Toll Brothers

AMERICA'S LUXURY HOME BUILDER®

2016 ANNUAL REPORT

The Santa Rosa | Enclave at Yorba Linda | Yorba Linda, CA

CORPORATE OVERVIEW*

Fortune magazine's 2016 Survey of the World's Most Admired Companies ranked Toll Brothers #6 globally for the Quality of our Products and Services.

1. Apple
2. Walt Disney
3. Amazon.com
4. Alphabet
5. Nordstrom
6. **Toll Brothers**
7. Netflix
8. Facebook
9. Alcoa
10. Wynn Resorts

LUXURY HOME AND COMMUNITY DEVELOPER

National presence in the luxury market: 50 markets in 20 states and Washington, DC

Average delivered home price of $848,000; average price in backlog of $850,000

High-volume home production/ 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 and country club living
- Urban and suburban rental communities
- T | Select: the elegance of a high-end Toll Brothers home with fewer structural options, quicker delivery, and a slightly lower price

INDUSTRY-LEADING BRANDS

America's Luxury Home Builder

Toll Brothers Active Living: luxury homes for active adults including 55+ buyers

Toll Brothers City Living: luxury mid- and high-rise urban for-sale communities

Toll Brothers Apartment Living and Toll Brothers Campus Living: luxury urban, suburban, and student for-rent communities

RECENT AWARDS:

- **National Builder of the Year**, *BUILDER* magazine
- Two-Time **Builder of the Year**, *Professional Builder* magazine
- **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 86,000 homes ($55 billion) since FY 2000

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

Liquidity of $1.6 billion: $634 million in cash and $962 million available under our 20-bank, 5-year $1.295 billion credit facility

$500 million, 9-bank, 5-year term loan

Raised over $6.4 billion in corporate and joint venture financing since beginning of FY 2013

Debt-to-capital ratio of 47%
Net debt-to-capital ratio§ of 41%

Laddered long-term public and bank debt maturities with an average of 4.5 years remaining

Seasoned management: average 19-year tenure

Land banking, lending, and joint venture financing services via Gibraltar Capital and Asset Management

DIVERSIFIED LAND AND BUILDING PROGRAM

Control 48,800 home sites

Land planning, acquisition, approval, and development skills

Selling from 310 communities at FYE 2016

Buyers averaged $155,000 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 projects totaling 5,700 units built, in construction, or planned in New York City, northern New Jersey, Philadelphia, and metro Washington, DC

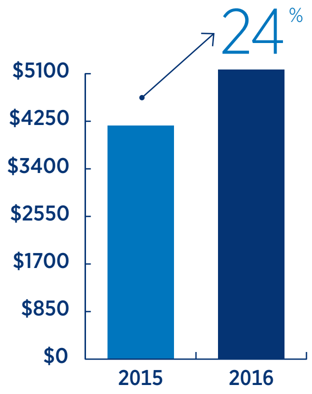
Toll Brothers Apartment Living and Toll Brothers Campus Living: own or control a portfolio of approximately 10,000 units built, in construction, or planned across the nation

Ancillary businesses: mortgage, land development/banking/sales, title, golf course development/management, landscape, home technology/security, architecture, engineering, and house component manufacturing

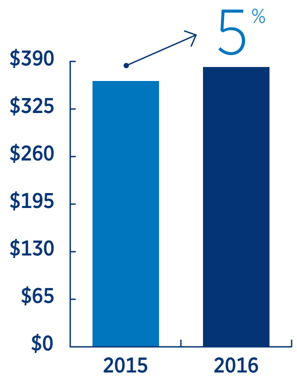
*Information for and as of FYE October 31, 2016, unless otherwise noted. †See footnote on page 80. ‡Toll Brothers received the highest numerical score in the United States in the proprietary *Lifestory Research* 2015 America's Most Trusted Home Builder™ study. Study based on 43,200 new home shoppers in 27 markets. Proprietary study results are based on experiences and perceptions of consumers surveyed between January and December 2014. §See "Reconciliation of Non-GAAP Measures" on page 78 for more information on the calculation of the Company's net debt-to-capital ratio.

121 E 22nd | New York, NY | *Artist's Rendering*

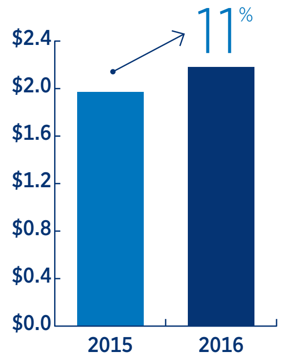
REVENUES
In FY (in millions)



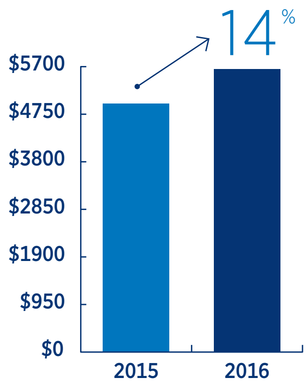
NET INCOME
In FY (in millions)



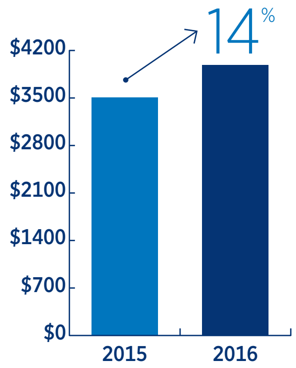
EPS
In FY (per share)



CONTRACTS
In FY (in millions)



BACKLOG
At FYE (in millions)



FINANCIAL SUMMARY (FYE)

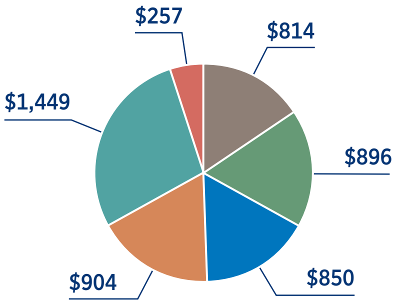
Balance Sheet Data *(amounts in 000s, except per-share data)*	2016	2015	2014	2013	2012	2011	2010	2009	2008	2007
Cash and marketable securities	$ 633,715	$ 928,994	$ 598,341	$ 825,480	$ 1,217,892	$ 1,139,912	$ 1,236,927	$ 1,908,894	$ 1,633,495	$ 900,337
Total debt	$ 3,775,451	$ 3,790,240	$ 3,381,141	$ 2,487,987	$ 2,237,815	$ 1,648,169	$ 1,702,863	$ 2,215,917	$ 2,133,420	$ 2,260,273
Stockholders' equity	$ 4,229,292	$ 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
Book value per share	$ 26.14	$ 24.15	$ 22.02	$ 19.68	$ 18.51	$ 15.61	$ 15.36	$ 15.26	$ 20.19	$ 22.47
Debt-to-capital ratio	47.2%	47.3%	46.7%	42.7%	41.8%	38.9%	40.0%	45.8%	39.7%	39.1%
Net debt-to-capital ratio†	40.9%	39.5%	41.1%	32.3%	23.3%	14.8%	13.3%	7.0%	12.5%	26.7%

Operations Data *(amounts in 000s)*	2016	2015	2014	2013	2012	2011	2010	2009	2008	2007
Total revenues	$ 5,169,508	$ 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
Income (loss) before income taxes	$ 589,027	$ 535,562	$ 504,582	$ 267,697	$ 112,942	$ (29,366)	$ (117,187)	$ (496,465)	$ (466,787)	$ 70,680
Net income (loss)	$ 382,095	$ 363,167	$ 340,032	$ 170,606	$ 487,146	$ 39,795	$ (3,374)	$ (755,825)	$ (297,810)	$ 35,651
Total contracts	$ 5,649,570	$ 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
Backlog	$ 3,984,065	$ 3,504,004	$ 2,719,673	$ 2,629,466	$ 1,669,857	$ 981,052	$ 852,106	$ 874,837	$ 1,325,491	$ 2,854,435

†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. See "Reconciliation of Non-GAAP Measures" on page 78 for more information.

