fiscal 2013, was primarily attributable to a shift in the number of homes delivered to more expensive areas and/or products in fiscal 2014.

The value of net contracts signed during fiscal 2014 decreased by \$87.4 million, or 10.3%, from fiscal 2013. The decrease was due to a 13.7% decrease in the number of net contracts signed, partially offset by a 4.0% increase in the average value of each net contract. The decrease in the number of net contracts signed was primarily due to a decrease in the number of selling communities in Pennsylvania and a weakening in demand driven by uncertainty in the economy and world events, fragile consumer confidence and reduced affordability, and an extended period of limited real personal income growth. 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 2014.

We reported income before income taxes in fiscal 2014 and 2013 of \$79.0 million and \$79.8 million, respectively. The decrease in income before income taxes was primarily due to \$25.0 million in charges for stucco-related repairs in communities located in Pennsylvania and Delaware, higher

impairment charges, and higher SG&A costs in fiscal 2014, as compared to fiscal 2013, offset, in part, by higher earnings from the increased revenues and \$2.9 million of earnings from land sales in fiscal 2014. The earnings from land sales in fiscal 2014 represent previously deferred gains on our initial sales of properties to Trust II. Inventory impairment charges, in fiscal 2014 and 2013, were \$9.1 million and \$0.5 million, respectively.

SOUTH

Revenues in fiscal 2014 were higher than those in fiscal 2013 by \$195.2 million, or 30.4%. This increase was attributable to an 18.3% increase in the number of homes delivered and a 10.3% increase in the average price of the homes delivered. The increase in the number of homes delivered in fiscal 2014, as compared to fiscal 2013, was primarily due to a higher backlog at October 31, 2013, as compared to October 31, 2012. The increase in the average price of the homes delivered in fiscal 2014, as compared to fiscal 2013, was primarily attributable to a shift in the number of homes delivered to more expensive areas and/or products in fiscal 2014.

In fiscal 2014, the value of net contracts signed increased by \$54.8 million, or 6.6%, as compared to fiscal 2013. The increase was attributable to a 7.8% increase in the average value of net contracts signed, offset, in part, by a 1.1% decrease in the number of net contracts signed. 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 2014. The decrease in the number of net contracts signed in fiscal 2014, as compared to fiscal 2013, was primarily due to decreased demand in North Carolina, partially offset by increases in the number of net contracts signed in Texas.

We reported income before income taxes of \$113.6 million in fiscal 2014, as compared to \$67.9 million in fiscal 2013. The increase in income before income taxes was primarily due to higher earnings from the increased revenues, lower cost of revenues as a percent of revenues, and higher earnings from land sales, partially offset by higher SG&A costs, in fiscal 2014 as compared to fiscal 2013. The decrease in cost of revenues as a percentage of revenue in fiscal 2014, as compared to fiscal 2013, was due primarily to a change in product mix/areas to higher margin areas, lower interest, and increased prices in fiscal 2014, as compared to fiscal 2013. Earnings from land sales increased from \$1.4 million in fiscal 2013 to \$5.2 million in fiscal 2014.

WEST

Revenues in fiscal 2014 were higher than those in fiscal 2013 by \$148.2 million, or 40.0%. The increase in revenues was attributable to a 24.7% increase in the number of homes delivered and a 12.4% increase in the average price of the homes delivered. The increase in the number of homes delivered was primarily due to a higher backlog at October 31, 2013, as compared to October 31, 2012. 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 in fiscal 2014.

The value of net contracts signed during fiscal 2014 increased \$157.2 million, or 34.1%, as compared to fiscal 2013. This increase was due to a 24.3% increase in the number of net contracts signed and a 7.9% increase in the average value of each net contract signed. The increase in the number of net contracts signed was primarily due to an increase in selling communities in Colorado and Nevada in fiscal 2014, as compared to 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.

In fiscal 2014, we reported income before income taxes of \$78.8 million, as compared to \$42.7 million in fiscal 2013. The increase in income before income taxes was primarily due to higher earnings from increased revenues and lower cost of revenues as a percentage of revenues, offset, in part, by higher SG&A costs in fiscal 2014, as compared to fiscal 2013. The decrease in cost of revenues as a percentage of revenues in fiscal 2014 was primarily due to a shift in the number of homes delivered to better margin products and/or locations and lower interest.

CALIFORNIA

Revenues in fiscal 2014 were higher than those in fiscal 2013 by \$441.1 million, or 124.4%. The increase in revenues was attributable to a 100.0% increase in the number of homes delivered and a 12.0% increase in the average price of the homes delivered. The increase in the number of homes delivered was primarily due to the delivery of 334 homes in communities acquired from Shapell in the period from February 4, 2014 to October 31, 2014 and a higher backlog at October 31, 2013, as compared to October 31, 2012. 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 in fiscal 2014.

The value of net contracts signed during fiscal 2014 increased \$188.6 million, or 37.3%, as compared to fiscal 2013. This increase was due to a 55.1% increase in the number of net contracts signed, offset, in part, by an 11.5% decrease in the average value of each net contract signed. In fiscal 2014, we signed 328 contracts with a value of \$311.8 million at communities we acquired from Shapell. Excluding these Shapell communities, the value of net contracts signed during fiscal 2014 decreased \$123.2 million, or 24.4%, as compared to fiscal 2013. The decrease in the value of net contracts signed, excluding Shapell, was due to a decrease of 24.5% in the number of net contracts signed. The decrease in the number of net contracts signed, excluding Shapell, was primarily due to a reduction of available inventory in fiscal 2014, as compared to fiscal 2013.

In fiscal 2014, we reported income before income taxes of \$157.5 million, as compared to \$68.6 million in fiscal 2013. The increase in income before income taxes was primarily due to higher earnings from increased revenues and \$11.7 million of earnings from land sales in fiscal 2014, as compared to \$0.4 million in fiscal 2013, offset, in part, by higher cost of revenues as a percentage of revenues and higher SG&A costs in fiscal 2014, which includes \$6.1 million of expenses incurred in the Shapell acquisition. The increase in cost of revenues as a percentage of revenues in fiscal 2014 was primarily due to a shift in the number of homes delivered to lower margin products and/or locations and the impact of purchase accounting on the homes delivered in fiscal 2014 from the Acquisition.

City Living

Revenues in fiscal 2014 were higher than those in fiscal 2013 by \$110.7 million, or 64.9%. The increase in revenues was primarily attributable to a 92.7% increase in the number of homes delivered, offset, in part, by a decrease of 14.5% in the average selling price of the homes delivered. The increase in the number of homes delivered in fiscal 2014, as compared to fiscal 2013, was primarily due to an increase in homes delivered in the New Jersey and New York urban markets, which was primarily attributable to higher backlog at October 31, 2013, as compared to October 31, 2012. The decrease in the average price of homes delivered in fiscal 2014, as compared to fiscal 2013, was primarily attributable to a shift in the number of homes delivered to less expensive products and/or locations.

The value of net contracts signed in fiscal 2014 was \$269.2 million, a 6.2% decrease from the \$287.1 million of net contracts signed during fiscal 2013. This decrease was primarily due to a 25.3% decrease in the number of net contracts signed, offset, in part, by a 25.5% increase in the average value of each net contract. The decrease in the number of net contracts signed was primarily due to the commencement of sales at two of our high-rise buildings located in the New York and New Jersey urban markets in the second quarter of fiscal 2013 where sales were high during the initial opening period. The increase in the average sales price of net contracts signed was primarily due to the opening of two high-rise buildings located in Manhattan and the sale of the final unit at The Touraine, a high-rise building located in Manhattan, which had higher selling prices than other City Living locations.

In fiscal 2014, we reported income before income taxes of \$104.6 million, as compared to \$53.3 million in fiscal 2013. This increase in income was primarily attributable to higher earnings from increased revenues and lower cost of revenues as a percentage of revenues in fiscal 2014, as

compared to fiscal 2013, partially offset by a decrease in earnings from unconsolidated entities and higher SG&A in fiscal 2014, as compared to 2013. Cost of revenues as a percentage of revenues was 58.5% and 65.7% in fiscal 2014 and 2013, respectively. Earnings from unconsolidated entities decreased from income of \$1.2 million in fiscal 2013 to a loss of \$3.6 million in fiscal 2014. The decrease in cost of revenues as a percentage of revenue in fiscal 2014, as compared to fiscal 2013, was primarily due to the increase in the number of homes delivered at two of our high-rise buildings located in the New York and New Jersey urban markets, which had better margins than other City Living locations. The decrease in income from unconsolidated entities was due principally to a settled litigation at one of our unconsolidated entities resulting in a charge to our earnings of \$2.6 million in the fourth quarter of fiscal 2014.

Other

In fiscal 2014 and 2013, corporate and other loss before income taxes was \$85.9 million and \$77.3 million, respectively. The increase in the loss in fiscal 2014, as compared to fiscal 2013, was primarily due to \$13.2 million of income in fiscal 2013 from the settlement of litigation and higher SG&A in fiscal 2014, as compared to fiscal 2013, offset, in part, by an increase in earnings from unconsolidated entities from \$9.6 million in fiscal 2013 to \$42.0 million in fiscal 2014, and increased income from our Gibraltar operations in fiscal 2014, as compared to fiscal 2013. The increase in SG&A costs was due primarily to increased compensation costs due to our increased number of employees and higher insurance costs. The increase in income from unconsolidated entities was due primarily to our recognition of a \$23.5 million gain representing our share of the gain on the sale by Trust II of substantially all of its assets to an unrelated party in December 2013 and a \$12.0 million distribution from the Trust in April 2014 due to the refinancing of one of the Trust's apartment properties. The increase attributable to the Trust and Trust II gains was partially offset by lower income realized from Gibraltar's Structured Asset Joint Venture.

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 our fixed-rate debt until we are required or elect to refinance it.

The following table shows our debt obligations, principal cash flows by scheduled maturity, weighted-average interest rates, and estimated fair value as of October 31, 2015 (\$ amounts in thousands):

Fiscal year of maturity	Fixed-rate debt		Variable-rate debt (a)	
	Amount	Weighted-average interest rate (%)	Amount	Weighted-average interest rate (%)
2016	\$ 66,347	4.07%	\$ 100,150	2.19%
2017	419,330	8.67%	150	0.15%
2018	14,391	3.43%	350,150	1.70%
2019	360,385	3.98%	500,150	1.60%
2020	253,140	6.73%	150	0.15%
Thereafter (b)	1,731,375	4.40%	13,360	0.15%
Discount and issuance costs	(18,838)			
Total	\$ 2,826,130	5.17%	\$ 964,110	1.68%
Fair value at October 31, 2015	\$ 3,014,295		\$ 964,110	

(a) Based upon the amount of variable-rate debt outstanding at October 31, 2015, and holding the variable-rate debt balance constant, each 1% increase in interest rates would increase the interest incurred by us by approximately \$9.6 million per year.

(b) The fixed-rate debt amount includes \$287.5 million principal amount of 0.5% Exchangeable Senior Notes. The 0.5% Exchangeable Senior Notes are exchangeable into shares of our 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 common stock. Holders of the 0.5% Exchangeable 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. We will have the right to redeem the 0.5% Exchangeable Senior Notes on or after September 15, 2017, for cash equal to 100% of their principal amount, plus accrued but unpaid interest.

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 (2013 Framework). 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, 2015.

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, 2015, based on criteria established in Internal Control—Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 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, 2015, 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, 2015 and 2014, and the related consolidated statements of operations and comprehensive income, changes in equity, and cash flows for each of the three years in the period ended October 31, 2015 and our report dated December 21, 2015 expressed an unqualified opinion thereon.



Philadelphia, Pennsylvania
December 21, 2015

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, 2015 and 2014, and the related consolidated statements of operations and comprehensive income, changes in equity, and cash flows for each of the three years in the period ended October 31, 2015. 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, 2015 and 2014, and the consolidated results of its operations and its cash flows for each of the three years in the period ended October 31, 2015, 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, 2015, based on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 framework) and our report dated December 21, 2015 expressed an unqualified opinion thereon.



Philadelphia, Pennsylvania
December 21, 2015

CONSOLIDATED BALANCE SHEETS (Amounts in thousands)

	October 31,	
	2015	2014
ASSETS		
Cash and cash equivalents	\$ 918,993	\$ 586,315
Marketable securities	10,001	12,026
Restricted cash	16,795	18,342
Inventory	6,997,516	6,490,321
Property, construction, and office equipment, net	136,755	143,010
Receivables, prepaid expenses, and other assets	284,130	233,127
Mortgage loans held for sale	123,175	101,944
Customer deposits held in escrow	56,105	42,073
Investments in unconsolidated entities	412,860	447,078
Investments in foreclosed real estate and distressed loans	51,730	73,800
Deferred tax assets, net of valuation allowances	198,455	250,421
	\$ 9,206,515	\$ 8,398,457
LIABILITIES AND EQUITY		
Liabilities		
Loans payable	\$ 1,000,439	\$ 652,619
Senior notes	2,689,801	2,638,241
Mortgage company loan facility	100,000	90,281
Customer deposits	284,309	223,799
Accounts payable	236,953	225,347
Accrued expenses	608,066	581,477
Income taxes payable	58,868	125,996
Total liabilities	4,978,436	4,537,760
Equity		
Stockholders' equity		
Preferred stock, none issued	—	—
Common stock, 177,931 and 177,930 shares issued at October 31, 2015 and 2014, respectively	1,779	1,779
Additional paid-in capital	728,125	712,162
Retained earnings	3,595,202	3,232,035
Treasury stock, at cost — 3,084 and 2,884 shares at October 31, 2015 and 2014, respectively	(100,040)	(88,762)
Accumulated other comprehensive loss	(2,509)	(2,838)
Total stockholders' equity	4,222,557	3,854,376
Noncontrolling interest	5,522	6,321
Total equity	4,228,079	3,860,697
	\$ 9,206,515	\$ 8,398,457

See accompanying notes.

CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE INCOME

(Amounts in thousands, except per share data)

	Year ended October 31,		
	2015	2014	2013
Revenues	\$ 4,171,248	\$ 3,911,602	\$ 2,674,299
Cost of revenues	3,269,270	3,081,837	2,133,300
Selling, general and administrative	455,108	432,516	339,932
	3,724,378	3,514,353	2,473,232
Income from operations	446,870	397,249	201,067
Other:			
Income from unconsolidated entities	21,119	41,141	14,392
Other income – net	67,573	66,192	52,238
Income before income taxes	535,562	504,582	267,697
Income tax provision	172,395	164,550	97,091
Net income	\$ 363,167	\$ 340,032	\$ 170,606
Other comprehensive income (loss), net of tax:			
Change in pension liability	311	(677)	2,334
Change in fair value of available-for-sale securities	2	3	(186)
Change in unrealized income on derivative held by equity investee	16	223	284
Other comprehensive income (loss)	329	(451)	2,432
Total comprehensive income	\$ 363,496	\$ 339,581	\$ 173,038
Income per share:			
Basic	\$ 2.06	\$ 1.91	\$ 1.01
Diluted	\$ 1.97	\$ 1.84	\$ 0.97
Weighted-average number of shares:			
Basic	176,425	177,578	169,288
Diluted	184,703	185,875	177,963

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, 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 and stock based compensation issuances	654	7	17,996		15,998			34,001
Employee stock purchase plan issuances	9		222		362			584
Stock-based compensation			19,041					19,041
Other comprehensive income						2,432		2,432
Loss attributable to noncontrolling 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
Net income				340,032				340,032
Issuance of common stock	7,188	72	220,366					220,438
Purchase of treasury stock					(90,754)			(90,754)
Exercise of stock options and stock based compensation issuances	1,389	13	28,197		1,543			29,753
Employee stock purchase plan issuances			266		449			715
Stock-based compensation			21,656					21,656
Other comprehensive loss						(451)		(451)
Loss attributable to noncontrolling interest							(28)	(28)
Capital contribution							172	172
Balance, October 31, 2014	177,930	1,779	712,162	3,232,035	(88,762)	(2,838)	6,321	3,860,697
Net income				363,167				363,167
Purchase of treasury stock					(56,888)			(56,888)
Exercise of stock options and stock based compensation issuances	1		(6,956)		44,782			37,826
Employee stock purchase plan issuances			16		828			844
Stock-based compensation			22,903					22,903
Other comprehensive income						329		329
Loss attributable to noncontrolling interest							(14)	(14)
Distribution							(785)	(785)
Balance, October 31, 2015	177,931	1,779	728,125	3,595,202	(100,040)	(2,509)	5,522	4,228,079

See accompanying notes.