HOUSING REVENUES

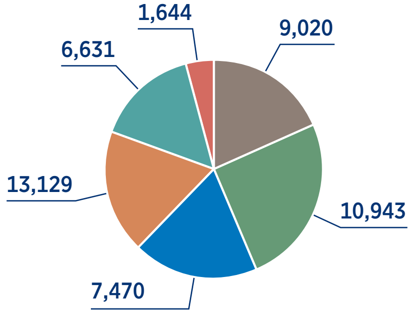
By segment in FY 2016 (in millions)



TOTAL: $5,170

HOME SITES CONTROLLED

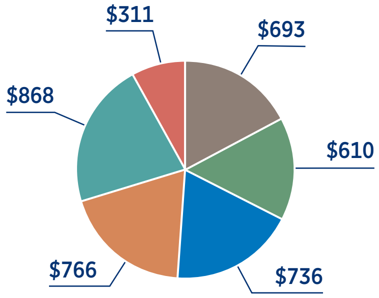
By segment at FYE 2016



TOTAL: 48,837

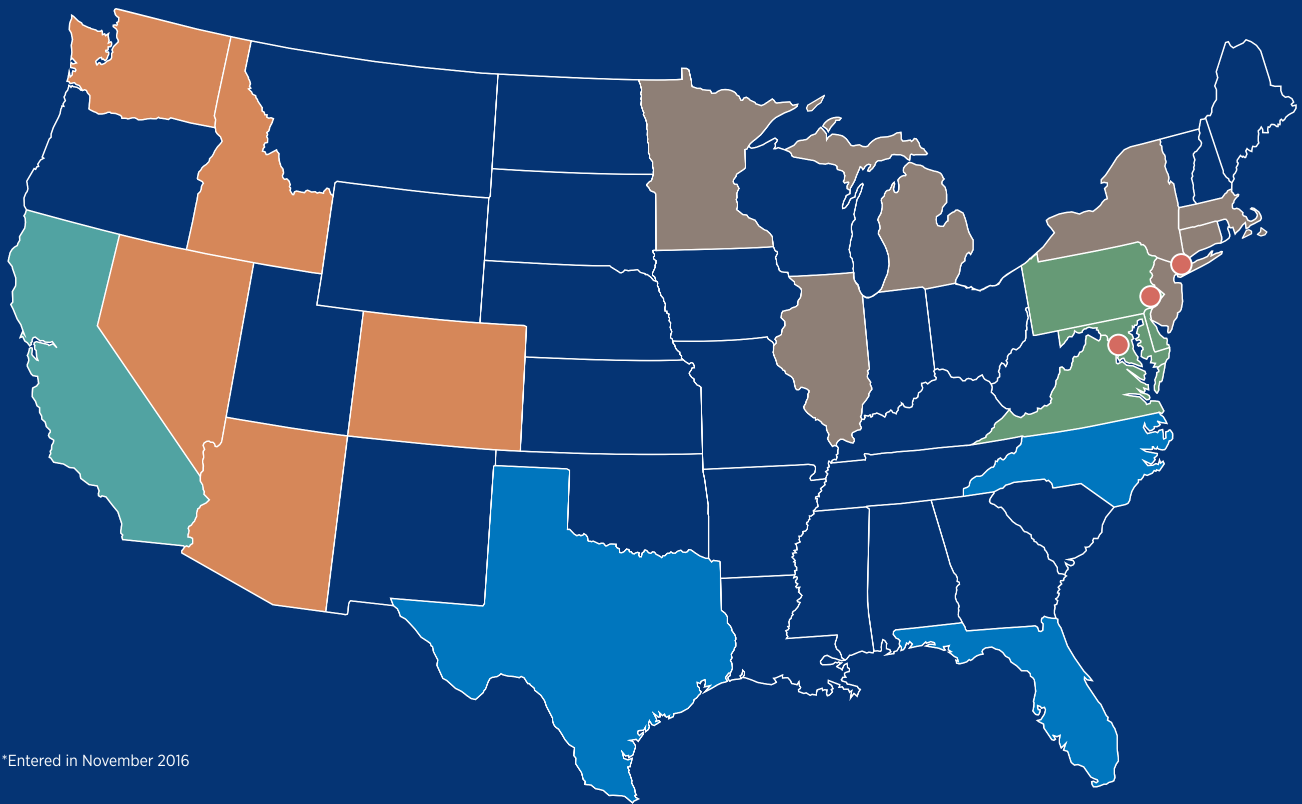
BACKLOG

By segment at FYE 2016 (in millions)



TOTAL: $3,984

GEOGRAPHIC DIVERSIFICATION



*Entered in November 2016

NORTH

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

MID-ATLANTIC

Delaware, Maryland, Pennsylvania, Virginia

SOUTH

Florida, North Carolina, Texas

WEST

Arizona, Colorado, Idaho,* Nevada, Washington

CALIFORNIA

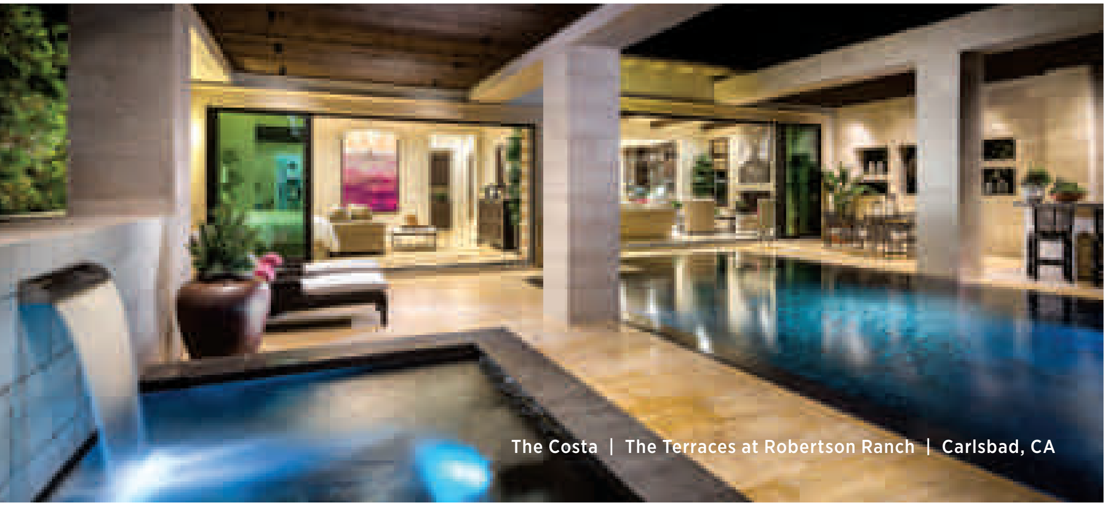
Metro areas of Los Angeles, San Francisco, San Jose, Palm Springs, San Diego, Sacramento

CITY LIVING

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


The Elinor | Belvedere at Bellevue | Bellevue, WA


The Parker | The Villages at Lenah Mill | Aldie, VA


The Costa | The Terraces at Robertson Ranch | Carlsbad, CA


The Villa Milano | Casabella at Windermere | Windermere, FL


100 Barrow | New York, NY | *Artist's Rendering*

The Sorrento | Altura | Las Vegas, NV

DEAR SHAREHOLDER

As we approach our 50th anniversary, we remain true to our goal of providing each and every customer with the quality, value, and service that are the hallmarks of the Toll Brothers brand.

A UNIQUE BRAND SERVING THE SWEET SPOT IN THE LUXURY NEW HOME MARKET

As the only national home building company focused on the luxury market, Toll Brothers continues to benefit from healthy demand, limited competition in many regions, superior land positions, a financially strong buyer base, and a highly recognizable brand.

These strategic advantages and a solid financial foundation have propelled us to more than triple our revenues and increase net income nine-fold in the past five years. Based on these initiatives, we believe we are well-positioned to continue to grow in a vibrant luxury new home market.

One of our key drivers is our brand, which received unprecedented recognition in 2016. This year, Toll Brothers ranked #6 among all 1,500 companies in *Fortune* magazine's survey of the World's Most Admired Companies for the quality of our products and services. We were behind only Apple, Walt Disney, Amazon, Alphabet, and Nordstrom.

While there has been some debate about softness in the luxury housing market, we continue to produce impressive results by serving what we believe is the demographic sweet spot in the luxury market. We are not focused on ultra-luxury. Rather, with an average delivered home price of approximately $850,000 company-wide in FY 2016—and $690,000 in markets other than New York City and California—our product lines are affordable to many households in the United States.

A new study by John Burns Real Estate Consulting supported what we are experiencing in our segment of the luxury market. This report noted that in the 12 months ending September 2016, sales of homes priced above $600,000 rose in 37 of the 43 counties in the 16 states studied, and that home sales above $600,000 in the same period exceeded sales in the prior 12 months by 10%. In addition, according to a recent study by the Urban Land Institute, "From 2000–2015, suburban areas accounted for 91% of the population growth and 84% of the household growth in the top 50 metros." These positive data points are significant, given our price points and the fact that 90% of our business is transacted in the suburbs.

OUR BRAND, LAND HOLDINGS, AND DIVERSE PRODUCTS HELP DRIVE STRONG PERFORMANCE

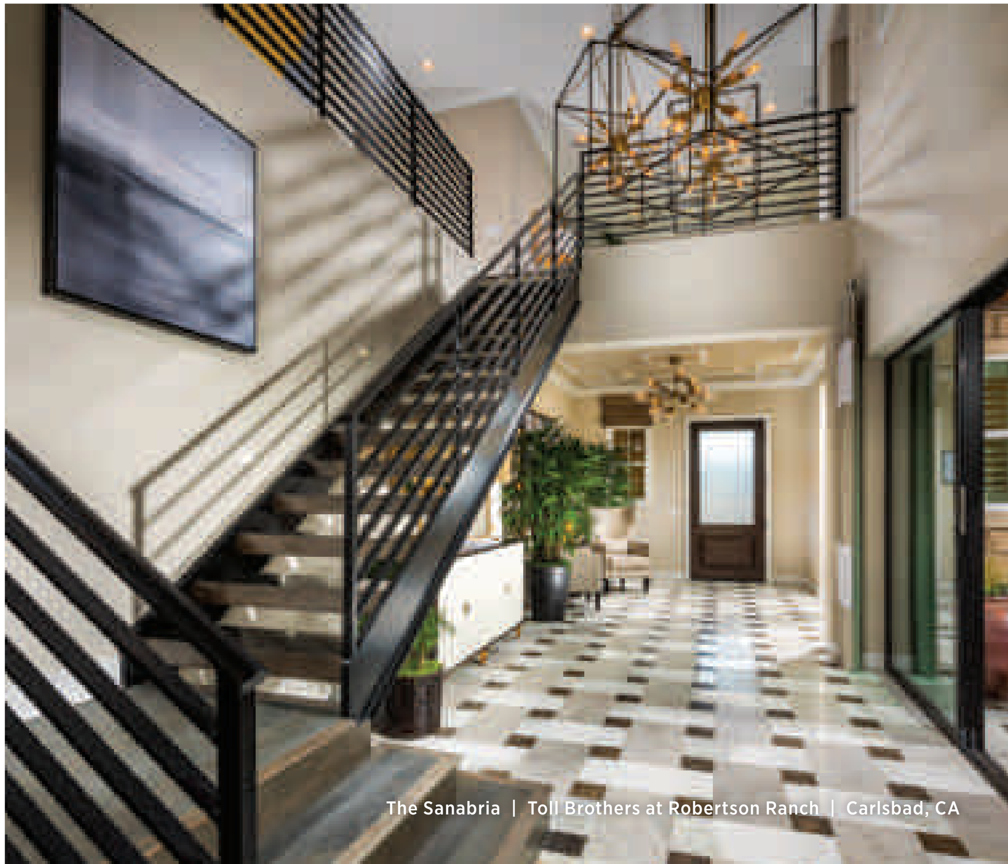
The value of our brand, our demographically targeted product lines, and our well-located communities all helped drive this year's results. In FY 2016, revenues of $5.17 billion and home building deliveries of 6,098 units rose 24% in dollars and 10% in units, compared to FY 2015. Our net signed contracts of $5.65 billion and 6,719 units increased 14% in dollars and units, compared to FY 2015.

In FY 2016, our net income of $382.1 million, $2.18 per share, grew 5.2% and 10.7% respectively, and our pre-tax income of $589.0 million grew 10.0%, compared to FY 2015. Gross margin, as a percentage of revenues, was 19.8% in FY 2016, compared to 21.6% in FY 2015. Impacting FY 2016's gross margin and pre-tax income, reported in cost of sales, were $13.8 million of inventory impairments and $125.6 million of warranty charges, primarily related to older stucco homes. FY 2015's pre-tax income and gross margin included $35.7 million of inventory impairments and a comparable $14.7 million warranty charge. Gross margin, excluding interest, inventory write-downs, and the above warranty charges, as a percentage of revenues, was 25.6% in FY 2016, compared to 26.3% in FY 2015. FY 2016 pre-tax income, excluding inventory write-downs and the above warranty charges, was $728.4 million, compared to $586.0 million in FY 2015, an increase of 24.3%.

FY 2016's fourth quarter was our ninth consecutive quarter of year-over-year growth in contract dollars and units. Our fourth-quarter net signed contracts of $1.47 billion and 1,728 units rose 17% in dollars and 20% in units, compared to FY 2015's fourth quarter. On a per-community basis, FY 2016's fourth-quarter net signed contracts rose 12% to 5.82 units.

FY 2016's fourth quarter was our ninth consecutive quarter of year-over-year contract growth.

The Pinnacle | Regency at Summerlin® | Las Vegas, NV



The Sanabria | Toll Brothers at Robertson Ranch | Carlsbad, CA

The Bowan | Regency at White Oak Creek | Apex, NC

1110 Park Avenue | New York, NY

We believe there is still significant unmet demand for new homes in the United States.

We enter FY 2017 with positive momentum. We begin the new fiscal year with FYE 2016's backlog of $3.98 billion and 4,685 homes, up 14% in dollars and 15% in units, compared to FYE 2015.