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

	Year Ended October 31,				Year Ended October 31,		
	2015	2014	2013		2015	2014	2013
Cash flow provided by (used in) operating activities:				Cash flow (used in) provided by investing activities:			
Net income	\$ 363,167	\$ 340,032	\$ 170,606	Purchase of property and equipment — net	(9,447)	(15,074)	(26,567)
Adjustments to reconcile net income to net cash provided by (used in) operating activities:				Purchase of marketable securities			(36,202)
Depreciation and amortization	23,557	22,999	25,210	Sale and redemption of marketable securities	2,000	40,242	417,846
Stock-based compensation	22,903	21,656	19,041	Investments in unconsolidated entities	(123,940)	(113,029)	(93,398)
Excess tax benefits from stock-based compensation	(1,628)	(7,593)	(24,417)	Return of investments in unconsolidated entities	39,766	73,845	69,809
Income from unconsolidated entities	(21,119)	(41,141)	(14,392)	Investment in foreclosed real estate and distressed loans	(2,624)	(2,089)	(26,155)
Distributions of earnings from unconsolidated entities	19,459	43,973	23,468	Return of investments in foreclosed real estate and distressed loans	37,625	53,130	27,370
Income from foreclosed real estate and distressed loans	(13,269)	(15,833)	(16,312)	Net increase in cash from purchase of joint venture interest	3,848		
Deferred tax provision	62,084	47,431	75,219	Acquisition of a business, net of cash acquired		(1,489,116)	
Change in deferred tax valuation allowances	(12,642)	(11,929)	(1,337)	Net cash (used in) provided by investing activities	(52,772)	(1,452,091)	332,703
Inventory impairments and write-offs	35,709	20,678	4,523	Cash flow provided by financing activities:			
Other	(316)	(22)	117	Proceeds from issuance of senior notes	350,000	600,000	400,383
Changes in operating assets and liabilities				Debt issuance costs for senior notes	(3,175)	(4,739)	
Increase in inventory	(351,983)	(271,982)	(941,314)	Proceeds from loans payable	1,954,432	2,229,371	1,164,531
Origination of mortgage loans	(1,029,112)	(818,515)	(743,497)	Debt issuance costs for loans payable		(3,063)	
Sale of mortgage loans	1,007,671	829,948	716,586	Principal payments of loans payable	(1,659,458)	(1,767,115)	(1,195,524)
Decrease in restricted cash	1,547	13,694	15,240	Redemption of senior notes	(300,000)	(267,960)	(163,853)
Increase in receivables, prepaid expenses, and other assets	(55,553)	(5,214)	(51,794)	Net proceeds from issuance of common stock		220,365	
Increase in customer deposits	46,478	10,516	52,383	Proceeds from stock-based benefit plans	39,514	28,364	15,798
Increase in accounts payable and accrued expenses	28,729	82,101	100,463	Excess tax benefits from stock-based compensation	1,628	7,593	24,417
(Decrease) increase in income taxes payable	(65,500)	52,401	21,244	Purchase of treasury stock	(56,888)	(90,754)	(15,377)
Net cash provided by (used in) operating activities	60,182	313,200	(568,963)	(Payments) receipts related to noncontrolling interest, net	(785)	172	33
				Net cash provided by financing activities	325,268	952,234	230,408
				Net increase (decrease) in cash and cash equivalents	332,678	(186,657)	(5,852)
				Cash and cash equivalents, beginning of period	586,315	772,972	778,824
				Cash and cash equivalents, end of period	\$ 918,993	\$ 586,315	\$ 772,972

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," "we," "us," or "our"), 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 we have effective control of the entity, in which case we would consolidate the entity.

References herein to fiscal year refer to our fiscal years ended or ending October 31.

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.

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.

We capitalize certain interest costs to qualified inventory during the development and construction period of our 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 and Comprehensive Income in the period incurred.

Once a parcel of land has been approved for development and we open one of our 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. Our master planned communities, consisting of several smaller communities, may take up to 10 years or more to complete. Because our inventory is considered a long-lived asset under GAAP, we are required, under ASC 360, to regularly review the carrying value of each community and write down the value of those communities for which we believe the values are not recoverable.

OPERATING COMMUNITIES: When the profitability of an operating 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, 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: We evaluate all land held for future communities or future sections of operating communities, whether owned or under contract, 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 operating 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, 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 owned, 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.

Variable Interest Entities

We are required to consolidate variable interest entities (“VIEs”) in which we have 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.

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

We have a significant number of land purchase contracts and several investments in unconsolidated entities which we evaluate in accordance with ASC 810. We analyze our land purchase contracts and the unconsolidated entities in which we have an investment to determine whether the land sellers and unconsolidated entities are VIEs and, if so, whether we are the primary beneficiary. We examine specific criteria and use our judgment when determining if we are the primary beneficiary of a VIE. Factors considered in determining whether we are 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 us and the other member(s), and contracts to purchase assets from VIEs. The determination whether an entity is a VIE and, if so, whether we are the 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 \$138.7 million and \$171.1 million at October 31, 2015 and 2014, respectively. Depreciation is recorded using the straight-line method over the estimated useful lives of the assets. In fiscal 2015, 2014, and 2013, we recognized \$15.7 million, \$13.4 million, and \$10.8 million of depreciation expense, respectively.

Mortgage Loans Held for Sale

Residential mortgage loans held for sale are measured at fair value in accordance with the provisions of ASC 825, “Financial Instruments” (“ASC 825”). We believe 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, we determine the fair value of our mortgage loans held for sale and the forward loan commitments we have entered into as a hedge against the interest rate risk of our 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 such pricing is applied to the mortgage loan portfolio. We recognize the difference between the fair value and the unpaid principal balance of mortgage loans held for sale as a gain or loss. In addition, we recognize the fair value of our 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 and Comprehensive Income.

Investments in Unconsolidated Entities

In accordance with ASC 323, “Investments—Equity Method and Joint Ventures,” 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 the investment to determine if the loss is other than temporary, in which case we write down the investment to its fair value. The evaluation of our investment in unconsolidated entities entails a detailed cash flow analysis using many estimates, including, but not limited to, expected sales pace, expected sales prices, expected incentives, costs incurred and anticipated, sufficiency of financing and capital, competition, market conditions, and anticipated cash receipts, in order to determine projected future distributions. In addition, for rental properties, we review rental trends, expected future expenses, and expected cash flows to determine estimated fair values of the properties.

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 income from unconsolidated entities 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 ventures. 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, at the time of purchase; instead, our cost basis in those home sites is reduced by our share of the earnings realized by the joint venture from sales of those home sites to us.

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

Investments in Foreclosed Real Estate and Distressed Loans

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. 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. For the years ended October 31, 2015, 2014, and 2013, we recorded impairments on REO of \$0.8 million, \$1.4 million, and \$0.5 million, respectively.

INVESTMENTS IN DISTRESSED LOANS: Our investments in distressed loans represent nonperforming loans classified as nonaccrual in accordance with ASC 310-10, “Receivable” (“ASC 310-10”). Interest income is not recognized on nonaccrual loans. When a loan is classified as nonaccrual, any subsequent cash receipt is accounted for using the cost recovery method. As part of our disposition strategy for the loan portfolios, we may sell certain loans to third-party purchasers. We recognize gains or losses on the sale of mortgage loans when the loans have been legally isolated from us and we no longer maintain effective control over the transferred assets.

Fair Value Disclosures

We use 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 that 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

Revenues and cost of revenues from home sales are recorded at the time each home is delivered and title and possession are transferred to the buyer.

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

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

FORFEITED CUSTOMER DEPOSITS: Forfeited customer deposits are recognized in “Other income – net” in our Consolidated Statements of Operations and Comprehensive Income in the period in which we determine that the customer will not complete the purchase of the home and we have the right to retain the deposit.

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

Advertising Costs

We expense advertising costs as incurred. Advertising costs were \$18.2 million, \$15.6 million, and \$11.6 million for the years ended October 31, 2015, 2014, and 2013, respectively.

Warranty and Self-Insurance

WARRANTY: We provide all of our home buyers with a limited warranty as to workmanship and mechanical equipment. We also provide many of our home buyers with a limited 10-year warranty as to structural integrity. We accrue 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. Adjustments to our warranty liabilities related to homes delivered in prior years are recorded in the period in which a change in our estimate occurs.

SELF-INSURANCE: We maintain, and require the majority of our subcontractors to maintain, general liability insurance (including construction defect and bodily injury coverage) and workers’ compensation insurance. These insurance policies protect us against a portion of our risk of loss from claims related to our home building activities, subject to certain self-insured retentions, deductibles and other coverage limits (“self-insured liability”). We also provide general liability insurance for our subcontractors in Arizona, California, Nevada, and Washington, where eligible subcontractors are enrolled as insureds under our general liability insurance policies in each community in which they perform work. For those enrolled subcontractors, we absorb their general liability associated with the work performed on our homes within the applicable community as part of our overall general liability insurance and our self-insurance through our captive insurance subsidiary.

We record expenses and liabilities based on the estimated costs required to cover our self-insured liability and the estimated costs of potential claims and claim adjustment expenses that are above our coverage limits or that are not covered by our insurance policies. These estimated costs are based on an analysis of our historical claims and industry data, and include an estimate of claims incurred but not yet reported (“IBNR”).

We engage a third-party actuary that uses our historical claim and expense data, input from our internal legal and risk management groups, as well as industry data, to estimate our liabilities related to unpaid claims, IBNR associated with the risks that we are assuming for our self-insured liability, and other required costs to administer current and expected claims. These estimates are subject to uncertainty due to a variety of factors, the most significant being the long period of time between the delivery of a home to a home buyer and when a structural warranty or construction defect claim is made, and the ultimate resolution of the claim. Though state regulations vary, construction defect claims are reported and resolved over a prolonged period of time, which can extend for 10 years or longer. As a result, the majority of the estimated liability relates to IBNR. Adjustments to our liabilities related to homes delivered in prior years are recorded in the period in which a change in our estimate occurs.

The projection of losses related to these liabilities requires actuarial assumptions that are subject to variability due to uncertainties regarding construction defect claims relative to our markets and the types of product we build, insurance industry practices, and legal or regulatory actions and/or interpretations, among other factors. Key assumptions used in these estimates include claim frequencies, severities, and settlement patterns, which can occur over an extended period of time.

In addition, changes in the frequency and severity of reported claims and the estimates to settle claims can impact the trends and assumptions used in the actuarial analysis, which could be material to our consolidated financial statements. Due to the degree of judgment required, and the potential for variability in these underlying assumptions, our actual future costs could differ from those estimated, and the difference could be material to our consolidated financial statements.

Stock-Based Compensation

We account for our stock-based compensation in accordance with ASC 718, "Compensation – Stock Compensation" ("ASC 718"). We use a lattice model for the valuation for our 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 "Selling, general and administrative" expense in our Consolidated Statements of Operations and Comprehensive Income.

Income Taxes

We account 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, we assess the realizability of our 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 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 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 and evaluating tax positions. We establish reserves for income taxes when, despite the belief that our tax positions are fully supportable, we believe that our positions may be challenged and disallowed by various tax authorities. The consolidated tax provisions 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 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. Our inability 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 we have taken.

If a tax position does not meet the more-likely-than-not recognition threshold, despite our belief that our filing position is supportable, the benefit of that tax position is not recognized in the Consolidated Statements of Operations and Comprehensive Income and we are 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. Differences between amounts taken in a tax return and amounts recognized in the financial statements are considered unrecognized tax benefits. We believe that we have a reasonable basis for each of our filing positions and intend to defend those positions if challenged by the IRS or other taxing jurisdiction. If the IRS or other taxing authorities do not disagree with our position, and after the statute of limitations expires, we 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. 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.

Segment Reporting

We operate in two segments: traditional home building and urban infill. We build and sell homes for detached and attached homes in luxury residential communities located in affluent suburban markets and cater to move-up, empty-nester, active-adult, age-qualified, and second-home buyers in the United States ("Traditional Home Building"). We also build and sell homes in urban infill markets through Toll Brothers City Living® ("City Living").

We have determined that our Traditional Home Building operations operate in five geographic segments: North, Mid-Atlantic, South, West, and California.

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, Colorado, Nevada, and Washington
CALIFORNIA:	California

Prior to October 31, 2015, California was included in the West geographic segment. Due to the increase in our assets and operations in California, it is now presented as a separate geographic segment. Amounts reported in prior years have been reclassified to conform to the fiscal 2015 presentation.

Related Party Transactions

See Note 4, "Investments in Unconsolidated Entities - Rental Property Joint Ventures" for information regarding Toll Brothers Realty Trust ("Trust").

Reclassification

Certain prior period amounts have been reclassified to conform to the fiscal 2015 presentation.

Recent Accounting Pronouncements

In April 2015, the FASB issued Accounting Standards Update ("ASU") No. 2015-03, "Interest—Imputation of Interest (Subtopic 835-30): Simplifying the Presentation of Debt Issuance Costs" ("ASU 2015-03"), which requires debt issuance costs related to a recognized debt liability to be presented in the balance sheet as a direct deduction from the debt liability rather than as an asset. We adopted ASU 2015-03 on October 31, 2015 and we applied the new guidance retrospectively to all prior periods presented in the financial statements. As a result of the adoption of ASU 2015-03, \$18.4 million of deferred debt issuance costs at October 31, 2014 were reclassified from "Receivables, prepaid expenses, and other assets" to "Loans payable" or "Senior notes," as appropriate, in our Consolidated Balance Sheets. See Note 6, "Loans Payable, Senior Notes, and Mortgage Company Loan Facility" for additional information.

In July 2013, the FASB issued ASU No. 2013-11, "Presentation of an Unrecognized Tax Benefit When a Net Operating Loss Carryforward, a Similar Tax Loss, or a Tax Credit Carryforward Exists" ("ASU 2013-11"). ASU 2013-11 is intended to end inconsistent practices regarding the presentation of unrecognized tax benefits when a net operating loss, a similar tax loss, or a tax credit carryforward is available to reduce the taxable income or tax payable that would result from the disallowance of a tax position. We adopted ASU 2013-11 on November 1, 2014, and the adoption did not have a material effect on our consolidated financial statements or disclosures.

In April 2013, the FASB issued ASU No. 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. We adopted ASU 2013-04 on November 1, 2014, and the adoption did not have a material effect on our consolidated financial statements or disclosures.

In February 2015, the FASB issued ASU No. 2015-02, "Consolidation (Topic 810): Amendments to the Consolidation Analysis" ("ASU 2015-02"), which eliminates the deferral granted to investment companies from applying the variable interest entities ("VIEs") guidance and makes targeted amendments to the current consolidation guidance. The new guidance applies to all entities

involved with limited partnerships or similar entities and will require re-evaluation of these entities under the revised guidance which may change previous consolidation conclusions. ASU 2015-02 is effective for us beginning February 1, 2016, and, at that time, we may adopt the new standard retrospectively or use a modified retrospective approach. Early adoption is permitted. We are currently evaluating the impact the adoption of ASU 2015-02 will have on our consolidated financial statements and disclosures.

In May 2014, the FASB issued ASU No. 2014-09, "Revenue from Contracts with Customers" ("ASU 2014-09"), which provides guidance for revenue recognition. ASU 2014-09 affects any entity that either enters into contracts with customers to transfer goods or services or enters into contracts for the transfer of nonfinancial assets and supersedes the revenue recognition requirements in Topic 605, "Revenue Recognition," and most industry-specific guidance. ASU 2014-09 also supersedes some cost guidance included in Subtopic 605-35, "Revenue Recognition—Construction-Type and Production-Type Contracts." The standard's core principle is that a company will recognize revenue when it transfers promised goods or services to customers in an amount that reflects the consideration to which a company expects to be entitled in exchange for those goods or services. In doing so, companies will need to use more judgment and make more estimates than under the current guidance. These judgments and estimates include identifying performance obligations in the contract, estimating the amount of variable consideration to include in the transaction price, and allocating the transaction price to each separate performance obligation. In August 2015, the FASB issued ASU 2015-14 "Revenue from Contracts with Customers" ("ASU 2015-14"), which delays the effective date of ASU 2014-09 by one year. ASU 2014-09, as amended by ASU 2015-14, is effective for us beginning November 1, 2018, and, at that time, we may adopt the new standard under the full retrospective approach or the modified retrospective approach. We are currently evaluating the method of adoption and the impact the adoption of ASU 2014-09 will have on our consolidated financial statements and disclosures.

In January 2014, the FASB issued ASU No. 2014-04, "Receivables - Troubled Debt Restructurings by Creditors" ("ASU 2014-04"), which clarifies when in substance repossession or foreclosure of residential real estate property collateralizing a consumer mortgage loan has occurred. By doing so, this guidance helps determine when the creditor should derecognize the loan receivable and recognize the real estate property. ASU 2014-04 is effective prospectively for us beginning November 1, 2015. The adoption of ASU 2014-04 is not expected to have a material effect on our consolidated financial statements or disclosures.

2. ACQUISITION

Shapell Industries, Inc.