As the *Wall Street Journal* recently reported, even with the unemployment rate at the lowest level in a decade and eight years of economic expansion, new home construction remains well below historic production norms. Therefore, we believe that the market is likely to continue on its path of steady recovery.

Based on our FY 2016 results and the current state of the economy, we believe FY 2017 will be another year of solid growth in revenues and profit. We project FY 2017 home building revenues of between $5.0 billion and $6.2 billion. This is based on delivering between 6,500 and 7,500 homes in FY 2017 at an average price between $775,000 and $825,000 per home. We grew our community count by 7.6% during FY 2016 to end the year with 310 selling communities. We expect similar community count growth in FY 2017.

OUR STRONG BALANCE SHEET AND ACCESS TO LIQUIDITY SUPPORT OUR GROWTH

We ended FY 2016 with $633.7 million of cash and $961.8 million available under our $1.295 billion bank revolving credit facility. Our debt-to-capital and net debt-to-capital ratios were 47.2% and 40.9%, respectively, and stockholders' equity was $4.23 billion at FYE 2016. In May 2016, we expanded our bank revolving credit facility to $1.295 billion and 20 banks, and extended the term to May 2021. Similarly, in August 2016, we extended our $500 million floating rate bank term loan to August 2021. We now have nearly $1.8 billion of long-term credit facilities with 21 banks at an average interest cost below LIBOR +150. In October 2016, we also increased and expanded the mortgage warehouse facility of TBI Mortgage Company, our wholly owned home financing subsidiary, to $210 million.

Based on what we believe is an undervalued stock price, and with our focus on improving shareholder value and return on equity, we continue to pursue strategies to improve our capital efficiency. During FY 2016, we repurchased an additional $392.8 million (13.7 million shares) of stock and an additional $15.0 million (550,000 shares) at the start of FY 2017. Other measures to improve our return on equity include forming capital- and risk-efficient joint ventures and, potentially, modestly increasing our leverage, and utilizing additional lower-cost variable rate borrowings.

Since the start of FY 2016, we have completed nearly $1 billion of joint venture debt and equity transactions. These involve three types of properties: our larger, more capital-intensive New York City high-rise condominium projects; all of our urban and suburban rental projects; and a number of our larger master planned communities. These financings, which encompass both project-specific construction and permanent loans, and project-specific third-party equity investments, enable us to reduce our equity exposure, generate fees, earn promotes based on performance success, and increase our return on investment. We will continue to use joint venture structures as a strategy to improve return on equity.

In April 2016, our wholly owned Gibraltar Capital and Asset Management subsidiary, a full-service real estate investment, capital origination, and asset management platform, formed a joint venture with a large institutional investor. This joint venture will provide builders and developers with land banking, debt, and equity capital for the acquisition and development of land and home sites, and other complementary opportunistic investment strategies. The venture, which is managed by Gibraltar, has a total of $400 million of funding commitments: 75% from third-party capital and 25% from Toll Brothers. The joint venture has closed transactions totaling $76 million of funding commitments to date.

100 Barrow | New York, NY | *Artist's Rendering*

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


The Madison | Bluffs at Bella Vista | Porter Ranch, CA


The Villa Milano | Casabella at Windermere | Windermere, FL


Somerset Green | Houston, TX | *Artist's Rendering*


The Sutton | New York, NY


The Aldrich | Pipers Glen | Bothell, WA

BROADENING OUR FOOTPRINT AND PRODUCT LINES AS WE PREPARE FOR THE FUTURE

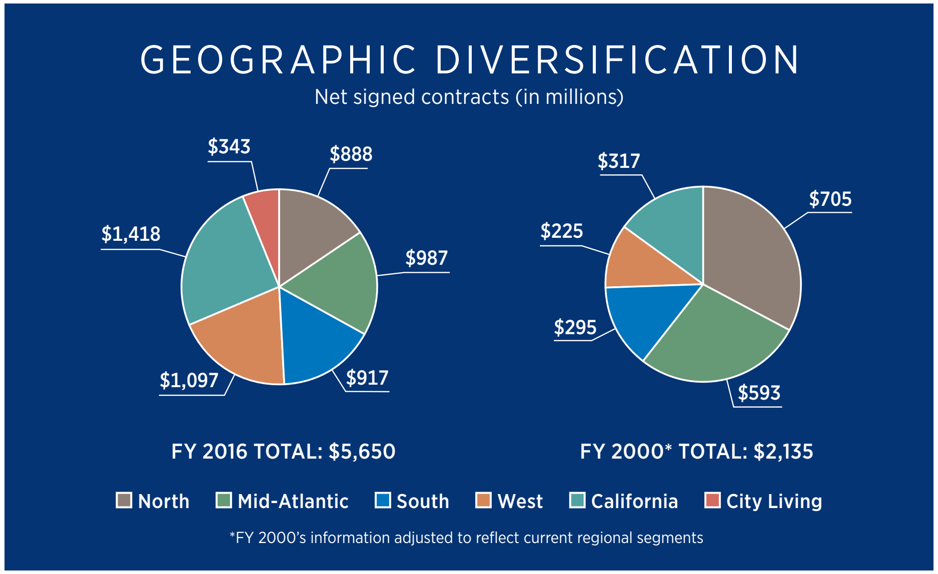
We continue to pursue growth initiatives to amplify the value of the Toll Brothers brand. Through our dual-pronged strategy of expanding and diversifying our geographic footprint and broadening our platform of residential product lines, we are reaching affluent buyers across the demographic spectrum: from higher-income millennials to baby boomers and many more in between.

California, where we build primarily in the coastal suburbs of San Francisco, Los Angeles, and San Diego, remained our largest housing market. With a multiyear land position in desirable coastal locations, we see this as a dynamic region for us for years to come. We also enjoyed strong demand in our other western markets of suburban Seattle, Phoenix, Reno, Las Vegas, and Denver. These markets in total accounted for 45% in dollars and 36% in units of signed contracts in FY 2016. With the goal of augmenting our footprint in the west, in November 2016, we expanded into the Boise, Idaho market with the acquisition of Coleman Homes. In addition to the strength out west, we see solid demand in Dallas, Jacksonville, Orlando, Northern Virginia, Philadelphia, and New Jersey.

As household formations increase across the United States, our core product remains move-up communities. We serve growing families with a diverse selection of residences ranging from close-knit communities of 25 homes to master planned communities of several thousand homes across multiple product lines.

The maturing baby boomers entering their pre-retirement and retirement years are another demographic market in which we are expanding our presence. This segment, which we entered in the late 1990s, has continued to grow in importance as more baby boomers have entered their fifties and sixties. To meet this growing segment, our primary product is our active-adult, age-qualified communities with one buyer at least 55 years of age. These communities are often highly amenitized, with smaller, luxurious single-story homes. Originally concentrated in the Northeast, Mid-Atlantic, and Midwest, our active-adult communities have recently been introduced in the West with communities now outside

We are pursuing a strategy of expanding and diversifying our geographic footprint and broadening our platform of Toll Brothers product lines.



Denver, Colorado, and in Las Vegas and Reno, Nevada. We also have plans for active-adult communities in coastal California and suburban Phoenix.

In addition, we are reaching maturing baby boomers with a variety of other offerings including suburban single-story homes in high-amenity master planned communities; urban condominium communities in places such as New York City, Philadelphia, and metro Washington, DC; and urban and suburban Apartment Living communities, where a rented second home affords greater flexibility.

We are starting to benefit from the millennial generation's desire for homeownership. In FY 2016, approximately 22% of our settlements included one primary buyer 35 years of age or under.

With the millennial generation now entering their thirties and forming families, we are starting to benefit from the desire for homeownership from the leading edge of this huge demographic wave. In FY 2016, approximately 22% of our settlements included one primary buyer 35 years of age or under. We are courting these customers with our core move-up homes, attached suburban products, urban condominiums, and urban and suburban rental apartment properties. We are also introducing a new product line, T | Select by Toll Brothers, which incorporates the elegance and style of higher-end Toll Brothers homes but with fewer structural options, a quicker delivery time, and a slightly lower price.

Toll Brothers Apartment Living, our rental property division, took major steps forward this year. We achieved stabilization on over 1,100 units in three projects: The Morgan at Provost Square, a 417-unit, 38-story tower by the Grove Street PATH train station in Jersey City, New Jersey; Parc Riverside, a 287-unit high-rise by the Nationals Park baseball stadium in Washington, DC; and Parc at Plymouth Meeting, a 398-unit suburban community northwest of Philadelphia. We are currently leasing up Parc Westborough, a 249-unit community west of Boston in Westborough, Massachussetts, and Riverworks, a 349-unit community west of Philadelphia in Phoenixville, Pennsylvania. We are under construction on another 1,315 units in three projects: Union Place, a 525-unit high-rise adjacent to Union Station in Washington, DC; Kensington Place, a 400-unit community in East Brunswick, New Jersey; and The 2nd Avenue Residences, a 390-unit community in Needham, Massachussetts, just outside Boston.

Through Toll Brothers Campus Living, we also completed and leased-up our first student housing community, Terrapin Row, an upscale 1,493-bed, 418-unit student living complex just steps from the southern tip of the University of Maryland campus in College Park.

We now have a portfolio of urban and suburban rental projects stabilized, in lease-up, under construction, or in planning, totaling approximately 10,000 units, all of which are or will be undertaken in joint ventures. We believe we are creating significant shareholder value for the Company through Toll Brothers Apartment Living.

Our urban for-sale condominium communities, developed by Toll Brothers City Living, continue to produce company-leading profit margins. City Living was formed in 2003, and has completed 30 buildings totaling approximately 3,900 units. We are currently offering condominiums in ten buildings, recently completed or under construction, totaling 1,024 units, of which 370 are left to sell.

We have five additional buildings totaling 708 units in planning and development. We have become more cautious in our urban land buying, particularly in New York City, where we have seen a leveling of demand. We believe that we still have strong margins embedded in well-bought land acquired several years ago. Current and future projects, several of which are in joint ventures, are located in some of the most appealing residential neighborhoods in the New York City market, including Brooklyn Heights, Chelsea, Gramercy, NoMad, SoHo West, Sutton Place, Tribeca, Upper East Side, West Village, Hoboken, and Jersey City.

The Clubhouse | Riverworks | Phoenixville, PA


First Home Delivered In 1967


Initial Public Offering In 1986


Celebrating 30 Years Later


The Hudson | Estates at Bamm Hollow | Lincroft, NJ

OUR 30TH ANNIVERSARY ON THE NYSE

In July 2016, we marked our 30th anniversary as a public company on the New York Stock Exchange (NYSE), an impressive milestone in our three-decade evolution from a local suburban Philadelphia builder to a nationally diversified home building corporation with a uniquely recognized brand. At the time we went public in July 1986, we operated in three local markets: the suburbs of Philadelphia, Pennsylvania and Wilmington, Delaware, and the central New Jersey communities in and around Princeton.

In FY 1986, our first year on the NYSE, we produced revenues of $124.6 million from 15 communities. Our average home price was $155,000 and we ended FY 1986 with stockholders' equity of $31.4 million.

Soon thereafter, we began expanding to adjacent markets. By 1989, when the housing market swooned, we were building our brand along the suburban Boston to Baltimore corridor. We battled through our first downturn as a public company and emerged with a strong balance sheet and a hoard of cash that enabled us to buy distressed properties and expand into the metro Washington, DC, market, and the New York City suburbs of Westchester County, New York, and southern Connecticut.

From there, we entered California and continued to grow organically and through strategic company acquisitions to our current nationwide footprint, which spans 20 states and approximately 50 markets. Over the years, as we have expanded geographically and diversified our product lines, we have balanced our drive for growth with a strong and prudently structured financial foundation.

During these three decades, as our reputation has grown, we have remained true to our goal of providing each and every customer with the quality, value, and service that are the hallmarks of the Toll Brothers brand. Whether the setting is our high-rise towers overlooking the Manhattan skyline, a home on a championship golf course, a large master planned community with a wide array of product lines, or a cozy neighborhood of young families, we seek to provide our buyers with the finest residential experience in the United States.

121 E 22nd | New York, NY | *Artist's Rendering*


1110 Park Avenue | New York, NY

(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*

We thank our associates for their commitment to building what we believe is the finest brand in our industry.

This summer, we will celebrate the 50th anniversary of our formation back in 1967. That year we sold our first home for $17,990. We are so proud of where our Company is today. Now, with a much more diversified array of product offerings, a team of dedicated associates, a solid land position, and a growing customer base, we look forward to a bright future for Toll Brothers, our shareholders, and our associates.

We thank our shareholders for their continued support, our suppliers and contractors for their cooperative spirit, our capital providers for their confidence in our future, and our homeowners for putting their trust in us. We thank our associates for their dedication to providing our home buyers with the highest levels of quality, value, and service and for their commitment to building what we believe is the finest brand in our industry.

ROBERT I. TOLL
Executive Chairman of the Board

DOUGLAS C. YEARLEY, JR.
Chief Executive Officer

December 6, 2016

The Santa Rosa | Enclave at Yorba Linda | Yorba Linda, CA

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TOLL BROTHERS' 31-YEAR FINANCIAL SUMMARY 1986–2016

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

Year Ended October 31,	2016	2015	2014	2013	2012	2011	2010	2009	2008	2007	2006	2005	2004	2003
Revenues	$ 5,169,508	$ 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
Pre-tax Income (loss)	$ 589,027	$ 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)	$ 382,095	$ 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 — Diluted	$ 2.18	$ 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	175,973	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,	2016	2015	2014	2013	2012	2011	2010	2009	2008	2007	2006	2005	2004	2003
Cash and marketable securities	$ 633,715	$ 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	$ 7,353,967	$ 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	$ 9,736,789	$ 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	$ 871,079	$ 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	2,694,372	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 related debt	210,000	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
Total	$ 3,775,451	$ 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 ("SE")	$ 4,229,292	$ 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	161,783	174,847	175,046	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	$ 26.14	$ 24.15	$ 22.02	$ 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 SE	9.0%	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,	2016	2015	2014	2013	2012	2011	2010	2009	2008	2007	2006	2005	2004	2003
Number of homes closed (1)	6,098	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 (1)(3)	$ 5,169,508	$ 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 — % of completion (3)									41,873	139,493	170,111			
Number of homes contracted	6,719	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 (3)	$ 5,649,570	$ 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,	**2016**	**2015**	**2014**	**2013**	**2012**	**2011**	**2010**	**2009**	**2008**	**2007**	**2006**	**2005**	**2004**	**2003**
Number of homes in backlog	4,685	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 (2)(3)	$ 3,984,065	$ 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	310	288	263	232	224	215	195	200	273	315	300	230	220	200
Home sites														
Owned	34,137	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	14,700	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	48,837	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.
(3) In 000's

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
$ 1.46	$ 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		1,145	1,384	2,577	2,816	3,912	4,686	10,810	24,403	39,864	45,988	52,617		382	5,969
$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 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. Backlog consists of homes under contract but not yet delivered to our home buyers ("backlog").