On February 4, 2014, we completed our acquisition of Shapell Industries, Inc. ("Shapell") pursuant to the Purchase and Sale Agreement (the "Purchase Agreement") dated November 6, 2013, with Shapell Investment Properties, Inc. ("SIPI"). We acquired all of the equity interests in Shapell from SIPI for \$1.49 billion, net of cash acquired (the "Acquisition"). We acquired the single-family residential real property development business of Shapell, including a portfolio of approximately 4,950 home sites in California, some of which we have sold to other builders. The Acquisition provides us with a premier California land portfolio, including 11 active selling communities as of the acquisition date, in affluent, high-growth markets: the San Francisco Bay area, metro Los Angeles, Orange County, and the Carlsbad market. As part of the Acquisition, we assumed contracts to deliver 126 homes with an aggregate value of approximately \$105.3 million.

We did not acquire the apartment and commercial rental properties owned and operated by Shapell (the "Shapell Commercial Properties") or Shapell's mortgage lending activities relating to its home building operations. Accordingly, the Purchase Agreement provides that SIPI will indemnify us for any loss arising out of or resulting from, among other things, (i) any liability (other

than environmental losses, subject to certain exceptions) related to the Shapell Commercial Properties, and (ii) any liability (other than environmental losses, subject to certain exceptions) to the extent related to Shapell Mortgage, Inc.

We financed the Acquisition with a combination of \$370.0 million of borrowings under our \$1.035 billion unsecured revolving credit facility, \$485.0 million from a term loan facility, and \$815.7 million in net proceeds from debt and equity financings completed in November 2013. See Note 6, "Loans Payable, Senior Notes, and Mortgage Company Loan Facility" and Note 9, "Stockholders' Equity" of our consolidated financial statements for further details. As a result of the Acquisition, Shapell became our wholly owned subsidiary. Accordingly, the Shapell results are included in our consolidated financial statements from the date of the Acquisition. For the period from February 4, 2014, to October 31, 2014, revenues and operating income from the Shapell operations, excluding \$5.3 million of acquisition-related costs, were \$300.8 million and \$37.2 million, respectively.

The Acquisition was accounted for in accordance with ASC 805, "Business Combinations" ("ASC 805"), and, therefore, the acquired assets and assumed liabilities were recorded by us at their estimated fair values. The following table summarizes the amounts for acquired assets and liabilities recorded at their fair values as of the acquisition date (amounts in thousands):

ASSETS ACQUIRED AND LIABILITIES ASSUMED	
Cash and cash equivalents	\$ 106,233
Inventory	1,513,801
Property, construction, and office equipment, net	404
Receivables, prepaid expenses, and other assets	10,759
Total assets acquired	1,631,197
Customer deposits	(5,429)
Accounts payable and accrued liabilities	(30,419)
Total liabilities assumed	(35,848)
Total net assets acquired	\$ 1,595,349

Cash and cash equivalents, customer deposits, and accounts payable were generally stated at historical carrying values given the short-term nature of these assets and liabilities. Receivables, prepaid expenses, and other assets and accrued expenses were adjusted to reflect fair values.

We determined the fair value of inventory on a community-by-community basis primarily using a combination of discounted cash flow models and market comparable land transactions, where available. These estimated cash flows are significantly impacted by estimates related to (i) expected selling prices, (ii) expected settlement paces, (iii) expected land development and construction timelines, and anticipated land development costs and construction costs, and (iv) overhead costs expected to be incurred in the future. Such estimates must be made for each individual community and may vary significantly between communities. See Note 1, "Significant Accounting Policies - Inventory" for additional discussion of the factors impacting the fair value of inventory.

We recorded \$6.1 million and \$1.4 million in acquisition-related costs during the years ended October 31, 2014 and 2013, respectively, which are included in the Consolidated Statements of Operations and Comprehensive Income within "Selling, general and administrative." Such costs were expensed as incurred in accordance with ASC 805. There were no acquisition-related costs incurred in the year ended October 31, 2015.

Supplemental Pro Forma Information – Shapell

The following presents unaudited pro forma data for the years ended October 31, 2014 and 2013, as if the Acquisition had been completed as of November 1, 2012 (amounts in thousands, except per share data):

	2014	2013
Revenues	\$ 4,045,101	\$ 3,102,076
Net income	\$ 381,855	\$ 202,746
Income per share – basic	\$ 2.15	\$ 1.15
Income per share – diluted	\$ 2.06	\$ 1.09

The unaudited pro forma operating results have been determined after adjusting the operating results of Shapell to reflect the purchase accounting and other acquisition adjustments, including interest expense associated with the debt used to fund a portion of the acquisition. The unaudited pro forma results do not reflect any cost savings, operating synergies, or revenue enhancements that we may achieve as a result of the Acquisition, the costs to integrate Shapell's operations, or the costs necessary to achieve these cost savings, operating synergies, and revenue enhancements. Accordingly, the unaudited pro forma amounts are for comparative purposes only and may not necessarily reflect the results of operations that would have resulted had the Acquisition been completed at the beginning of the applicable period or be indicative of the results that will be attained in the future.

Certain other adjustments, including those related to conforming accounting policies and interest capitalization, have not been reflected in the supplemental pro forma operating results due to the impracticability of estimating such impacts.

3. INVENTORY

Inventory at October 31, 2015 and 2014 consisted of the following (amounts in thousands):

	2015	2014
Land controlled for future communities	\$ 75,214	\$ 122,533
Land owned for future communities	2,033,447	2,355,874
Operating communities	4,888,855	4,011,914
	\$ 6,997,516	\$ 6,490,321

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 12 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 and that do not have any remaining backlog and are not expected to reopen within 12 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 our home buyers ("backlog").

Information regarding the classification, number, and carrying value of these temporarily closed communities at October 31, 2015, 2014, and 2013, is provided in the table below (\$ amounts in thousands):

	2015	2014	2013
Land owned for future communities:			
Number of communities	15	16	25
Carrying value (in thousands)	\$ 119,138	\$ 122,015	\$ 153,498
Operating communities:			
Number of communities	11	9	15
Carrying value (in thousands)	\$ 63,668	\$ 42,092	\$ 88,534

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, 2015, 2014, and 2013, as shown in the table below (amounts in thousands):

	2015	2014	2013
Charge:			
Land controlled for future communities	\$ 809	\$ 3,123	\$ 1,183
Land owned for future communities	12,600		
Operating communities	22,300	17,555	3,340
	\$ 35,709	\$ 20,678	\$ 4,523

See Note 12, "Fair Value Disclosures," for information regarding the number of operating communities that we tested for potential impairment, the number of operating communities in which we 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, 2015, we evaluated our land purchase contracts to determine if any of the selling entities were VIEs, and, if they were, whether we were the primary beneficiary of any of them. Under these land purchase contracts, we do not possess legal title to the land; our risk is generally limited to deposits paid to the sellers; and the creditors of the sellers generally have no recourse against us. At October 31, 2015, we determined that 61 land purchase contracts, with an aggregate purchase price of \$663.6 million, on which we had made aggregate deposits totaling \$45.0 million, were VIEs and that we were not the primary beneficiary of any VIE related to our land purchase contracts. At October 31, 2014, we determined that 63 land purchase contracts, with an aggregate purchase price of \$578.2 million, on which we had made aggregate deposits totaling \$30.7 million, were VIEs, and that we were not the primary beneficiary of any VIE related to our land purchase contracts.

Interest incurred, capitalized, and expensed in each of the three fiscal years ended October 31, 2015, 2014, and 2013, was as follows (amounts in thousands):

	2015	2014	2013
Interest capitalized, beginning of year	\$ 356,180	\$ 343,077	\$ 330,581
Interest incurred	155,170	163,815	134,198
Interest expensed to cost of revenues	(142,947)	(137,457)	(112,321)
Write-off against other income	(3,843)	(5,394)	(2,917)
Interest capitalized on investments in unconsolidated entities	(7,467)	(9,672)	(6,464)
Previously capitalized interest on investments in unconsolidated entities transferred to inventory	16,035	1,811	
Interest capitalized, end of year	\$ 373,128	\$ 356,180	\$ 343,077

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. We estimate that, had inventory impairment charges been allocated on a pro rata basis to the individual components of inventory, capitalized interest at October 31, 2015, 2014, and 2013, would have been reduced by approximately \$32.7 million, \$33.1 million, and \$38.2 million, respectively.

During fiscal 2015, we transferred \$132.3 million from investment in unconsolidated entities to inventory. See Note 4, "Investments in and Advances to Unconsolidated Entities - Homebuilding Joint Ventures" for additional information.

During fiscal 2014, we contributed \$4.2 million of inventory and other assets to several unconsolidated entities.

During fiscal 2014, we reclassified \$9.5 million of inventory related to commercial retail space located in our high-rise projects to property, construction, and office equipment. The amounts were reclassified due to the substantial completion of these projects.

4. INVESTMENTS IN UNCONSOLIDATED ENTITIES

We have investments in various unconsolidated entities. These joint ventures (i) develop land for the joint venture participants and for sale to outside builders (“Land Development Joint Ventures”); (ii) develop for-sale homes (“Home Building Joint Ventures”); (iii) develop luxury for-rent residential apartments, commercial space and a hotel (“Rental Property Joint Ventures”); and (iv) invest in a portfolio of distressed loans and real estate (“Structured Asset Joint Venture”). In fiscal 2015, 2014 and 2013, we recognized income from the unconsolidated entities in which we had an investment of \$21.1 million, \$41.1 million, and \$14.4 million, respectively.

The table below provides information as of October 31, 2015, regarding active joint ventures that we are invested in, by joint venture category (\$ amounts in thousands):

	Land Development Joint Ventures	Home Building Joint Ventures	Rental Property Joint Ventures	Structured Asset Joint Venture	Total
Number of unconsolidated entities	7	3	10	1	21
Investment in unconsolidated entities	\$ 214,060	\$ 76,120	\$ 110,454	\$ 12,226	\$ 412,860
Number of unconsolidated entities with funding commitments by the Company	5	2	4	—	11
Company's remaining funding commitment to unconsolidated entities (a)	\$ 162,022	\$ 23,012	\$ 10,559	\$ —	\$ 195,593

(a) The remaining funding commitment for our Land Development Joint Ventures excludes \$90.0 million, which one of the joint ventures expects to fund through outside financing.

Certain joint ventures in which we have investments obtained debt financing to finance a portion of their activities. The table below provides information at October 31, 2015, regarding the debt financing obtained by category (\$ amounts in thousands):

	Land Development Joint Ventures	Home Building Joint Ventures	Rental Property Joint Ventures	Total
Number of joint ventures with debt financing	4	2	9	15
Aggregate loan commitments	\$ 505,000	\$ 222,000	\$ 780,835	\$ 1,507,835
Amounts borrowed under commitments	\$ 415,924	\$ 111,136	\$ 514,895	\$ 1,041,955

More specific and/or recent information regarding our investments in, advances to, and future commitments to these entities is provided below.

Land Development Joint Ventures

See Note 15, “Commitments and Contingencies,” for information regarding land purchase agreements that we have with our Land Development Joint Ventures

In the fourth quarter of fiscal 2015, we entered into a joint venture with an unrelated party to purchase and develop a parcel of land in Irvine, California. The joint venture expects to develop approximately 840 home sites on the land in multiple phases. We have a 50% interest in this joint venture. The current plan is to develop the property and sell approximately 50% of the value of the home sites to each of the members of the joint venture. At October 31, 2015, we had an investment of \$76.8 million in this joint venture and were committed to make additional contributions to this joint venture of up to \$130.7 million. To finance a portion of the land acquisition, the joint venture entered into a \$320.0 million purchase money mortgage with the seller.

In the first quarter of fiscal 2015, we obtained approximately 48 home sites from a Land Development Joint Venture in consideration of our previous investment in the joint venture. In the third quarter of fiscal 2014, we received approximately 515 home sites from this venture. We have a commitment to this joint venture to fund approximately \$17.0 million, which represents our expected share of the major infrastructure improvements related to this community. Contributions to this joint venture related to the improvements will be included in “Inventory” in our Consolidated Balance Sheets when they are actually made.

In the first quarter of fiscal 2014, we entered into a joint venture with an unrelated party to develop a parcel of land in Texas. The joint venture expects to develop a master planned community consisting of up to 6,800 home sites and sell groups of lots to us and to other home builders. At October 31, 2015, the joint venture owned approximately 6,300 home sites. We have a 50% interest in this joint venture. Prior to the formation of the joint venture, we had entered into a land purchase agreement to acquire the land for approximately \$79.3 million. We contributed our rights under the purchase agreement to the joint venture and were reimbursed by our joint venture partner for 50% of the costs we incurred prior to the formation of the joint venture. At October 31, 2015, we had an investment of \$43.5 million in this joint venture. In May 2014, the joint venture obtained outside financing of \$40.0 million to help fund the future development of the property. At October 31, 2015, the joint venture had \$10.0 million of borrowing under the loan facility.

In the fourth quarter of fiscal 2013, we entered into a joint venture with an unrelated party to develop a parcel of land in Maryland. The property consists of 945 acres that the joint venture expects to develop into approximately 1,300 home sites. We have 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. At October 31, 2015, we had an investment of \$12.2 million in this joint venture.

In the second quarter of fiscal 2013, we 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 lots. We have a 50% interest in this joint venture. The joint venture expects to develop the property in multiple phases and sell groups of lots to the members of the joint venture and to other home builders. At October 31, 2015, the joint venture owned approximately 2,600 home sites. We made an initial investment of \$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, 2015, the joint venture had \$26.1 million of borrowings under this line of credit. At October 31, 2015, we had an investment of \$30.1 million in this joint venture and were committed to make additional contributions to this joint venture of up to \$2.2 million.

Home Building Joint Ventures

In the first quarter of fiscal 2015, we entered into a joint venture with an unrelated party to complete the development of a high-rise luxury condominium project in New York City on property that we owned. We contributed \$15.9 million as our initial contribution for a 25% interest in this joint venture. We sold the property to the joint venture for \$78.5 million, and we were reimbursed for development and construction costs incurred by us prior to the sale. The gain of \$9.3 million that we realized on the sale was deferred and will be recognized in our results of operations as units are sold and delivered to the ultimate home buyer. At October 31, 2015, we had an investment of \$16.9 million in this joint venture. The joint venture entered into a construction loan agreement of \$124.0 million to fund the land purchase and a portion of the cost of the development of the property. At October 31, 2015, the joint venture had \$70.1 million borrowed under the construction loan.

We had invested in a joint venture in which we have a 50% voting interest to develop a high-rise luxury for-sale/rental project in New York City. Pursuant to the terms of the joint venture agreement, with the completion of the construction of the building's structure in the third quarter of fiscal 2015, we acquired, with no additional consideration due from us, ownership of the top 18 floors of the building to sell, for our own account, luxury condominium units. Our partner received ownership of the lower floors containing residential rental units and retail space, with no additional consideration due from them. Upon our acquisition of the top 18 floors of the building, we transferred our investment of \$132.3 million in this joint venture from "Investments in unconsolidated entities" on our Consolidated Balance Sheets to "Inventory."

We have an investment in a joint venture in which we have a 50% interest to develop a high-rise luxury condominium project in conjunction with a luxury hotel in New York City being developed by a related joint venture, discussed below in Rental Property Joint Ventures. At October 31, 2015, we had invested \$35.7 million in this joint venture and expect to make additional investments of approximately \$14.7 million for the development of this project. In November 2014, this joint venture, along with the related hotel joint venture, entered into a \$160.0 million construction loan agreement to complete the construction of the condominiums and hotel. At October 31, 2015, this joint venture has \$41.1 million of outstanding borrowing under the loan agreement.

Rental Property Joint Ventures

In the second quarter of fiscal 2015, we entered into two joint ventures with an unrelated party to develop luxury for-rent residential apartment buildings. Prior to the formation of these joint ventures, we acquired the properties, through two 100%-owned entities, and incurred \$18.8 million

of land and land development costs. Our partner acquired a 75% interest in each of these entities for \$14.5 million. At October 31, 2015, we had a combined investment of \$7.8 million and funding commitments of \$2.2 million in these ventures. In addition, in fiscal 2015, these joint ventures entered into construction loan agreements, with a total commitment of \$87.0 million, with several banks to finance the development of their respective apartment buildings. At October 31, 2015, these joint ventures had no borrowings under their respective construction loan agreements.

In the fourth quarter of fiscal 2014, we entered into a joint venture with an unrelated party to develop a 418-unit student housing project and retail space in College Park, Maryland, on land that we were under contract to purchase. We have a 25% interest in this joint venture. We made an initial investment of \$11.9 million to the joint venture, which included \$3.5 million of land deposits previously funded by us, and our partner made an initial capital contribution of \$35.7 million. In addition, we received a reimbursement of \$3.1 million for certain costs incurred by us prior to the closing of the joint venture. The joint venture obtained construction loan financing of \$104.5 million to fund a portion of the cost of the development of the property. At October 31, 2015, the joint venture had \$44.2 million of outstanding borrowings under the loan agreement. At October 31, 2015, we had an investment of \$12.7 million in this joint venture.

In the first quarter of fiscal 2014, a Rental Property Joint Venture entered into a \$70.0 million construction loan agreement to finance construction of multifamily residential apartments in northern New Jersey. At October 31, 2015, this joint venture had \$31.6 million of outstanding borrowings under the facility. At October 31, 2015 we had an investment of \$6.7 million in this joint venture.

In the fourth quarter of fiscal 2013, we entered into a joint venture with an unrelated party to develop a 287-unit luxury for-rent residential apartment building in the Capitol Riverfront of Washington, D.C., on land that we owned and conveyed to the joint venture. We have a 50% interest in this joint venture. As part of our initial capital contribution, we 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. In the fourth quarter of fiscal 2013, the joint venture entered into a \$54.0 million construction loan agreement with a bank to finance the development of this project. At October 31, 2015, the joint venture had \$46.3 million of outstanding borrowings under the construction loan agreement. At October 31, 2015, we had an investment of \$14.4 million in this joint venture.

In the second quarter of fiscal 2013, we entered into a joint venture with an unrelated party to develop a 38-story luxury for-rent residential apartment building and retail space in Jersey City, New Jersey, on land that we owned and conveyed to the joint venture. We have a 50% interest in this joint venture. As part of our initial capital contribution, we contributed land and improvements with a fair value of \$28.8 million to the joint venture and subsequently received distributions of \$10.2 million and a \$1.2 million payment by the joint venture on our behalf to align the capital accounts of each of the members of the joint venture. In the second quarter of fiscal 2014, the joint venture entered into a \$120.0 million construction loan agreement with a bank to finance the development of this project. At October 31, 2015, the joint venture had \$96.1 million of borrowings under the facility. At October 31, 2015, we had an investment of \$31.7 million in this joint venture.

In the fourth quarter of fiscal 2012, we invested in a joint venture in which we have a 50% interest to develop a multifamily residential apartment project containing approximately 398 units in suburban Philadelphia. In the first quarter of fiscal 2014, this joint venture entered into \$56.0 million construction loan agreement to finance construction. At October 31, 2015, this venture had \$50.0 million of borrowings under the facility. At October 31, 2015, we had an investment of \$13.1 million in this joint venture.

We have an investment in a joint venture in which we have a 50% interest to develop a luxury hotel in conjunction with a high-rise luxury condominium project in New York City being developed by a related joint venture discussed above in Home Building Joint Ventures. At October 31, 2015, we had

invested \$23.1 million in this joint venture and expect to make additional investments of approximately \$8.0 million for the development of the hotel. In November 2014, this joint venture, along with the related condominium joint venture, entered into a \$160.0 million construction loan agreement to complete the construction of the condominiums and hotel. At October 31, 2015, this venture has \$20.8 million of outstanding borrowings under the loan agreement.

In fiscal 2005, we, together with an unrelated party, formed Toll Brothers Realty Trust II ("Trust II") to invest in commercial real estate opportunities. Trust II is owned 50% by us and 50% by our partner. In December 2013, Trust II sold substantially all of its assets to an unrelated party. As a result of this sale, we realized income of approximately \$23.5 million in the first quarter of fiscal 2014, representing our share of the gain on the sale. In the three-month period ended April 30, 2014, we recognized an additional gain of \$0.6 million from the sale of a property by Trust II. The gain on sale of assets is included in "Income from unconsolidated entities" on our Consolidated Statements of Operations and Comprehensive Income. In December 2013, we received a \$20.0 million cash distribution from Trust II. In addition, in the first quarter of fiscal 2014, we recognized \$2.9 million in previously deferred gains on our initial sales of the properties to Trust II. This gain is included in "Other income - net" in our Consolidated Statements of Operations and Comprehensive Income. At October 31, 2015, we had an investment of \$0.9 million in Trust II.

In 1998, prior to the formation of Trust II, we formed the Trust to invest in commercial real estate opportunities. The Trust is effectively owned one-third by us; one-third by Robert I. Toll, Bruce E. Toll (and members of his family), Douglas C. Yearley, Jr., and former members of our senior management; and one-third by an unrelated party. As of October 31, 2015, our investment in the Trust was zero as cumulative distributions received from the Trust have been in excess of the carrying amount of our net investment. We provide development, finance, and management services to the Trust and recognized fees under the terms of various agreements in the amounts of \$2.2 million, \$2.3 million, and \$4.2 million in fiscal 2015, 2014 and 2013, respectively. In fiscal 2015, we received distributions of \$6.1 million from the Trust, of which \$3.5 million was recognized as income and is included in "Income from unconsolidated entities" in our Consolidated Statements of Operations and Comprehensive Income. In fiscal 2014, the Trust refinanced the mortgage on one of its properties and distributed \$36.0 million of the net proceeds from the refinancing to its partners. We received \$12.0 million as our share of the proceeds and recognized this distribution as income which is included in "Income from unconsolidated entities" in our fiscal 2014 Consolidated Statement of Operations and Comprehensive Income.

Structured Asset Joint Venture

Through a wholly owned subsidiary, Gibraltar Capital and Asset Management, LLC ("Gibraltar"), we are a 20% participant with two unrelated parties that acquired a 40% interest in an entity that owns and controls a portfolio of loans and real estate ("Structured Asset Joint Venture"). At October 31, 2015, we had an investment of \$12.2 million in this Structured Asset Joint Venture.

Guarantees

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. These guarantees may include any or all of the following: (i) project completion guarantees, including any cost overruns; (ii) repayment guarantees, generally covering a percentage of the outstanding loan; (iii) guarantees of indemnities provided to the lender by the unconsolidated entity with regard to environmental matters; (iv) a hazardous material indemnity that holds the lender harmless for any liability it may suffer from the threat or presence of any hazardous or toxic substances at or near the property covered by a loan; and (v) 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, we generally have a reimbursement agreement with our

partner that provides that neither party is responsible for more than its proportionate share or agreed upon 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, 2015, 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 in such entity 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, 2015, the unconsolidated entities that have guarantees related to debt had loan commitments aggregating \$980.2 million and had borrowed an aggregate of \$514.3 million. The term of these guarantees generally ranges from five months to 54 months. We estimate that the maximum potential exposure under these guarantees, if the full amount of the loan commitments were borrowed, would be \$980.2 million, without taking into account any recoveries from the underlying collateral or any reimbursement from our partners. Based on the amounts borrowed at October 31, 2015, our maximum potential exposure under these guarantees is estimated to be approximately \$514.3 million, without taking into account any recoveries from the underlying collateral or any reimbursement from our partners.

In addition, we have guaranteed approximately \$10.3 million of ground lease payments and insurance deductibles for three joint ventures.

As of October 31, 2015, the estimated aggregate fair value of the guarantees provided by us related to debt and other obligations of certain unconsolidated entities was approximately \$4.8 million. We have not made payments under any of the guarantees, nor have we been called upon to do so.

Variable Interest Entities

At October 31, 2015, we determined that one of our joint ventures was a VIE under the guidance within ASC 810. At October 31, 2014, we had determined that three of our joint ventures were VIEs. We have, however, concluded that we were 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 us 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 us are nominal and believed to be at market rates, and there is no significant economic disproportionality between us 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, 2015 and 2014, our investments in our unconsolidated joint ventures deemed to be VIEs, which are included in investments in unconsolidated entities in our Consolidated Balance Sheets, totaled \$6.7 million and \$46.4 million, respectively. At October 31, 2015, the maximum exposure of loss to our investments in unconsolidated joint ventures that are VIEs is limited to our investment in the unconsolidated VIEs, except with regard to \$0.4 million of additional commitments to the VIEs and \$12.5 million of loan guarantees. At October 31, 2014, the maximum exposure to loss of our investments in unconsolidated joint ventures that are VIEs was limited to our investment in the unconsolidated VIEs, except with regard to a \$43.4 million additional commitment to fund the joint ventures, \$21.6 million of loan guarantees, and a \$9.1 million guarantee of ground lease payments.

Joint Venture Condensed Financial Information

The Condensed Balance Sheets, as of the dates indicated, and the Condensed Statements of Operations and Comprehensive Income, for the periods indicated, for the unconsolidated entities in which we have an investment, aggregated by type of business, are included below (in thousands).

	Land Development Joint Ventures	Home Building Joint Ventures	Rental Property Joint Ventures	Structured Asset Joint Venture	Total
CONDENSED BALANCE SHEETS:					
October 31, 2015					
Cash and cash equivalents	\$ 29,281	\$ 11,203	\$ 44,310	\$ 10,469	\$ 95,263
Inventory	701,527	322,630			1,024,157
Non-performing loan portfolio				27,572	27,572
Rental properties			278,897		278,897
Rental properties under development			390,399		390,399
Real estate owned				117,758	117,758
Other assets (1)	70,799	61,144	12,199	80,475	224,617
Total assets	\$ 801,607	\$ 394,977	\$ 725,805	\$ 236,274	\$ 2,158,663
Debt (1)	\$ 417,025	\$ 117,251	\$ 514,895	\$ 77,950	\$ 1,127,121
Other liabilities	29,772	70,078	30,329	136	130,315
Members' equity	354,810	207,648	180,581	63,288	806,327
Noncontrolling interest				94,900	94,900
Total liabilities and equity	\$ 801,607	\$ 394,977	\$ 725,805	\$ 236,274	\$ 2,158,663
Company's net investment in unconsolidated entities (2)	\$ 214,060	\$ 76,120	\$ 110,454	\$ 12,226	\$ 412,860
October 31, 2014					
Cash and cash equivalents	\$ 31,968	\$ 21,821	\$ 33,040	\$ 23,462	\$ 110,291
Inventory	258,092	465,144			723,236
Non-performing loan portfolio				57,641	57,641
Rental properties			140,238		140,238
Rental properties under development			327,315		327,315
Real estate owned				184,753	184,753
Other assets (1)	30,166	75,164	14,333	77,986	197,649
Total assets	\$ 320,226	\$ 562,129	\$ 514,926	\$ 343,842	\$ 1,741,123
Debt (1)	\$ 102,042	\$ 8,713	\$ 333,128	\$ 77,950	\$ 521,833
Other liabilities	23,854	56,665	43,088	177	123,784
Members' equity	194,330	496,751	138,710	106,298	936,089
Noncontrolling interest				159,417	159,417
Total liabilities and equity	\$ 320,226	\$ 562,129	\$ 514,926	\$ 343,842	\$ 1,741,123
Company's net investment in unconsolidated entities (2)	\$ 140,221	\$ 189,509	\$ 97,353	\$ 19,995	\$ 447,078

(1) Included in other assets of the Structure Asset Joint Venture at October 31, 2015 and 2014 is \$78.0 million of restricted cash held in a defeasance account that will be used to repay debt of the Structured Asset Joint Venture on July 25, 2017.

(2) Differences between our net investment in unconsolidated entities and our underlying equity in the net assets of the entities are primarily a result of the acquisition price of an investment in a land development joint venture in fiscal 2012 that was in excess of our pro rata share of the underlying equity, impairments related to our investment in unconsolidated entities, a loan made to one of the entities by us, interest capitalized on our investment, the estimated fair value of the guarantees provided to the joint ventures, and distributions from entities in excess of the carrying amount of our net investment.

	Land Development Joint Ventures	Home Building Joint Ventures	Rental Property Joint Ventures	Structured Asset Joint Venture	Total
CONDENSED STATEMENTS OF OPERATIONS AND COMPREHENSIVE INCOME:					
	For the year ended October 31, 2015				
Revenues	\$ 128,889	\$ 78,072	\$ 35,732	\$ 6,102	\$ 248,795
Cost of revenues	58,435	69,142	15,539	16,739	159,855
Other expenses	1,999	6,135	24,174	1,312	33,620
Total expenses	60,434	75,277	39,713	18,051	193,475
Gain on disposition of loans and real estate owned				42,939	42,939
Income (loss) from operations	68,455	2,795	(3,981)	30,990	98,259
Other income	615	1,072	4,376	2,224	8,287
Net income	69,070	3,867	395	33,214	106,546
Less: income attributable to noncontrolling interest				(19,928)	(19,928)
Net income attributable to controlling interest	69,070	3,867	395	13,286	86,618
Other comprehensive income			52		52
Total comprehensive income	\$ 69,070	\$ 3,867	\$ 447	\$ 13,286	\$ 86,670
Company's equity in earnings of unconsolidated entities (3)	\$ 12,005	\$ 3,448	\$ 3,027	\$ 2,639	\$ 21,119
	For the year ended October 31, 2014				
Revenues	\$ 136,949	\$ 54,923	\$ 32,875	\$ 8,023	\$ 232,770
Cost of revenues	73,628	53,221	14,250	14,152	155,251
Other expenses	730	5,165	35,003	1,585	42,483
Total expenses	74,358	58,386	49,253	15,737	197,734
Gain on disposition of loans and real estate owned				30,420	30,420
Income (loss) from operations	62,591	(3,463)	(16,378)	22,706	65,456
Other income	66	105	45,933	3,121	49,225
Net income (loss)	62,657	(3,358)	29,555	25,827	114,681
Less: income attributable to noncontrolling interest				(15,496)	(15,496)
Net income (loss) attributable to controlling interest	62,657	(3,358)	29,555	10,331	99,185
Other comprehensive income			728		728
Total comprehensive income (loss)	\$ 62,657	\$ (3,358)	\$ 30,283	\$ 10,331	\$ 99,913
Company's equity in earnings (losses) of unconsolidated entities (3)	\$ 1,190	\$ (2,034)	\$ 40,081	\$ 1,904	\$ 41,141
	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 and real estate owned				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

(3) Differences between our equity in earnings (losses) of unconsolidated entities and the underlying net income (loss) of the entities is primarily a result a basis difference of an acquired joint venture interest, distributions from entities in excess of the carrying amount of our net investment, and our share of the entities' profits related to home sites purchased by us which reduces the our cost basis of the home sites acquired.

5. INVESTMENTS IN FORECLOSED REAL ESTATE AND DISTRESSED LOANS

Investments in REO and distressed loans consisted of the following at October 31, 2015 and 2014 (amounts in thousands):

	2015	2014
Investment in REO	\$ 50,233	\$ 69,799
Investment in distressed loans	1,497	4,001
	<u>\$ 51,730</u>	<u>\$ 73,800</u>

In prior periods, we presented our investments in REO and distressed loans in two separate line items on our Consolidated Balance Sheets. Our Consolidated Balance Sheet at October 31, 2014, has been reclassified to conform to the fiscal 2015 presentation.

Investments in REO

The following table presents the activity in REO at October 31, 2015, 2014, and 2013 (amounts in thousands):

	2015	2014	2013
Balance, beginning of period	\$ 69,799	\$ 72,972	\$ 58,353
Additions	2,833	22,220	23,470
Sales	(21,293)	(23,696)	(7,842)
Impairments	(767)	(1,358)	(505)
Depreciation	(339)	(339)	(504)
Balance, end of period	<u>\$ 50,233</u>	<u>\$ 69,799</u>	<u>\$ 72,972</u>

As of October 31, 2015, approximately \$1.7 million and \$48.5 million of REO were classified as held-for-sale and held-and-used, respectively. As of October 31, 2014, approximately \$11.7 million and \$58.1 million of REO were classified as held-for-sale and held-and-used, respectively. For the years ended October 31, 2015, 2014, and 2013, we recorded gains of \$0.2 million, \$4.5 million, and \$3.6 million from acquisitions of REO through foreclosure, respectively.

Investments in Distressed Loans

Prior to October 31, 2014, we had investments in distressed loans where it is probable that we would 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. These loans were accounted for under ASC 310-30, "Receivable," ("ASC 310-30"). Under ASC 310-30, provided we did not have the intention to utilize real estate secured by the loans for use in our 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 exceeded the estimated fair value of the loan, or accretible yield, was 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 nonaccretible difference, was not recognized.

The accretible yield activity for investments in distressed loans accounted for under ASC 310-30 for the years ended October 31, 2014 and 2013, was as follows (amounts in thousands):

	2014	2013
Balance, beginning of period	\$ 6,606	\$ 17,196
Additions	554	1,654
Deletions	(6,204)	(7,728)
Accretion	(956)	(4,516)
Balance, end of period	<u>\$ —</u>	<u>\$ 6,606</u>

Additions primarily represented the reclassification to accretible yield from nonaccretible yield and the impact of impairments. Deletions primarily represented loan dispositions, which include foreclosure of the underlying collateral and resulting removal of the loans from the accretible yield portfolios, and reclassifications from accretible yield to nonaccretible yield. The reclassifications between accretible and nonaccretible 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 of October 31, 2014, we have no distressed loans where interest is accreting.

General

Our earnings from Gibraltar's operations, excluding our investment in the Structured Asset Joint Venture, are included in "Other income - net" in the Consolidated Statements of Operations and Comprehensive Income. In the years ended October 31, 2015, 2014, and 2013, we recognized \$10.2 million, \$14.4 million, and \$10.2 million, of earnings (excluding earnings from our investment in the Structured Asset Joint Venture), respectively, from Gibraltar's operations.