OVERVIEW

Our Business

We design, build, market, sell, 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, 2016, we were operating in 19 states. In the five years ended October 31, 2016, we delivered 24,490 homes from 621 communities, including 6,098 homes from 377 communities in fiscal 2016.

In February 2014, we acquired the home building business of Shapell Industries, Inc., a Delaware corporation ("Shapell"), and in November 2016, we acquired substantially all of the assets and operations of Coleman Real Estate Holdings, LLC ("Coleman"). See "Acquisitions" below for more information.

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.

In addition to our residential for-sale business, we also develop and operate for-rent apartments through joint ventures. See the section entitled "Toll Brothers Apartment Living/Toll Brothers Campus Living/Toll Brothers Realty Trust" below.

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 distressed loans and real estate and provide financing for residential builders and developers for the acquisition and development of land and home sites ("Gibraltar Joint Ventures").

Financial Highlights

In fiscal 2016, we recognized $5.17 billion of revenues and net income of $382.1 million, as compared to $4.17 billion of revenues and net income of $363.2 million in fiscal 2015.

In fiscal 2016 and 2015, the value of net contracts signed was $5.65 billion (6,719 homes) and $4.96 billion (5,910 homes), respectively. The value of our backlog at October 31, 2016 was $3.98 billion (4,685 homes), as compared to our backlog at October 31, 2015 of $3.50 billion (4,064 homes).

At October 31, 2016, we had $633.7 million of cash and cash equivalents on hand and approximately $961.8 million for borrowing available under our $1.295 billion revolving credit facility ("New Credit Facility") that matures in May 2021. At October 31, 2016, we had $250.0 million of outstanding borrowings under the New Credit Facility and had outstanding letters of credit of approximately $83.2 million.

At October 31, 2016, our total equity and our debt to total capitalization ratio were $4.24 billion and 0.47 to 1:00, respectively.

Acquisitions

SHAPELL INDUSTRIES, INC.

On February 4, 2014, we completed our acquisition of 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 on February 4, 2014, 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 provided 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.

COLEMAN REAL ESTATE HOLDINGS, LLC

In October 2016, we entered into an agreement to acquire substantially all of the assets and operations of Coleman. In November 2016, we completed the acquisition of Coleman for approximately $85.2 million in cash. The assets acquired were primarily inventory, including approximately 1,750 home sites owned or controlled through land purchase agreements. As part of the acquisition, we assumed contracts to deliver 128 homes with an aggregate value of $38.8 million. The average price of the undelivered homes at the date of acquisition was approximately $303,000. Our selling community count increased by 15 communities at the acquisition date.

See Note 2, "Acquisitions," in the Notes to Consolidated Financial Statements for additional information regarding these acquisitions.

Our Business Environment and Current Outlook

Since the third quarter of fiscal 2014 through the end of fiscal 2016, we saw a general strengthening in customer demand. In fiscal 2016, we signed 6,719 contracts with an aggregate value of $5.65 billion, compared to 5,910 contracts with an aggregate value of $4.96 billion in fiscal 2015, and 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 continues to improve and as the millennial generation comes of age, pent-up demand for homes will continue to be released.

According to the U.S. Census Bureau ("Census Bureau"), the number of households earning $100,000 or more (in constant 2015 dollars) at September 2016 stood at 33.2 million, or approximately 26.4% 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 2016 report, "The State of the Nation's Housing," demographic forces are likely to drive the addition of just under 1.3 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 2016 New Residential Sales Report, new home inventory stands at a supply of just 5.2 months, based on current sales paces. If demand and pace increase significantly, the supply of 5.2 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 2015, total housing starts averaged approximately 0.81 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 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 2016 and 2015, we acquired control of approximately 10,682 home sites (net of options terminated and home sites sold) and, approximately 2,611 home sites (net of options terminated and home sites sold), respectively. At October 31, 2016, we controlled approximately 48,837 home sites, as compared to approximately 44,253 home sites at October 31, 2015, and 47,167 home sites at October 31, 2014. In addition, at October 31, 2016, 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 48,837 total home sites that we owned or controlled through options at October 31, 2016, we owned approximately 34,137 and controlled approximately 14,700 through options. Of the 48,837 home sites, approximately 17,065 were substantially improved. The 14,700 home sites controlled through options includes the 1,750 home sites owned or controlled by Coleman.

In addition, at October 31, 2016, our Land Development Joint Ventures owned approximately 11,400 home sites (including 240 home sites included in the 14,700 controlled through options), and our Homebuilding Joint Ventures owned approximately 400 home sites.

At October 31, 2016, we were selling from 310 communities, compared to 288 communities at October 31, 2015, and 263 communities at October 31, 2014.

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.

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

In addition to our residential for-sale business, we also develop and operate for-rent apartments through joint ventures. At October 31, 2016, we controlled 28 land parcels as for-rent apartment projects containing approximately 9,600 units. These projects, which are located in the metro Boston to metro Washington, D.C. corridor; Atlanta, Georgia; Dallas, Texas; and Fremont, California are being operated, 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").

At October 31, 2016, we had approximately 2,950 units in for-rent apartment projects that were occupied or ready for occupancy, 600 units in the lease-up stage, 900 units under active development, and 5,150 units in the planning stage. Of the 9,600 units at October 31, 2016, 4,850 were owned by joint ventures in which we have an interest; approximately 1,600 were owned by us; 2,850 were under contract to be purchased by us; and 300 were under a letter of intent.

CONTRACTS AND BACKLOG

The aggregate value of net sales contracts signed increased 14.0% in fiscal 2016, as compared to fiscal 2015, and 27.2% in fiscal 2015, as compared to fiscal 2014. The value of net sales contracts signed was $5.65 billion (6,719 homes) in fiscal 2016, $4.96 billion (5,910 homes) in fiscal 2015, and $3.90 billion (5,271 homes) in fiscal 2014.

The increase in the aggregate value of net contracts signed in fiscal 2016, as compared to fiscal 2015, was the result of a 13.7% increase in the number of net contracts signed. The increase in the number of net contracts signed in fiscal 2016, as compared to fiscal 2015, was primarily due to the continued recovery in the U.S. housing market in fiscal 2016.

The value of our backlog at October 31, 2016, 2015, and 2014 was $3.98 billion (4,685 homes), $3.50 billion (4,064 homes), and $2.72 billion (3,679 homes), respectively. Approximately 97% of the homes in backlog at October 31, 2016 are expected to be delivered by October 31, 2017. The 13.7% increase in the value of homes in backlog at October 31, 2016, as compared to October 31, 2015, was primarily due to a 14.0% increase in the value of net contracts signed in fiscal 2016, as compared to fiscal 2015, and the higher backlog at the beginning of fiscal 2016, as compared to the beginning of fiscal 2015, offset, in part, by a 23.9% increase in the aggregate value of our deliveries in fiscal 2016, as compared to the aggregate value of deliveries in fiscal 2015.

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.

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, 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 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 and such amounts could be material.