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

Loans Payable

At October 31, 2015 and 2014, loans payable consisted of the following (amounts in thousands):

	2015	2014
Senior unsecured term loan	\$ 500,000	\$ 500,000
Credit facility borrowings	350,000	
Loans payable - other	151,702	154,261
Deferred issuance costs	(1,263)	(1,642)
	<u>\$ 1,000,439</u>	<u>\$ 652,619</u>

Senior Unsecured Term Loan

On February 3, 2014, we entered into a five-year, \$485.0 million, unsecured term loan facility (the "Term Loan Facility") with a syndicate of banks. We borrowed the full amount of the Term Loan Facility on February 3, 2014. In October 2014, we increased the Term Loan Facility by \$15.0 million and borrowed the full amount of the increase.

We may select interest rates for the Term Loan Facility equal to (i) London Interbank Offered Rate ("LIBOR") plus an applicable margin, (ii) the base rate (which is defined as the greatest of (a) SunTrust Bank's prime rate, (b) the federal funds effective rate plus 0.5%, and (c) one-month LIBOR plus 1%) plus an applicable margin, or (iii) the federal funds/Euro rate (which is defined as the greater of (a) the sum of the federal funds effective rate plus an applicable margin plus 0.25%, and (b) one-month LIBOR), with the applicable margin, in each case, based on our leverage ratio. At October 31, 2015, the interest rate on the Term Loan Facility was 1.60% per annum.

We and substantially all of our 100%-owned home building subsidiaries are guarantors under the Term Loan Facility. The Term Loan Facility contains substantially the same financial covenants as the Credit Facility, as described below. The Term Loan Facility will mature, and amounts owing thereunder will become due and payable, on February 3, 2019.

Credit Facility

On August 1, 2013, we entered into a \$1.035 billion unsecured, five-year revolving credit facility ("Credit Facility") with a syndicate of banks ("Aggregate Credit Commitment"). The commitments under the Credit Facility are schedule to expire on 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 we may, subject to certain conditions set forth in the agreement, increase the Credit Facility up to a maximum aggregate amount of \$2.0 billion. We 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 our credit rating and leverage ratio. At October 31, 2015, the interest rate on outstanding borrowings under the Credit Facility was 1.70% per annum. We are obligated to pay an undrawn commitment fee that is based on the average daily unused amount of the Aggregate Credit Commitment and our credit ratings and leverage ratio. Any proceeds from borrowings under the Credit Facility may be used for general corporate purposes. We and substantially all of our 100%-owned home building subsidiaries are guarantors under the Credit Facility.

Under the terms of the Credit Facility, our maximum leverage ratio (as defined in the Credit Agreement) may not exceed 1.75 to 1.00 and we are required to maintain a minimum tangible net worth (as defined in the Credit Facility) of no less than approximately \$2.64 billion. Under the terms of the Credit Facility, at October 31, 2015, our leverage ratio was approximately 0.68 to 1.00 and our tangible net worth was approximately \$4.19 billion. Based upon the minimum tangible net worth requirement, our ability to repurchase our common stock was limited to approximately \$1.97 billion as of October 31, 2015.

At October 31, 2015, we had \$350.0 million of outstanding borrowings under the Credit Facility and had outstanding letters of credit of approximately \$118.9 million. Subsequent to October 31, 2015, we repaid all \$350.0 million borrowed under the Credit Facility.

Loans Payable – Other

Our "Loans payable – other" represent purchase money mortgages on properties we had acquired that the seller had financed and various revenue bonds that were issued by government entities on behalf of us to finance community infrastructure and our manufacturing facilities. Information regarding our loans payable at October 31, 2015 and 2014, is included in the table below (\$ amounts in thousands):

	2015	2014
Aggregate loans payable at October 31	\$ 151,702	\$ 154,261
Weighted-average interest rate	3.78%	4.34%
Interest rate range	0.15% – 7.87%	0.15% – 7.87%
Loans secured by assets		
Carrying value of loans secured by assets	\$ 151,702	\$ 154,111
Carrying value of assets securing loans	\$ 378,864	\$ 428,122

The contractual maturities of loans payable - other as of October 31, 2015, ranged from less than one month to 31 years.

Senior Notes

At October 31, 2015 and 2014, senior notes consisted of the following (amounts in thousands):

	2015	2014
5.15% Senior Notes due May 15, 2015		\$ 300,000
8.91% Senior Notes due October 15, 2017	\$ 400,000	400,000
4.00% Senior Notes due December 31, 2018	350,000	350,000
6.75% Senior Notes due November 1, 2019	250,000	250,000
5.875% Senior Notes due February 15, 2022	419,876	419,876
4.375% Senior Notes due April 15, 2023	400,000	400,000
5.625% Senior Notes due January 15, 2024	250,000	250,000
4.875% Senior Notes due November 15, 2025	350,000	
0.5% Exchangeable Senior Notes due September 15, 2032	287,500	287,500
Bond discount and deferred issuance costs	(17,575)	(19,135)
	<u>\$ 2,689,801</u>	<u>\$ 2,638,241</u>

As discussed in Note 1, "Significant Accounting Policies - Recent Accounting Pronouncements," we adopted ASU 2015-03 on October 31, 2015. We applied the new guidance retrospectively to all prior periods presented in the financial statements to conform to the fiscal 2015 presentation. As a result, \$16.8 million of Senior Note deferred debt issuance costs at October 31, 2014, were reclassified from "Receivables, prepaid expenses, and other assets" to "Senior Notes" in our Consolidated Balance Sheets.

The senior notes are the unsecured obligations of Toll Brothers Finance Corp., our 100%-owned subsidiary. The payment of principal and interest is fully and unconditionally guaranteed, jointly and severally, by us and substantially all of our 100%-owned 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 and the Term Loan Facility. The senior notes are structurally subordinated to the prior claims of creditors, including trade creditors, of our subsidiaries that are not guarantors of the senior notes. The senior notes, other than the 0.5% Exchangeable Senior Notes due 2032 ("0.5% Exchangeable Senior Notes"), are redeemable in whole or in part at any time at our option, at prices that vary based upon the then-current rates of interest and the remaining original term of the notes.

The 0.5% Exchangeable Senior Notes are not redeemable by us prior to September 15, 2017. The 0.5% Senior Notes are exchangeable into shares of our 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 common stock. If all of the 0.5% Exchangeable Senior Notes are exchanged, we would issue approximately 5.9 million shares of our common stock. Shares issuable upon conversion of the 0.5% Exchangeable Senior Notes are included in the calculation of diluted earnings per share. Holders of the 0.5% Exchangeable 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 October 2015, we issued \$350.0 million aggregate principal amount of 4.875% Senior Notes due 2025 (the “4.875% Senior Notes”) at par. We received \$347.7 million of net proceeds from this issuance of 4.875% Senior Notes.

In May 2015, we repaid, at maturity, the \$300.0 million of then-outstanding principal amount of 5.15% Senior Notes due May 15, 2015.

In March 2014, we repaid, at maturity, the \$268.0 million of the then-outstanding principal amount of 4.95% Senior Notes due March 15, 2014.

In November 2013, we issued \$350.0 million aggregate principal amount of 4.0% Senior Notes due 2018 (the “4.0% Senior Notes”) and \$250.0 million aggregate principal amount of 5.625% Senior Notes due 2024 (the “5.625% Senior Notes”). We received \$596.2 million of net proceeds from the issuance of the 4.0% Senior Notes and the 5.625% Senior Notes.

In September 2013, we repaid, at maturity, the then-outstanding principal amount of \$104.8 million of our 5.95% Senior Notes due September 15, 2013.

In April 2013, we issued \$300.0 million aggregate principal amount of 4.375% Senior Notes due 2023 (the “4.375% Senior Notes”) at par. We received \$298.1 million of net proceeds from this issuance of 4.375% Senior Notes.

In May 2013, we issued an additional \$100.0 million aggregate principal amount of 4.375% Senior Notes at a price equal to 103% of par value. We received \$102.3 million of net proceeds from this additional issuance of 4.375% Senior Notes.

In November 2012, we repaid, at maturity, the \$59.1 million of then-outstanding principal amount of 6.875% Senior Notes due November 15, 2012.

Mortgage Company Loan Facility

In July 2015, TBI Mortgage® Company (“TBI Mortgage”), our wholly owned mortgage subsidiary, amended its 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 the Repurchase Agreement is accounted for as a secured borrowing under ASC 860, “Transfers and Servicing.” 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 \$100 million for a short period of time. The Repurchase Agreement, as amended, expires on July 18, 2016, and borrowings thereunder bear interest at LIBOR plus 2.00% per annum, with a minimum rate of 2.00%. At October 31, 2015 the interest rate on the Repurchase Agreement was 2.19% per annum. In addition, we are subject to an under usage fee based on outstanding balances, as defined in the Repurchase Agreement. Borrowings under this facility are included in the fiscal 2016 maturities.

At October 31, 2015 and 2014, there were \$100.0 million and \$90.3 million, respectively, outstanding under the Repurchase Agreement, which are included in liabilities in our Consolidated Balance Sheets. At October 31, 2015 and 2014, amounts outstanding under the Repurchase Agreement were collateralized by \$115.9 million and \$93.9 million, respectively, of mortgage loans held for sale, which are included in assets in our Consolidated Balance Sheets. As of October 31, 2015, 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 agreements.

General

As of October 31, 2015, the annual aggregate maturities of our loans and notes during each of the next five fiscal years are as follows (amounts in thousands):

	Amount
2016	\$ 166,497
2017	\$ 419,480
2018	\$ 364,541
2019	\$ 860,535
2020	\$ 253,290

7. ACCRUED EXPENSES

Accrued expenses at October 31, 2015 and 2014, consisted of the following (amounts in thousands):

	2015	2014
Land, land development and construction	\$ 118,634	\$ 124,816
Compensation and employee benefits	125,045	118,607
Self-insurance	113,727	100,407
Warranty	93,083	86,282
Interest	26,926	33,993
Commitments to unconsolidated entities	5,534	3,293
Other	125,117	114,079
	<u>\$ 608,066</u>	<u>\$ 581,477</u>

In response to an increasing rate of stucco-related claims received in the second half of fiscal 2014 involving homes in certain completed communities located in Pennsylvania and Delaware (which are in our Mid-Atlantic region), at that time we undertook a review of homes in certain completed communities built during fiscal 2003 through fiscal 2009 in Pennsylvania and Delaware to determine whether additional stucco-related repairs would likely be needed in these communities. The review included an analysis of the number of claims received, our inspection of homes, an estimate of the number of homes we expected to repair, the extent and cost estimate of such repairs, the potential insurance recovery, and the amount of warranty and self-insurance reserves already recorded. At the end of fiscal 2014, we estimated our potential liability for known and unknown claims to be approximately \$54.0 million, of which we expected to recover approximately 40% from our outside insurance carriers. In addition to previously recognized warranty and self-insurance accruals, we recognized a \$25.0 million charge in the fourth quarter of fiscal 2014 for estimated repair costs in the Mid-Atlantic region.

During our fiscal fourth-quarter 2015 review of the potential liability for this matter, we determined that the average cost of stucco-related repairs increased based on the actual cost of remediation of homes completed in the second half of fiscal 2015. In addition, we determined that additional stucco-related repairs will likely be needed in certain communities built during fiscal 2010 through fiscal 2013 in Pennsylvania. Based on the revision of our estimated costs of repairs and the inclusion of certain additional communities in our remediation estimates, the potential liability for known and unknown claims increased to approximately \$80.3 million, of which we continue to expect to recover approximately 40% from outside insurance. We recognized a \$14.7 million additional charge in the fourth quarter of fiscal 2015 for estimated repair costs in the Mid-Atlantic region.

As of October 31, 2014, we had received construction claims from three related multifamily community associations in California alleging issues with design and construction and damage to exterior common area elements. We believe we have coverage under multiple owner controlled insurance policies with deductibles or self-insured retention requirements that vary from policy year to policy year. We completed a settlement of one of the claims during fiscal 2015, and subsequently, we reached settlement agreement on a second in December 2015 (fiscal 2016). Our review of the remaining claim is ongoing. Due to issues related to insurance coverage on all three claims, the degree of judgment required, and the potential for variability in our underlying assumptions, our actual future costs could differ from our estimates. Based on the above settlements and our current evaluation of the remaining claim, we recorded a charge of \$6.9 million in fiscal 2015 (including \$0.8 million in the fourth quarter), which is included in "Cost of revenues" in our Consolidated Statements of Operations and Comprehensive Income.

We do not believe that any resolution of the above matters, in excess of the amounts currently accrued would be material to our financial condition.

We accrue 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 our warranty accrual during fiscal 2015, 2014, and 2013 as follows (amounts in thousands):

	2015	2014	2013
Balance, beginning of year	\$ 86,282	\$ 43,819	\$ 41,706
Additions - homes closed during the year	20,934	18,588	14,652
Addition - liabilities acquired		11,044	
Increase (decrease) in accruals for homes closed in prior years	2,661	2,913	(184)
Reclassification from self-insurance accruals*		7,554	
Charge related to stucco-related claims*	14,685	24,950	
Charges incurred	(31,479)	(22,586)	(12,355)
Balance, end of year	\$ 93,083	\$ 86,282	\$ 43,819

* Estimated stucco-related claim costs as described above, have been included in warranty accruals.

8. INCOME TAXES

The following table provides a reconciliation of our effective tax rate from the federal statutory tax rate for the fiscal years ended October 31, 2015, 2014, and 2013 (\$ amounts in thousands):

	2015		2014		2013	
	\$	%*	\$	%*	\$	%*
Federal tax provision at statutory rate	187,447	35.0	176,604	35.0	93,694	35.0
State tax provision, net of federal benefit	21,947	4.1	23,778	4.7	11,363	4.2
Domestic production activities deduction	(12,284)	(2.3)	(14,796)	(2.9)	—	—
Other permanent differences	(7,821)	(1.5)	(6,214)	(1.2)	(4,914)	(1.8)
Reversal of accrual for uncertain tax positions	(15,331)	(2.9)	(11,022)	(2.2)	(5,580)	(2.1)
Accrued interest on anticipated tax assessments	2,588	0.5	1,847	0.4	3,704	1.4
Increase in unrecognized tax benefits	3,214	0.6	5,694	1.1	—	—
Valuation allowance — recognized	3,681	0.7	1,328	0.3	3,232	1.2
Valuation allowance — reversed	(16,323)	(3.0)	(13,256)	(2.6)	(4,569)	(1.7)
Other	5,277	1.0	587	0.1	161	0.1
Income tax provision*	172,395	32.2	164,550	32.6	97,091	36.3

*Due to rounding, amounts may not add.

We currently operate in 19 states and are subject to various state tax jurisdictions. We estimate our state tax liability based upon the individual taxing authorities' regulations, estimates of income by taxing jurisdiction, and our ability to utilize certain tax-saving strategies. Based on our estimate of the allocation of income or loss among the various taxing jurisdictions and changes in tax regulations and their impact on our tax strategies, we estimated our rate for state income taxes at 6.3%, 7.2%, and 6.5% in fiscal 2015, 2014, and 2013, respectively.

The following table provides information regarding the provision (benefit) for income taxes for each of the fiscal years ended October 31, 2015, 2014, and 2013 (amounts in thousands):

	2015	2014	2013
Federal	\$ 181,819	\$ 163,089	\$ 93,451
State	(9,424)	1,461	3,640
	\$ 172,395	\$ 164,550	\$ 97,091
Current	\$ 122,953	\$ 129,047	\$ 23,209
Deferred	49,442	35,503	73,882
	\$ 172,395	\$ 164,550	\$ 97,091

The following table provides a reconciliation of the change in the unrecognized tax benefits for the years ended October 31, 2015, 2014, and 2013 (amounts in thousands):

	2015	2014	2013
Balance, beginning of year	\$ 58,318	\$ 78,105	\$ 80,991
Increase in benefit as a result of tax positions taken in prior years	16,802	10,314	5,699
Increase in benefit as a result of tax positions taken in current year	9,005	442	
Decrease in benefit as a result of settlements	(31,013)		
Decrease in benefit as a result of completion of audits		(1,222)	
Decrease in benefit as a result of lapse of statute of limitations	(1,223)	(29,321)	(8,585)
Balance, end of year	\$ 51,889	\$ 58,318	\$ 78,105

The statute of limitations has expired on our federal tax returns for fiscal years through 2010.

Our unrecognized tax benefits are included in "Income taxes payable" on our Consolidated Balance Sheets. If these unrecognized tax benefits reverse in the future, they would have a beneficial impact on our effective tax rate at that time. During the next 12 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.