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, 2016, 2015, and 2014, as shown in the table below (amounts in thousands):

	2016	2015	2014
Land controlled for future communities	$ 3,142	$ 809	$ 3,123
Land owned for future communities	2,300	12,600	
Operating communities	8,365	22,300	17,555
	$ 13,807	$ 35,709	$ 20,678

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

		Impaired operating communities		
Three months ended:	**Number of communities tested**	**Number of communities**	**Fair value of communities, net of impairment charges**	**Impairment charges**
Fiscal 2016:				
January 31	43	2	$ 1,713	$ 600
April 30	41	2	$ 10,103	6,100
July 31	51	2	$ 11,714	1,250
October 31	59	2	$ 1,126	415
				$ 8,365
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

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 accrued expenses, 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, 2016 and 2015, we determined that it was more-likely-than-not that our deferred assets would be realized for federal purposes. Accordingly, at October 31, 2016 and 2015, 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, 2016 and 2015. During fiscal 2015, and 2014, due to improved actual and/or operating results, we reversed $16.3 million, and $13.3 million of state deferred tax asset valuation allowances, respectively. During fiscal 2016, no state deferred tax asset valuation allowances were reversed. 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 2016, 2015, and 2014, we recognized new valuation allowances of $1.0 million, $3.7 million, and $1.3 million, respectively. The valuation allowance at October 31, 2016 of $32.2 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 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. Over the past several years, we have had a significant number of warranty claims related primarily to older homes built in Pennsylvania and Delaware. See Note 6, "Accrued Expenses," in the Notes to Consolidated Financial Statements for additional information regarding these warranty charges.

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, Washington, and certain areas of Texas, 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 distressed loans and real estate and provide financing for residential builders and developers for the acquisition and development of land and home sites ("Gibraltar Joint Ventures"). 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 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 our purchase; instead, our cost basis in the home sites is reduced by our share of the earnings realized by the joint venture from those home sites.

At October 31, 2016, we had investments in these entities of $496.4 million, and were committed to invest or advance up to an additional $273.8 million to these entities if they require additional funding. At October 31, 2016, we had agreed to terms for the acquisition of 240 home sites from two Land Development Joint Ventures for an estimated aggregate purchase price of $79.2 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 interests; the purchase price of these home sites will be determined at a future date.

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) carry cost guarantees, which cover costs such as interest. real estate taxes, and insurance; (iv) an environmental indemnity provided to the lender that holds the lender harmless from and against losses arising from the discharge of hazardous materials from the property and non-compliance with applicable environmental laws; 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, 2016, 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, 2016, the unconsolidated entities that have guarantees related to debt had loan commitments aggregating $875.7 million and had borrowed an aggregate of $576.0 million. We estimate that our maximum potential exposure under these guarantees, if the full amount of the loan commitments were borrowed, would be $875.7 million, without taking into account any recoveries from the underlying collateral or any reimbursement from our partners. Of this maximum potential exposure, $87.0 million is related to repayment and carry cost guarantees. Based on the amounts borrowed at October 31, 2016, our maximum potential exposure under these guarantees is estimated to be $576.0 million, without taking into account any recoveries from the underlying collateral or any reimbursement from our partners. Of the estimated $576.0 million, $61.5 million is related to repayment and carry cost guarantees.

In addition, we have guaranteed approximately $4.3 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 2016, 2015 and 2014.

RESULTS OF OPERATIONS

The following table compares certain items in our Consolidated Statements of Operations and Comprehensive Income and other supplemental information for fiscal 2016, 2015, and 2014 ($ amounts in millions, unless otherwise stated). For more information regarding results of operations by operating segment, see "Segments" in this MD&A.

	Years ended October 31,				
	2016	2015	% Change 2016 vs. 2015	2014	% Change 2015 vs. 2014
Revenues	5,169.5	4,171.2	24%	3,911.6	7%
Cost of revenues	4,144.1	3,269.3	27%	3,081.8	6%
Selling, general and administrative	535.4	455.1	18%	432.5	5%
	4,679.4	3,724.4	26%	3,514.4	6%
Income from operations	490.1	446.9	10%	397.2	13%
Other:					
Income from unconsolidated entities	40.7	21.1	93%	41.1	(49)%
Other income - net	58.2	67.6	(14)%	66.2	2%
Income before income taxes	589.0	535.6	10%	504.6	6%
Income tax provision	206.9	172.4	20%	164.6	5%
Net income	382.1	363.2	5%	340.0	7%
Supplemental information:					
Cost of revenues as a percentage of revenues	80.2%	78.4%		78.8%	
SG&A as a percentage of revenues	10.4%	10.9%		11.1%	
Deliveries – units	6,098	5,525	10%	5,397	2%
Deliveries – average selling price*	$ 847.7	$ 755.0	12%	$ 724.8	4%
Net contracts signed – value	$ 5,649.6	$ 4,955.6	14%	$ 3,896.5	27%
Net contracts signed – units	6,719	5,910	14%	5,271	12%
Net contracts signed – average selling price*	$ 840.8	$ 838.5	—%	$ 739.2	13%

	At October 31,				
	2016	2015	% Change 2016 vs. 2015	2014	% Change 2015 vs. 2014
Backlog – value	$ 3,984.1	$ 3,504.0	14%	$ 2,719.7	29%
Backlog – units	4,685	4,064	15%	3,679	10%
Backlog – average selling price*	$ 850.4	$ 862.2	(1)%	$ 739.2	17%

*($ amount in thousands)
Note: Amounts may not add due to rounding.

FISCAL 2016 COMPARED TO FISCAL 2015

Revenues and Cost of Revenues

The increase in revenues in fiscal 2016, as compared to fiscal 2015, was primarily attributable to a 12.3% increase in the average price of the homes delivered due to a shift in the number of homes delivered to more expensive areas and/or higher priced products and a 10.4% increase in the number of homes delivered primarily due to a higher backlog at October 31, 2015, as compared to October 31, 2014.

Cost of revenues as a percentage of revenues in fiscal 2016 was 80.2%, as compared to 78.4% in fiscal 2015. The increase in the fiscal 2016 percentage was primarily due to the recognition in fiscal 2016 of $125.6 million (2.4% of revenues) of warranty charges primarily related to older homes built in Pennsylvania and Delaware, as compared to $14.7 million (0.4% of revenues) in fiscal 2015 and slightly higher land and construction costs as a percentage of revenues in homes delivered in fiscal 2016, as compared to fiscal 2015. These increased costs were offset, in part, by lower interest expense and inventory impairment and write-offs as a percentage of revenues in fiscal 2016, as compared to fiscal 2015. See Note 6, "Accrued Expenses," in the Notes to Consolidated Financial Statements for additional information regarding these warranty charges.

Interest cost in fiscal 2016 was $160.3 million or 3.1% of revenues, as compared to $142.9 million or 3.4% of revenues in fiscal 2015. We recognized inventory impairments and write-offs of $13.8 million or 0.3% of revenues and $35.7 million or 0.9% of revenues in fiscal 2016 and fiscal 2015, respectively.

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

SG&A spending increased by $80.3 million but declined as a percentage of revenues in fiscal 2016, as compared to fiscal 2015. The decrease in SG&A as a percentage of revenues in the fiscal 2016 period was due to SG&A spending increasing by 17.6% while revenues increased 23.9% from the fiscal 2015 period. The dollar increase in SG&A was due primarily to increased compensation costs due to a higher number of employees and increased sales and marketing costs. The higher sales and marketing costs were the result of the increased number of homes closed and increased number of selling communities that we had in fiscal 2016, as compared to fiscal 2015.