We recognize potential interest and penalties in our tax provision related to our unrecognized tax benefits. The amounts accrued for interest and penalties are included in "Income taxes payable" on our Consolidated Balance Sheets. The following table provides information as to the amounts recognized in our tax provision, before reduction for applicable taxes and reversal of previously accrued interest and penalties, of potential interest and penalties in the 12-month periods ended October 31, 2015, 2014, and 2013, and the amounts accrued for potential interest and penalties at October 31, 2015 and 2014 (amounts in thousands):

Expense recognized in Consolidated Statements of Operations and Comprehensive Income	
Fiscal year	
2015	\$ 4,454
2014	\$ 9,694
2013	\$ 5,699
Accrued at:	
October 31, 2015	\$ 17,012
October 31, 2014	\$ 33,867

The components of net deferred tax assets and liabilities at October 31, 2015 and 2014 are set forth below (amounts in thousands):

	2015	2014
Deferred tax assets:		
Accrued expenses	\$ 72,426	\$ 61,023
Impairment charges	130,709	231,098
Inventory valuation differences	67,610	26,789
Stock-based compensation expense	54,768	50,255
Amounts related to unrecognized tax benefits	25,267	19,297
State tax, net operating loss carryforward	53,103	47,330
Other	7,410	12,030
Total assets	411,293	447,822
Deferred tax liabilities:		
Capitalized interest	107,970	102,951
Deferred income	17,661	2,511
Expenses taken for tax purposes not for book	37,868	21,076
Depreciation	3,819	4,012
Deferred marketing	14,384	23,073
Total liabilities	181,702	153,623
Net deferred tax assets before valuation allowances	229,591	294,199
Cumulative valuation allowance - state	(31,136)	(43,778)
Net deferred tax assets	\$ 198,455	\$ 250,421

Since the beginning of fiscal 2007, we recorded significant deferred tax assets as a result of the recognition of inventory impairments and impairments of investments in unconsolidated entities. In accordance with GAAP, we assess whether a valuation allowance should be established based on our determination of whether it is more-likely-than-not that some portion or all of the deferred tax assets would not be realized. At October 31, 2015 and 2014, we determined that it was more-likely-than-not that our deferred assets would be realized for federal purposes. Accordingly, at October 31, 2015 and 2014, we did not record any valuation allowances against our federal deferred tax assets.

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.

For state tax purposes, due to past and projected losses in certain jurisdictions where we do not have carryback potential and/or cannot sufficiently forecast future taxable income, we recognized net cumulative valuation allowances against our state deferred tax assets at October 31, 2015 and 2014, as shown above. During fiscal 2015, 2014, and 2013, due to improved actual and/or operating results, we reversed \$16.3 million, \$13.3 million, and \$4.6 million of state deferred tax asset valuation allowance previously recognized, respectively. In addition, we establish valuation allowances for newly created deferred tax assets in certain jurisdictions where it is more-likely-than-not that the deferred tax asset would not be realized. During fiscal 2015, 2014, and 2013, we recognized new valuation allowances of \$3.7 million, \$1.3 million, and \$3.2 million, respectively. We will continue to review our deferred tax assets in accordance with ASC 740.

9. STOCKHOLDERS' EQUITY

Our authorized capital stock consists of 400 million shares of common stock, \$0.01 par value per share ("common stock"), and 15 million shares of preferred stock, \$0.01 par value per share. At October 31, 2015, we had 174.8 million shares of common stock issued and outstanding, 9.7 million shares of common stock reserved for outstanding stock options and restricted stock units, 7.5 million shares of common stock reserved for future stock option and award issuances, 5.9 million shares of common stock reserved for conversion of our 0.5% Senior Notes, and 0.5 million shares of common stock reserved for issuance under our employee stock purchase plan. As of October 31, 2015, no shares of preferred stock have been issued.

Stock Issuance

In November 2013, in anticipation of the Shapell Acquisition, we issued 7.2 million shares of our common stock, par value \$0.01 per share, at a price to the public of \$32.00 per share. We received \$220.4 million of net proceeds from the issuance.

Stock Repurchase Program

In March 2003, our Board of Directors authorized the repurchase of up to 20 million shares of our common stock, \$0.01 par value per share, in open market transactions or otherwise, for the purpose of providing shares for our various benefit plans.

On December 16, 2014, our Board of Directors authorized the repurchase of 20 million shares of our common stock in open market transactions or otherwise for the purpose of providing shares for the Company's equity award and other employee benefit plans and for any other and additional purpose or purposes as may be determined from time to time by the Board of Directors. Additionally, our Board of Directors terminated, effective December 31, 2014, our March 2003 share repurchase program. The following table provides information about the share repurchase programs for the fiscal years ended October 31, 2015, 2014, and 2013:

	2015	2014	2013
Number of shares purchased (in thousands)	1,665	2,947	498
Average price per share	\$ 34.17	\$ 30.80	\$ 30.90
Remaining authorization at October 31 (in thousands)	18,535	5,321	8,268

Stockholder Rights Plan and Transfer Restriction

In June 2007, we 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) 10 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 our common stock, or (ii) 10 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, 2015.

On March 17, 2010, our Board of Directors 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 our stockholders at the 2010 Annual Meeting of Stockholders that restricts certain transfers of our common stock in order to preserve the tax treatment of our net operating and unrealized tax losses. The Certificate of Amendment's transfer restrictions generally restrict any direct or indirect transfer of our 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 our common stock or increase the ownership percentage of a Person owning or deemed to own 4.95% or more of our 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

We grant stock options, restricted stock, and various types of restricted stock units to our employees and our nonemployee directors under our stock incentive plans. We have two active stock incentive plans, one for employees (including officers) and one for nonemployee directors. Our active stock incentive plans provide for the granting of incentive stock options (solely to employees) and nonqualified stock options with a term of up to 10 years at a price not less than the market price of the stock at the date of grant. Our 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. At October 31, 2015, 2014, and 2013, we had 7,541,000; 8,821,000; and 4,397,000 shares, respectively, available for grant under our stock incentive plans.

We have two additional stock incentive plans for employees, officers, and directors that are inactive except for outstanding stock option awards at October 31, 2015. No additional options may be granted under these plans. Stock options granted under these plans were made with a term of up to 10 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 nonemployee directors.

The following table provides information regarding the amount of total stock-based compensation expense recognized by us for fiscal 2015, 2014, and 2013 (amounts in thousands):

	2015	2014	2013
Total stock-based compensation expense recognized	\$ 22,903	\$ 21,656	\$ 19,041
Income tax benefit recognized	\$ 8,767	\$ 8,322	\$ 7,378

At October 31, 2015, 2014, and 2013, the aggregate unamortized value of outstanding stock-based compensation awards was approximately \$25.2 million, \$24.0 million, and \$19.9 million, respectively.

Information about our 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 nonemployee 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. The lattice-based option valuation model incorporates ranges of assumptions for inputs, which are disclosed in the table below. Expected volatilities were based on implied volatilities from traded options on our stock, historical volatility of our 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, 2015, 2014, and 2013:

	2015	2014	2013
Expected volatility	32.69% - 42.58%	36.44% - 44.71%	44.04% - 48.13%
Weighted-average volatility	36.36%	42.71%	46.70%
Risk-free interest rate	1.53% - 2.11%	1.45% - 2.71%	0.64% - 1.56%
Expected life (years)	4.54 - 9.12	4.55 - 9.02	4.48 - 8.88
Dividends	none	none	none
Weighted-average fair value per share of options granted	\$ 11.67	\$ 14.26	\$ 13.05

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 nonforfeitable by the employee, whichever is shorter. Information regarding the stock compensation expense, related to stock options, for fiscal 2015, 2014 and 2013 was as follows (amounts in thousands):

	2015	2014	2013
Stock compensation expense recognized - options	\$ 9,610	\$ 9,005	\$ 7,703

At October 31, 2015, total compensation cost related to nonvested stock option awards not yet recognized was approximately \$13.8 million, and the weighted-average period over which we expect to recognize such compensation costs and tax benefit is approximately 2.4 years.

The following table summarizes stock option activity for our plans during each of the fiscal years ended October 31, 2015, 2014, and 2013 (amounts in thousands, except per share amounts):

	2015		2014		2013	
	Number of options	Weighted-average exercise price	Number of options	Weighted-average exercise price	Number of options	Weighted-average exercise price
Balance, beginning	9,358	\$ 25.94	9,924	\$ 24.51	10,669	\$ 23.23
Granted	870	32.49	819	35.16	768	32.22
Exercised	(1,441)	27.52	(1,313)	20.88	(1,454)	19.21
Canceled	(762)	32.48	(72)	25.23	(59)	25.09
Balance, ending	8,025	\$ 25.75	9,358	\$ 25.94	9,924	\$ 24.51
Options exercisable, at October 31,	6,098	\$ 23.67	7,482	\$ 24.91	7,996	\$ 24.49

The weighted average remaining contractual life (in years) for options outstanding and exercisable at October 31, 2015, was 4.6 and 3.5, respectively.

The intrinsic value of options outstanding and exercisable is the difference between the fair market value of our 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 our 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, 2015, 2014, and 2013 (amounts in thousands):

	2015	2014	2013
Intrinsic value of options outstanding	\$ 82,058	\$ 62,073	\$ 84,938
Intrinsic value of options exercisable	\$ 75,034	\$ 55,776	\$ 68,920

Information pertaining to the intrinsic value of options exercised and the fair market value of options that became vested or modified in each of the fiscal years ended October 31, 2015, 2014, and 2013, is provided below (amounts in thousands):

	2015	2014	2013
Intrinsic value of options exercised	\$ 12,923	\$ 18,361	\$ 19,632
Fair market value of options vested	\$ 9,183	\$ 8,447	\$ 8,334

Our stock option 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, we withhold 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 minimum income tax withholdings and remit the remaining shares to the optionee.

The following table provides information regarding the use of the net exercise method for fiscal 2015, 2014, and 2013:

	2015	2014	2013
Options exercised	30,000	96,162	531,000
Shares withheld	29,917	58,819	405,838
Shares issued	83	37,343	125,162
Average fair market value per share withheld	\$ 32.64	\$ 33.78	\$ 32.22
Aggregate fair market value of shares withheld (in thousands)	\$ 976	\$ 1,987	\$ 13,076

In addition, pursuant to the provisions of our stock option plans, optionees are permitted to use the value of our 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 2014, and 2013:

	2014	2013
Options exercised	7,006	6,534
Shares tendered	4,273	4,034
Shares issued	2,733	2,500
Average market value per share tendered	\$ 33.01	\$ 32.61
Aggregate market value of shares tendered (in thousands)	\$ 141	\$ 132

No optionees used the stock swap method in fiscal 2015.

Performance-Based Restricted Stock Units:

In fiscal 2015, 2014, and 2013, the Executive Compensation Committee approved awards of performance-based restricted stock units (“Performance-Based RSUs”) relating to shares of our common stock to certain members of our senior management. The Performance-Based RSUs are based on the attainment of certain performance metrics by the Company in the 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 us or serve on our Board of Directors (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 our common stock to be issued multiplied by the closing price of our common stock on the New York Stock Exchange (“NYSE”) on the date the Performance-Based RSU awards were approved by the Executive Compensation Committee (“Valuation Date”). We evaluate the performance goals quarterly and estimate the number of shares underlying the Performance-Based RSUs that are probable of being issued. The following table provides information regarding the issuance, valuation assumptions, and amortization of the Performance-Based RSUs issued in fiscal 2015, 2014, and 2013:

	2015	2014	2013
Number of shares underlying Performance-Based RSUs to be issued	300,042	288,814	302,511
Aggregate number of Performance-Based RSUs outstanding at October 31	1,261,545	961,503	672,687
Closing price of our common stock on Valuation Date	\$ 32.49	\$ 35.16	\$ 37.78
Aggregate fair value of Performance-Based RSUs issued (in thousands)	\$ 9,748	\$ 10,155	\$ 11,429
Performance-Based RSU expense recognized (in thousands)	\$ 9,863	\$ 9,310	\$ 6,946
Unamortized value of Performance-Based RSUs at October 31 (in thousands)	\$ 8,850	\$ 8,965	\$ 8,120

Stock Price-Based Restricted Stock Units:

In each of December 2010 and 2009, the Executive Compensation Committee approved awards to certain of our executives of stock price-based restricted stock unit (“Stock Price-Based RSUs”) awards relating to shares of our common stock. In fiscal 2012, we adopted a Performance-Based Restricted Stock Award program to replace the Stock Price-Based RSU program. The Stock Price-Based RSUs vested and the recipients were entitled to receive the underlying shares when the average closing price of our 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, increased 30% or more over the closing price of our common stock on the NYSE on the date of issuance (“Target Price”), provided the recipients continued to be employed by us or serve on our Board of Directors (as applicable) as specified in the award document. In fiscal 2012, the Target Price of all Stock Price-Based RSUs issued was met.

The Stock Price-Based RSUs issued in December 2010 were paid in fiscal 2014. The recipients 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 \$10.5 million (306,000 shares), the minimum income tax withholding was \$4.8 million (140,160 shares) and the net value of the shares delivered was \$5.7 million (165,840 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 minimum 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 fiscal 2014, and 2013, we recognized \$0.2 million and \$1.8 million, respectively, of expense related to Stock Price-Based RSUs. No expenses related to Stock Price-Based RSUs were recognized in fiscal 2015. At October 31, 2015 and 2014, no Stock Price-Based RSUs were outstanding.

Nonperformance-Based Restricted Stock Units:

In fiscal 2015, 2014, and 2013, we issued nonperformance-based restricted stock units (“RSUs”) to various officers, employees, and nonemployee 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 our common stock to be issued pursuant to the RSUs multiplied by the closing price of our common stock on the NYSE on the date the RSUs were awarded. The following table provides information regarding these RSUs for fiscal 2015, 2014, and 2013:

	2015	2014	2013
Nonperformance-Based RSUs issued:			
Number of RSUs issued	124,568	99,336	94,080
Weighted average closing price of our common stock on date of issuance	\$ 32.74	\$ 35.16	\$ 32.22
Aggregate fair value of RSUs issued (in thousands)	\$ 4,078	\$ 3,493	\$ 3,031
Nonperformance-Based RSU expense recognized (in thousands):	\$ 3,317	\$ 3,012	\$ 2,490

	2015	2014	2013
At October 31:			
Aggregate Nonperformance-Based RSUs outstanding	380,548	304,286	225,252
Cumulative unamortized value of Nonperformance-Based RSUs (in thousands)	\$ 2,542	\$ 2,043	\$ 1,706

Our stock incentive plans permit us to withhold from the total number of shares that otherwise would be issued to a restricted stock unit 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 restricted stock unit recipient. During fiscal 2015, we withheld 4,221 of the shares subject to restricted stock units to cover \$146,500 of income tax withholdings and we issued the remaining 10,049 shares to the recipients.

Restricted Stock Units in Lieu of Compensation

In December 2008, we issued restricted stock units ("RSUs in Lieu") relating to 62,051 shares of our 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. The amount applicable to employee bonuses was charged to our accrual for bonuses that we 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.

During fiscal 2013, we withheld 8,509 shares subject to RSUs in Lieu to cover \$308,000 of income tax withholdings and we issued the remaining 29,460 shares to the recipients. As of October 31, 2013, all RSUs in Lieu outstanding have been paid out to the participants.

Employee Stock Purchase Plan

Our employee stock purchase plan enables substantially all employees to purchase our 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, 2015, 537,000 shares were available for issuance.

The following table provides information regarding our employee stock purchase plan for fiscal 2015, 2014, and 2013:

	2015	2014	2013
Shares issued	26,674	24,275	20,362
Average price per share	\$ 31.65	\$ 30.59	\$ 28.71
Compensation expense recognized (in thousands)	\$ 113	\$ 98	\$ 77

11. INCOME PER SHARE INFORMATION

Information pertaining to the calculation of income per share for each of the fiscal years ended October 31, 2015, 2014, and 2013, is as follows (amounts in thousands):

	2015	2014	2013
Numerator:			
Net income as reported	\$ 363,167	\$ 340,032	\$ 170,606
Plus: Interest and costs attributable to 0.5% Exchangeable Senior Notes, net of income tax benefit	1,561	1,557	1,604
Numerator for diluted earnings per share	\$ 364,728	\$ 341,589	\$ 172,210
Denominator:			
Basic weighted-average shares	176,425	177,578	169,288
Common stock equivalents (a)	2,420	2,439	2,817
Shares attributable to 0.5% Exchangeable Senior Notes	5,858	5,858	5,858
Diluted weighted-average shares	184,703	185,875	177,963
Other information:			
Weighted-average number of antidilutive options and restricted stock units (b)	1,826	1,970	1,509
Shares issued under stock incentive and employee stock purchase plans	1,467	1,453	1,213

(a) Common stock equivalents represent the dilutive effect of outstanding in-the-money stock options using the treasury stock method and shares expected to be issued under Performance-Based Restricted Stock Units and Nonperformance-Based Restricted Stock Units.

(b) Weighted-average number of antidilutive options and restricted stock units are based upon the average of the average quarterly closing prices of our common stock on the NYSE for the year.

12. FAIR VALUE DISCLOSURES

Financial Instruments

A summary of assets and (liabilities) at October 31, 2015 and 2014, related to our 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, 2015	October 31, 2014
Marketable Securities	Level 2	\$ 10,001	\$ 12,026
Residential Mortgage Loans Held for Sale	Level 2	\$ 123,175	\$ 101,944
Forward Loan Commitments – Residential Mortgage Loans Held for Sale	Level 2	\$ 186	\$ (341)
Interest Rate Lock Commitments (“IRLCs”)	Level 2	\$ (297)	\$ (108)
Forward Loan Commitments – IRLCs	Level 2	\$ 297	\$ 108

At October 31, 2015 and 2014, the carrying value of cash and cash equivalents and restricted cash approximated fair value.

Marketable Securities

The fair value of our marketable securities approximates the amortized costs basis as of October 31, 2015 and 2014. The estimated fair values of marketable securities are based on quoted prices provided by brokers. The remaining contractual maturities of marketable securities as of October 31, 2015 was one month.

Mortgage Loans Held for Sale

At the end of the reporting period, we determine the fair value of our mortgage loans held for sale and the forward loan commitments we have entered into as a hedge against the interest rate risk of our mortgage loans and commitments 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 the application of such pricing to the mortgage loan portfolio. We recognize the difference between the fair value and the unpaid principal balance of mortgage loans held for sale as a gain or loss. In addition, we recognize the fair value of our forward loan commitments as a gain or loss. These gains and losses are included in “Other income – net” in our Consolidated Statements of Operations and Comprehensive Income. 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):

At October 31,	Aggregate		Fair value	Excess
	unpaid principal balance			
2015	\$ 121,904	\$	123,175	\$ 1,271
2014	\$ 100,463	\$	101,944	\$ 1,481

IRLCs represent individual borrower agreements that commit us 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. We utilize 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 we agree 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. We estimate 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. The fair values of IRLCs and forward loan commitments are included in either “Receivables, prepaid expenses and other assets” or “Accrued expenses” in our Consolidated Balance Sheets, as appropriate. To manage the risk of non-performance of investors regarding the Forward Commitments, we assess the creditworthiness of the investors on a periodic basis.

Inventory

We recognize 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. Estimated fair value is primarily determined by discounting the estimated future cash flow of each community. See Note 1, “Significant Accounting Policies - Inventory,” for additional information regarding our 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 we used a different input for any of the various unobservable inputs used in our 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, 2015	\$301 - \$764	3 - 24	16.3% - 22.0%
Three months ended July 31, 2015	\$788 - \$1,298	4 - 8	15.5% - 16.2%
Three months ended April 30, 2015	\$527 - \$600	13 - 25	17.0%
Three months ended January 31, 2015	\$289 - \$680	1 - 7	13.5% - 16.0%
Three months ended October 31, 2014	\$337 - \$902	7 - 23	12.5% - 16.5%
Three months ended July 31, 2014	\$698 - \$1,233	10 - 22	15.9%
Three months ended April 30, 2014	\$634 - \$760	4 - 7	12.0% - 15.3%
Three months ended January 31, 2014	\$388 - \$405	21 - 23	16.6%

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 (\$ amounts in thousands):

Three months ended:	Number of communities tested	Impaired operating communities		
		Number of communities	Fair value of communities, net of impairment charges	Impairment charges recognized
Fiscal 2015:				
January 31	58	4	\$ 24,968	\$ 900
April 30	52	1	\$ 16,235	11,100
July 31	40	3	\$ 13,527	6,000
October 31	44	3	\$ 8,726	4,300
				\$ 22,300
Fiscal 2014:				
January 31	67	1	\$ 7,131	\$ 1,300
April 30	65	2	\$ 6,211	1,600
July 31	63	1	\$ 14,122	4,800
October 31	55	7	\$ 38,473	9,855
				\$ 17,555
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

Investments in REO

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 Shapell

The purchase price allocation performed in connection with the Acquisition was primarily based on Level 3 inputs. The valuation techniques used to value the assets and liabilities acquired are described in Note 2, "Acquisition"

Debt

The table below provides, as of the dates indicated, the book value and estimated fair value of our debt at October 31, 2015 and 2014 (amounts in thousands):

	Fair value hierarchy	2015		2014	
		Book value	Estimated fair value	Book value	Estimated fair value
Loans payable (a)	Level 2	\$ 1,001,702	\$ 1,001,366	\$ 654,261	\$ 652,944
Senior notes (b)	Level 1	2,707,376	2,877,039	2,657,376	2,821,559
Mortgage company loan facility (c)	Level 2	100,000	100,000	90,281	90,281
		\$ 3,809,078	\$ 3,978,405	\$ 3,401,918	\$ 3,564,784

(a) The estimated fair value of loans payable was based upon contractual cash flows discounted at interest rates that we believed were available to us for loans with similar terms and remaining maturities as of the applicable valuation date.

(b) The estimated fair value of our senior notes is based upon their market prices as of the applicable valuation date.

(c) We believe that the carrying value of our mortgage company loan borrowings approximates their fair value.

13. EMPLOYEE RETIREMENT AND DEFERRED COMPENSATION PLANS

Salary Deferral Savings Plans

We maintain salary deferral savings plans covering substantially all employees. We recognized an expense, net of plan forfeitures, with respect to the plans of \$8.9 million, \$7.8 million, and \$6.4 million for the fiscal years ended October 31, 2015, 2014, and 2013, respectively.

Deferred Compensation Plan

We have an unfunded, nonqualified deferred compensation plan that permits eligible employees to defer a portion of their compensation. The deferred compensation, together with certain of our contributions, earns various rates of return depending upon when the compensation was 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. We accrued \$21.6 million and \$20.4 million at October 31, 2015 and 2014, respectively, for our obligations under the plan.

Defined Benefit Retirement Plans

We have two unfunded defined benefit retirement plans. Retirement benefits generally vest when the participant 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. We used a 3.55%, 3.55%, and 4.01% discount rate in our calculation of the present value of our projected benefit obligations at October 31, 2015, 2014, and 2013, 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, 2015, 2014 and 2013.

Information related to our retirement plans for each of the fiscal years ended October 31, 2015, 2014, and 2013, is as follows (amounts in thousands):

	2015	2014	2013
Plan costs:			
Service cost	\$ 579	\$ 470	\$ 471
Interest cost	1,232	1,277	1,044
Amortization of prior service cost	806	662	843
Amortization of unrecognized losses	81	8	144
	<u>\$ 2,698</u>	<u>\$ 2,417</u>	<u>\$ 2,502</u>
Projected benefit obligation:			
Beginning of year	\$ 34,606	\$ 32,136	\$ 34,319
Plan amendments adopted during year	768	511	826
Service cost	579	470	471
Interest cost	1,232	1,277	1,044
Benefit payments	(988)	(971)	(888)
Change in unrecognized loss	(382)	1,183	(3,636)
Projected benefit obligation, end of year	<u>\$ 35,815</u>	<u>\$ 34,606</u>	<u>\$ 32,136</u>
Unamortized prior service cost:			
Beginning of year	\$ 3,003	\$ 3,154	\$ 3,171
Plan amendments adopted during year	768	511	826
Amortization of prior service cost	(806)	(662)	(843)
Unamortized prior service cost, end of year	<u>\$ 2,965</u>	<u>\$ 3,003</u>	<u>\$ 3,154</u>
Accumulated unrecognized loss, October 31	<u>\$ 1,240</u>	<u>\$ 1,703</u>	<u>\$ 527</u>
Accumulated benefit obligation, October 31	<u>\$ 35,815</u>	<u>\$ 34,606</u>	<u>\$ 32,136</u>
Accrued benefit obligation, October 31	<u>\$ 35,815</u>	<u>\$ 34,606</u>	<u>\$ 32,136</u>

The table below provides, based upon the estimated retirement dates of the participants in the retirement plans, the amounts of benefits we would be required to pay in each of the next five fiscal years and for the five fiscal years ended October 31, 2025 in the aggregate (in thousands):

Year ending October 31,	Amount
2016	\$ 988
2017	\$ 2,028
2018	\$ 2,124
2019	\$ 2,468
2020	\$ 2,576
<u>November 1, 2020 – October 31, 2025</u>	<u>\$ 14,214</u>

14. ACCUMULATED OTHER COMPREHENSIVE LOSS

The tables below provide, for the fiscal years ended October 31, 2015 and 2014, the components of accumulated other comprehensive loss (amounts in thousands):

	2015			
	Employee retirement plans	Available-for-sale securities	Derivative instruments	Total
Balance, beginning of period	\$ (2,789)	\$ (2)	\$ (47)	\$ (2,838)
Other comprehensive (loss) income before reclassifications	(387)	3	26	(358)
Gross amounts reclassified from accumulated other comprehensive income	887			887
Income tax expense	(189)	(1)	(10)	(200)
Other comprehensive income, net of tax	311	2	16	329
Balance, end of period	\$ (2,478)	\$ —	\$ (31)	\$ (2,509)

	2014			
	Employee retirement plans	Available-for-sale securities	Derivative instruments	Total
Balance, beginning of period	\$ (2,112)	\$ (5)	\$ (270)	\$ (2,387)
Other comprehensive (loss) income before reclassifications	(1,694)	13	364	(1,317)
Gross amounts reclassified from accumulated other comprehensive income (loss)	670	(6)		664
Income tax benefit (expense)	347	(4)	(141)	202
Other comprehensive (loss) income, net of tax	(677)	3	223	(451)
Balance, end of period	\$ (2,789)	\$ (2)	\$ (47)	\$ (2,838)

Reclassifications for the amortization of the employee retirement plans are included in "Selling, general and administrative" expense in the Consolidated Statements of Operations and Comprehensive Income. Reclassifications for the realized gains on available-for-sale securities are included in "Other income - net" in the Consolidated Statements of Operations and Comprehensive Income.

15. COMMITMENTS AND CONTINGENCIES

Legal Proceedings

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

Land Purchase Commitments

Generally, our purchase agreements to acquire land parcels do not require us to purchase those land parcels, although we, in some cases, forfeit any deposit balance outstanding if and when we terminate a purchase agreement. If market conditions are weak, approvals needed to develop the land are uncertain, or other factors exist that make the purchase undesirable, we may choose not to acquire the land. Whether a purchase agreement is legally terminated or not, we review the amount recorded for the land parcel subject to the purchase agreement to determine if the amount is recoverable. While we may not have formally terminated the purchase agreements for those land parcels that we do not expect to acquire, we write off any non-refundable deposits and costs previously capitalized to such land parcels in the periods that we determine such costs are not recoverable.

Information regarding our land purchase commitments at October 31, 2015 and 2014, is provided in the table below (amounts in thousands):

	2015	2014
Aggregate purchase commitments:		
Unrelated parties	\$ 1,081,008	\$ 1,043,654
Unconsolidated entities that the Company has investments in	136,340	184,260
Total	\$ 1,217,348	\$ 1,227,914
Deposits against aggregate purchase commitments	\$ 79,072	\$ 103,422
Additional cash required to acquire land	1,138,276	1,124,492
Total	\$ 1,217,348	\$ 1,227,914
Amount of additional cash required to acquire land included in accrued expenses	\$ 4,809	\$ 764

At October 31, 2015, we had an understanding to acquire 378 home sites from one of our Land Development Joint Ventures for an aggregate purchase price of \$136.3 million. In addition, we expect to purchase approximately 3,600 additional home sites over a number of years from several joint ventures in which we have investments; the purchase prices of these home sites will be determined at a future date.

At October 31, 2015, we also had purchase commitments to acquire land for apartment developments of approximately \$69.4 million, of which we had outstanding deposits in the amount of \$2.4 million.

In November 2014, we closed on a 99-year ground lease on land located within New York City where we are developing a high-rise luxury cooperative-owned residential building. In August 2014, we paid \$4.7 million representing two years of prepaid rent under the ground lease. Pursuant to the terms of the ground lease, in the third quarter of fiscal 2015, we made an additional payment of \$17.3 million when final approvals were received. As we deliver homes to our home buyers, the obligation under this lease will transfer to the building's cooperative. We expect to deliver all homes by the end of our fiscal year ending October 31, 2018; therefore we have included two years

of additional rent payments totaling \$4.7 million that we expect to pay which is included in "Aggregate purchase commitments – Unrelated parties" above.

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.

Investments in Unconsolidated Entities

At October 31, 2015, we had investments in a number of unconsolidated entities, were 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 Unconsolidated Entities," for more information regarding our commitments to these entities.

Surety Bonds and Letters of Credit

At October 31, 2015, we had outstanding surety bonds amounting to \$606.6 million, primarily related to our obligations to governmental entities to construct improvements in our communities. We estimate that \$354.7 million of work remains on these improvements. We have an additional \$116.6 million of surety bonds outstanding that guarantee other obligations. We do not believe it is probable that any outstanding bonds will be drawn upon.

At October 31, 2015, we had outstanding letters of credit of \$118.9 million under our Credit Facility. These letters of credit were issued to secure our various financial obligations, including insurance policy deductibles and other claims, land deposits, and security to complete improvements in communities in which we are operating. We believe it is not probable that any outstanding letters of credit will be drawn upon.

Backlog

At October 31, 2015, we had agreements of sale outstanding to deliver 4,064 homes with an aggregate sales value of \$3.50 billion.

Mortgage Commitments

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

Information regarding our mortgage commitments at October 31, 2015 and 2014, is provided in the table below (amounts in thousands):

	2015	2014
Aggregate mortgage loan commitments:		
IRLCs	\$ 316,184	\$ 191,604
Non-IRLCs	941,243	709,401
Total	\$ 1,257,427	\$ 901,005
Investor commitments to purchase:		
IRLCs	\$ 316,184	\$ 191,604
Mortgage loans receivable	115,859	93,261
Total	\$ 432,043	\$ 284,865

Lease Commitments

We lease certain facilities and equipment under non-cancelable operating leases. Rental expenses incurred by us under these operating leases were (amounts in thousands):

Year ending October 31,	Amount
2015	\$ 12,584
2014	\$ 12,385
2013	\$ 10,973

At October 31, 2015, future minimum rent payments under our operating leases were (amounts in thousands):

Year ending October 31,	Amount
2016	\$ 11,048
2017	9,009
2018	7,072
2019	5,297
2020	1,166
Thereafter	349
	\$ 33,941

16. OTHER INCOME - NET

The table below provides the components of other income - net for the years ended October 31, 2015, 2014, and 2013 (amounts in thousands):

	2015	2014	2013
Interest income	\$ 1,939	\$ 2,493	\$ 4,457
Income from ancillary businesses	23,530	10,653	9,912
Gibraltar	10,168	14,364	10,185
Management fee income from unconsolidated entities	11,299	7,306	2,890
Retained customer deposits	5,224	3,067	2,534
Income from land sales	13,150	25,489	4,435
Income recognized from settlement of litigation			13,229
Directly expensed interest		(656)	
Other	2,263	3,476	4,596
Total other income - net	\$ 67,573	\$ 66,192	\$ 52,238

In fiscal 2015, our security monitoring business recognized an \$8.1 million gain from a bulk sale of security monitoring accounts, which is included in income from ancillary businesses above.

For the year ended October 31, 2014, income from land sales includes \$2.9 million of previously deferred gains on our initial sales of the properties to Trust II as further described in Note 4, "Investments in Unconsolidated Entities."

In fiscal 2013, we recognized income from the settlement of litigation as the result of three derivative lawsuits brought on our behalf against certain of our officers and directors.

Income from ancillary businesses includes our mortgage, title, landscaping, security monitoring, and golf course and country club operations. The table below provides revenues and expenses for these ancillary businesses for the years ended October 31, 2015, 2014, and 2013 (amounts in thousands):

	2015	2014	2013
Revenue	\$ 119,732	\$ 100,284	\$ 89,182
Expense	\$ 96,202	\$ 89,631	\$ 79,270

The table below provides revenues and expenses recognized from land sales for the years ended October 31, 2015, 2014, and 2013 (amounts in thousands):

	2015	2014	2013
Revenue	\$ 183,870	\$ 242,931	\$ 29,252
Deferred gain on land sale to joint venture	(9,260)		
Expense	(161,460)	(217,442)	(24,817)
	\$ 13,150	\$ 25,489	\$ 4,435

Land sale revenues for the nine months ended July 31, 2015, include \$78.5 million related to property sold to a Home Building Joint Venture in which we have a 25% interest. Due to our continued involvement in the joint venture through our ownership interest and guarantees provided on the joint venture's debt, we deferred the \$9.3 million gain realized on the sale. We will recognize the gain as units are sold to the ultimate home buyers. See Note 4, "Investments in Unconsolidated Entities," for more information on this transaction.

17. INFORMATION ON OPERATING SEGMENTS

As we discussed in Note 1, "Significant Accounting Policies - Segment Reporting," prior to October 31, 2015, California was included in the West geographic segment. Due to the increase in our assets and operations in California, it is now presented as a separate geographic segment. Prior year amounts presented below have been reclassified to conform to the fiscal 2015 presentation.

The table below summarizes revenue and income (loss) before income taxes for each of our segments for each of the fiscal years ended October 31, 2015, 2014, and 2013 (amounts in thousands):

	Revenues			Income (loss) before income taxes		
	2015	2014	2013	2015	2014	2013
Traditional Home Building:						
North	\$ 702,175	\$ 662,734	\$ 485,052	\$ 59,172	\$ 56,983	\$ 32,648
Mid-Atlantic	845,328	817,306	652,855	69,093	78,971	79,801
South	892,303	836,498	641,331	152,991	113,584	67,934
West	665,282	517,925	369,697	106,365	78,802	42,731
California	750,036	795,802	354,673	139,133	157,561	68,570
Traditional Home Building	3,855,124	3,630,265	2,503,608	526,754	485,901	291,684
City Living	316,124	281,337	170,691	124,290	104,580	53,345
Corporate and other				(115,482)	(85,899)	(77,332)
Total	\$ 4,171,248	\$ 3,911,602	\$ 2,674,299	\$ 535,562	\$ 504,582	\$ 267,697

"Corporate and other" is comprised principally of general corporate expenses such as the offices of our executive officers; the corporate finance, accounting, audit, tax, human resources, risk management, information technology, marketing, and legal groups; interest income; income from certain of our ancillary businesses, including Gibraltar; and income from a number of our unconsolidated entities.

Total assets for each of our reportable and geographic segments at October 31, 2015 and 2014, are shown in the table below (amounts in thousands):

	2015	2014
Traditional Home Building:		
North	\$ 1,061,777	\$ 1,053,787
Mid-Atlantic	1,225,988	1,267,563
South	1,196,650	1,165,600
West	949,566	755,849
California	2,243,309	1,920,315
Traditional Home Building	6,677,290	6,163,114
City Living	873,013	834,949
Corporate and other	1,656,212	1,400,394
Total	\$ 9,206,515	\$ 8,398,457

“Corporate and other” is comprised principally of cash and cash equivalents, marketable securities, restricted cash, deferred tax assets, and the assets of our Gibraltar investments, manufacturing facilities, and mortgage subsidiary.

Inventory for each of our segments, as of the dates indicated, is shown in the table below (amounts in thousands):

	Land Controlled For Future Communities	Land Owned For Future Communities	Operating Communities	Total
Balances at October 31, 2015				
Traditional Home Building:				
North	\$ 12,858	\$ 146,063	\$ 865,553	\$ 1,024,474
Mid-Atlantic	33,196	194,058	956,749	1,184,003
South	4,861	205,562	806,513	1,016,936
West	8,417	198,689	726,256	933,362
California	14,386	899,675	1,149,112	2,063,173
Traditional Home Building	73,718	1,644,047	4,504,183	6,221,948
City Living	1,496	389,400	384,672	775,568
	\$ 75,214	\$ 2,033,447	\$ 4,888,855	\$ 6,997,516
Balances at October 31, 2014				
Traditional Home Building:				
North	\$ 12,007	\$ 171,780	\$ 834,266	\$ 1,018,053
Mid-Atlantic	29,169	209,506	994,859	1,233,534
South	10,971	219,904	793,835	1,024,710
West	18,780	201,710	519,415	739,905
California	3,342	1,189,318	658,405	1,851,065
Traditional Home Building	74,269	1,992,218	3,800,780	5,867,267
City Living	48,264	363,656	211,134	623,054
	\$ 122,533	\$ 2,355,874	\$ 4,011,914	\$ 6,490,321

The amounts we have provided for inventory impairment charges and the expensing of costs that we believed not to be recoverable for each our of geographic segments, for the years ended October 31, 2015, 2014, and 2013, are shown in the table below (amounts in thousands):

	2015	2014	2013
Traditional Home Building:			
North	\$ 15,033	\$ 9,148	\$ 1,762
Mid-Atlantic	19,488	9,069	522
South	720	2,285	2,400
West	420	169	365
California		7	(526)
Traditional Home Building	35,661	20,678	4,523
City Living	48		
	\$ 35,709	\$ 20,678	\$ 4,523

The net carrying value of our investments in unconsolidated entities and our equity in earnings from such investments, for each of our reportable and geographic segments, as of the dates indicated, are shown in the table below (amounts in thousands):

	Investments in Unconsolidated Entities		Equity in earning From Unconsolidated Entities		
	At October 31,		Year ended October 31,		
	2015	2014	2015	2014	2013
Traditional Home Building:					
Mid-Atlantic	\$ 12,167	\$ 11,841		\$ (8)	
South	97,041	98,362	\$ 11,074	2,621	\$ 184
West		1,841	447	(166)	(183)
California	128,338	57,732	5,089	302	3,584
Traditional Home Building	237,546	169,776	16,610	2,749	3,585
City Living	52,634	159,953	(1,158)	(3,593)	1,174
Corporate and other	122,680	117,349	5,667	41,985	9,633
Total	\$ 412,860	\$ 447,078	\$ 21,119	\$ 41,141	\$ 14,392

“Corporate and other” is comprised of our investments in the Rental Property Joint Ventures (including the Trust and Trust II) and the Structured Asset Joint Venture. In the first quarter of fiscal 2015, a Rental Property Joint Venture that was previously included in the Mid-Atlantic geographic segment was reclassified to “Corporate and other.” Our investment balance in this joint venture at October 31, 2014, of \$12.4 million, was reclassified in the table above to conform to the fiscal 2015 presentation.

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, 2015, 2014 and 2013 (amounts in thousands):

	2015	2014	2013
Cash flow information:			
Interest paid, net of amount capitalized	\$ 23,930	\$ 10,131	\$ 18,187
Income tax payments	\$ 205,412	\$ 71,608	\$ 3,130
Income tax refunds	\$ 16,965	\$ 8	\$ 1,190
Noncash activity:			
Cost of inventory acquired through seller financing or municipal bonds, net	\$ 67,890	\$ 96,497	\$ 45,726
Financed portion of land sale	\$ 2,273	\$ 6,586	\$ 7,200
Reduction in inventory for Company's share of earnings in land purchased from unconsolidated entities	\$ 9,188	\$ 4,177	\$ 3,035
Transfer of investment in REO to inventory			\$ 764
Reclassification of deferred income from inventory to accrued liabilities			\$ 4,545
Reclassification of inventory to property, construction, and office equipment		\$ 9,482	\$ 5,576
(Decrease) increase in unrecognized losses in defined benefit plans	\$ (382)	\$ 1,183	\$ (3,636)
Defined benefit plan amendment	\$ 768	\$ 511	\$ 826
Deferred tax decrease related to exercise of stock options included in APIC	\$ 2,325	\$ 312	
Increase in accrued expenses related to Stock Price-Based RSUs		\$ 5,086	\$ 2,942
Income tax (expense) benefit recognized in total comprehensive income	\$ (200)	\$ 202	\$ (1,512)
Transfer of inventory to investment in unconsolidated entities		\$ 4,152	\$ 54,761
Transfers of investment in unconsolidated entity to inventory	\$ 132,256	\$ 2,704	
Transfer of other assets to investment in unconsolidated entities	\$ 4,852		
Unrealized gain on derivatives held by equity investees	\$ 26	\$ 364	\$ 435
Increase in investments in unconsolidated entities for change in the fair value of debt guarantees	\$ 1,843	\$ 1,356	\$ 1,582
Miscellaneous increases (decreases) to investments in unconsolidated entities	\$ 144	\$ 249	\$ (1,811)
Business Acquisitions:			
Fair value of assets purchased, excluding cash acquired		\$ 1,524,964	
Liabilities assumed		\$ 35,848	
Cash paid, net of cash acquired		\$ 1,489,116	

19. SUMMARY CONSOLIDATED QUARTERLY FINANCIAL DATA (UNAUDITED)

The table below provides summary income statement data for each quarter of fiscal 2015 and 2014 (amounts in thousands, except per share data):

	Three Months Ended,			
	October 31	July 31	April 30	January 31
Fiscal 2015:				
Revenue	\$ 1,437,202	\$ 1,028,011	\$ 852,583	\$ 853,452
Gross profit (a)	\$ 320,870	\$ 203,617	\$ 174,071	\$ 203,420
Income before income taxes	\$ 217,543	\$ 107,464	\$ 86,532	\$ 124,023
Net income	\$ 147,163	\$ 66,749	\$ 67,930	\$ 81,325
Income per share (b)				
Basic	\$ 0.83	\$ 0.38	\$ 0.38	\$ 0.46
Diluted	\$ 0.80	\$ 0.36	\$ 0.37	\$ 0.44
Weighted-average number of shares				
Basic	176,370	176,797	176,458	176,076
Diluted	184,736	185,133	184,838	184,107
Fiscal 2014:				
Revenue	\$ 1,350,690	\$ 1,056,857	\$ 860,374	\$ 643,681
Gross profit (a)	\$ 288,115	\$ 239,625	\$ 172,376	\$ 129,649
Income before income taxes	\$ 188,538	\$ 151,325	\$ 93,484	\$ 71,235
Net income	\$ 131,524	\$ 97,707	\$ 65,222	\$ 45,580
Income per share (b)				
Basic	\$ 0.74	\$ 0.55	\$ 0.37	\$ 0.26
Diluted	\$ 0.71	\$ 0.53	\$ 0.35	\$ 0.25
Weighted-average number of shares				
Basic	177,540	178,217	178,082	176,474
Diluted	185,669	186,501	186,442	184,888

(a) Gross profit in the third quarter and fourth quarter of fiscal 2015 included charges, net of reversals, of \$4.9 million and \$8.2 million, respectively, associated with stucco-related claims, construction claims, and litigation. Gross profit in the fourth quarter of 2014 included charges of \$32.0 million associated with such items. See Note 7, "Accrued Expenses," for additional information regarding certain of these charges.

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

STOCK PRICES

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 NYSE:

	Three Months Ended			
	October 31	July 31	April 30	January 31
2015				
High	\$ 41.88	\$ 39.40	\$ 39.99	\$ 35.37
Low	\$ 34.02	\$ 35.54	\$ 34.65	\$ 30.92
2014				
High	\$ 35.94	\$ 37.60	\$ 39.94	\$ 37.58
Low	\$ 28.92	\$ 32.39	\$ 33.42	\$ 31.61

The closing price of our common stock on the NYSE on the last trading day of our fiscal years ended October 31, 2015, 2014, and 2013 was \$35.97, \$31.95, and \$32.88, respectively. At December 11, 2015, there were approximately 661 record holders of our common stock.

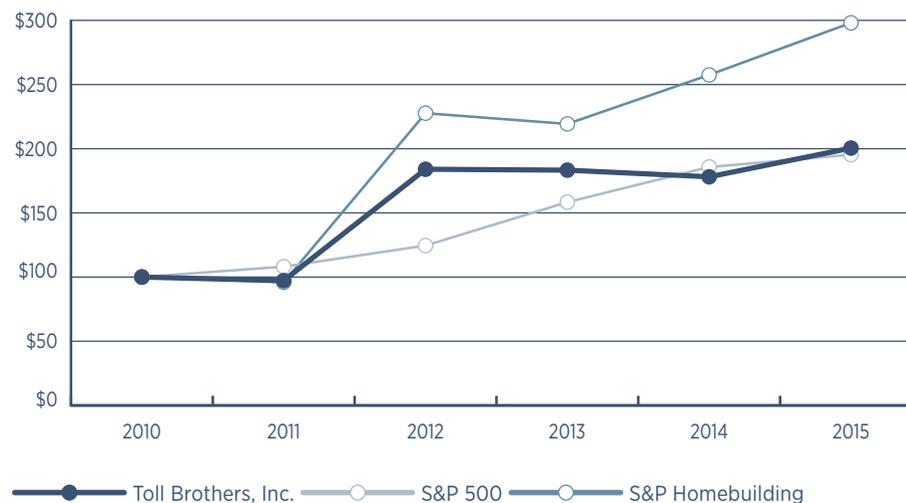
DIVIDENDS

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, our 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, 2015, under the most restrictive provisions of our bank credit agreement, we could have paid up to approximately \$1.56 billion of cash dividends.

STOCKHOLDER RETURN PERFORMANCE GRAPH

The following graph and chart compares the five-year cumulative total return (assuming that an investment of \$100 was made on October 31, 2010, and that dividends, if any, were reinvested) from October 31, 2010, to October 31, 2015, for (a) our common stock, (b) the S&P Homebuilding Index and (c) the S&P 500®:

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



October 31:	2010	2011	2012	2013	2014	2015
Toll Brothers, Inc.	100.00	97.21	184.00	183.28	178.09	200.50
S&P 500®	100.00	108.09	124.52	158.36	185.71	195.37
S&P Homebuilding	100.00	95.96	227.68	219.30	257.49	298.07

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.* (25)

Chief Executive Officer

Robert S. Blank

*Co-Chairman & Co-CEO — Whitney
Communications Company, and
Senior Partner — Whitcom Partners*

Edward G. Boehne

*Retired President — Federal Reserve Bank
of Philadelphia*

Richard J. Braemer

*Senior Counsel — Ballard Spahr
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.,
an aviation services and consulting company*

Stephen A. Novick

*Senior Advisor — The Andrea and Charles
Bronfman Philanthropies*

Paul E. Shapiro

*Chairman — Q Capital Holdings, LLC,
a life settlement company*

President and Chief Operating Officer

Richard T. Hartman* (36)

Senior Vice Presidents

Frederick N. Cooper (22)
*Finance, International Development
and Investor Relations*

John Critikos (2)
Chief Information Officer

Joseph R. DeSanto (12)
Tax

Jonathan C. Downs (23)
Human Resources

Daniel J. Kennedy (21)
Chief Audit Officer

John K. McDonald (13)
*General Counsel and
Chief Compliance Officer*

Home Building Operations

Regional Presidents

James W. Boyd (22)

Barry A. Depew (32)

Kevin D. Duermit (28)

William J. Gilligan (21)

John G. Mangano (28)

Robert Parahus (29)

Toll Brothers City Living*

Thomas R. Mulvey (11)

President

Group Presidents

Keith L. Anderson (18)

John P. Elcano (23)

Christopher G. Gaffney (19)

Gregory E. Kamedulski (23)

Gary M. Mayo (18)

Thomas J. Murray (21)

Chief Financial Officer

Martin P. Connor* (7)

Kevin J. McMaster (32)
Controller

Joseph R. Sicree (23)
Chief Accounting Officer

Michael I. Snyder (35)
*Secretary and
Chief Planning Officer*

Kira Sterling (30)
Chief Marketing Officer

Werner Thiessen (25)
Acquisitions

Gregg L. Ziegler (13)
Treasurer

Division Presidents

Eric C. Anderson (19)

Mark G. Bailey (15)

David Bauer (11)

Charles T. Breder (15)

James Fitzpatrick (14)

Robert L. Flaherty (18)

David E. Kelly (11)

John S. Lannamann (14)

Karl Mistry (11)

Kelley Moldstad (4)

Robert D. Moore (2)

Division Presidents

Richard M. Nelson (17)

Gregory S. Netro (15)

Mark J. Nosal (14)

Robert G. Paul (14)

Seth J. Ring (12)

Anthony J. Rocco (18)

Andrew J. Semon (13)

David R. Straub (15)

Kenneth S. Thirtyacre (18)

John R. Tolbert (16)

David H. Von Spreckelsen (12)

Subsidiary and Affiliate Operations

Toll Brothers Apartment Living

Toll Brothers Campus Living

Charles L. Elliott (4)

Managing Director

Golf and Country Club Operations

David H. Richey (13)

President

Land Development Operations

Robert N. McCarron (23)

Executive Vice President

Joseph J. Palka (22)

Executive Vice President

ESE Consultants, Inc.

Mark S. Mayhew (2)

Managing Director

TBI Mortgage® Company

Donald L. Salmon (16)

President

Toll Architecture, Inc.

Jed Gibson (22)

President

Gibraltar Capital and Asset Management, LLC

Roger A. Brush (22)

President

Michael L. LaPat (16)

Chief Financial Officer

Toll Integrated Systems

Keith Fell (7)

Director of Manufacturing

Toll Landscape, LLC

Mark Culichia (18)

President

Westminster Security Company

Felicia Ratka (15)

President

Westminster Title Company, Inc.

William T. Unkel (11)

President

*Executive Officer of the Company.
Director and employee listing as of 1/1/16.
(.) 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, LLC
6201 15th Avenue
Brooklyn, New York 11219
1-800-937-5449 • amstock.com

Independent Auditors

Ernst & Young LLP — Philadelphia, Pennsylvania

Employees

As of October 31, 2015, we had approximately 3,900 full-time employees.

Stockholders

As of December 11, 2015, we had 661 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, 2015. 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 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, Institutional Investor Magazine, 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,® Office of Federal Housing Enterprises Oversight, Raymond James, Standard & Poor's, Thomson Reuters Corporation, U.S. Bureau of Labor Statistics, 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 and risk 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 Cassis | Toll Brothers at Hidden Canyon | Irvine, CA

Photography by:

Evan Joseph, Christopher Mayer, Dave Moser, Bill Taylor, Todd A. Smith, William Wright
Photography

Renderings by:

GammaHaus, Incorporated Architecture and Design, Pure





The Sutton | New York, NY | Artist's Rendering

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