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 2016, we recognized $40.7 million of income from unconsolidated entities, as compared to $21.1 million in fiscal 2015. The increase in income from unconsolidated entities in fiscal 2016, as compared to fiscal 2015, was due mainly to higher earnings from two of our City Living Home Building Joint Ventures, a $4.9 million gain recognized related to the sale of our ownership interests in one of our joint ventures located in New Jersey, and to the recognition of a $2.9 million recovery in fiscal 2016 of previously incurred charges related to a joint venture located in Nevada, offset, in part, by lower income from our Land Development Joint Ventures.

Other Income–Net

The table below provides the components of "Other Income – net" for the years ended October 31, 2016 and 2015 (amounts in thousands):

	2016	2015
Income from ancillary businesses	$ 17,473	$ 23,530
Gibraltar	6,646	10,168
Management fee income from unconsolidated entities	10,270	11,299
Income from land sales	13,327	13,150
Other	10,502	9,426
Total other income–net	$ 58,218	$ 67,573

In fiscal 2016 and fiscal 2015, our security monitoring business recognized gains of $1.6 million and $8.1 million, respectively, from a bulk sale of security monitoring accounts in fiscal 2015, which is included in income from ancillary businesses above. The decline in income from Gibraltar Capital and Asset Management, LLC ("Gibraltar") was due primarily from the continuing monetization of its assets offset, in part by a $1.3 million gain in fiscal 2016 from the sale of a 76% interest in certain assets of Gibraltar. See Note 4, "Investments in Unconsolidated Entities – Gibraltar Joint Ventures," in the Notes to Consolidated Financial Statements for additional information on this transaction.

Income Before Income Taxes

In fiscal 2016, we reported income before income taxes of $589.0 million, as compared to $535.6 million in fiscal 2015.

Income Tax Provision

We recognized a $206.9 million income tax provision in fiscal 2016. Based upon the federal statutory rate of 35%, our federal tax provision would have been $206.2 million. The difference between our tax provision recognized and the tax provision based on the federal statutory rate was due mainly to the recognition of a $27.0 million provision for state income taxes; the recognition of a $2.1 million provision for uncertain tax positions taken; $2.0 million of accrued interest and penalties for previously accrued taxes on uncertain tax positions; and $3.9 million of other differences; offset, by a $16.9 million tax benefit from the utilization of the domestic production activities deduction; the reversal of $11.2 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; and $7.0 million of other permanent deductions.

We recognized a $172.4 million income 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 and the tax provision based on the federal statutory rate was due principally 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 the settlements with certain taxing jurisdictions; a $12.3 million tax benefit from our utilization of the domestic production activities deduction; a benefit of $12.6 million from the reversal of state deferred tax asset valuation allowances, net of $3.7 million of new state deferred tax asset valuation allowances recognized; 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.

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. The decrease in cost of revenues in fiscal 2015 as a percentage of revenues, 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, the lower charge recognized for warranty and litigation 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 and higher inventory impairment charges and write-offs in fiscal 2015, as compared to fiscal 2014. In fiscal 2015 and 2014, we recognized inventory impairment charges of $35.7 million or 0.9% of revenues and $20.7 million or 0.5% of revenues, respectively. In addition, in fiscal 2015 and 2014, we recognized charges related to warranty and litigation, net of other reversals, of $11.0 million and $24.0 million, respectively. See Note 6, “Accrued Expenses,” in the Notes to Consolidated Financial Statements for additional information regarding these warranty charges.

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 a Rental Property Joint Venture of substantially all of its assets 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. 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 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 the domestic production activities deduction; a benefit of $12.6 million from the reversal of state deferred tax asset valuation allowances, net of $3.7 million of new state deferred tax asset valuation allowances recognized; 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. 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; a $12.3 million tax benefit from our utilization of the domestic production activities deduction; a benefit of $12.0 million from the reversal of state deferred tax asset valuation allowances, net of $1.3 million of new state deferred tax asset valuation allowances recognized; 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.

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, 2016, we had $633.7 million of cash and cash equivalents on hand and approximately $961.8 million available for borrowing under our New Credit Facility.

Cash provided by operating activities during fiscal 2016 was $148.8 million. It was generated primarily from $382.1 million of net income plus $26.7 million of stock-based compensation, $23.1 million of depreciation and amortization, $13.8 million of inventory impairments and write-offs, and $19.3 million of deferred taxes; an increase of $524.6 million in accounts payable and accrued expenses; a $27.8 million increase in customer deposits; and a $6.0 million increase in income taxes payable; offset, in part, by the net purchase of $391.2 million of inventory; a $307.4 million increase in receivables, prepaid expenses, and other assets; and an increase of $124.9 million in mortgage loans originated, net of the sale of mortgage loans to outside investors.

Cash provided by investing activities during fiscal 2016 was $8.2 million. The cash provided by investing activities was primarily related to $97.4 million of cash received as returns on our investments in unconsolidated entities, foreclosed real estate, and distressed loans and $10.0 million of proceeds from the sale of marketable securities, offset, in part, by $69.7 million used to fund investments in unconsolidated entities and $28.4 million for the purchase of property and equipment.

We used $442.3 million of cash from financing activities in fiscal 2016, primarily for the repurchase of $392.8 million of our common stock; the repayment of $100.0 million from our credit facilities, net of new borrowing under them; and the repayment of $69.0 million of other loans payable, net of new borrowings, offset, in part, by $110.0 million of new borrowings under our mortgage company loan facility, net of repayments.

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 $1.035 billion revolving credit facility ("Credit Facility"). Cash provided by operating activities during fiscal 2015 was $60.2 million. It was generated primarily from $363.2 million of net income plus $22.9 million of stock-based compensation, $23.6 million of depreciation and amortization, $35.7 million of inventory impairments and write-offs, and $62.1 million of 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 Credit Facility. Cash provided by operating activities during fiscal 2014 was $313.2 million. It was generated primarily from $340.0 million of net income plus $21.7 million of stock-based compensation, $23.0 million of depreciation and amortization, $20.7 million of inventory impairments and write-offs, and $47.4 million of 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.

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 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, 2016, we owned or controlled through options 48,837 home sites, as compared to 44,253 at October 31, 2015; and 47,167 at October 31, 2014. Of the 48,837 home sites owned or controlled through options at October 31, 2016, we owned 34,137. Of our owned home sites at October 31, 2016, significant improvements were completed on approximately 17,065 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. For more information regarding the Shapell acquisition, see Note 2, "Acquisitions," in the Notes to Consolidated Financial Statements.

At October 31, 2016, the aggregate purchase price of land parcels under option and purchase agreements was approximately $1.62 billion (including $79.2 million of land to be acquired from joint ventures in which we have invested). Of the $1.62 billion of land purchase commitments, we had paid or deposited $65.3 million and, if we acquire all of these land parcels, we will be required to pay an additional $1.56 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 "Net cash provided by (used in) investing activities," At October 31, 2016, we had investments in these entities of $496.4 million, and were committed to invest or advance up to an additional $273.8 million to these entities if they require additional funding.

On May 19, 2016, we entered into a new $1.215 billion (subsequently increased to $1.295 billion), five-year, unsecured New Credit Facility and terminated our $1.035 billion Credit Facility that was scheduled to terminate on August 1, 2018. Under the terms of the New 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 agreement) of no less than approximately $2.60 billion. Under the terms of the New Credit Facility, at October 31, 2016, our leverage ratio was approximately 0.71 to 1.00 and our tangible net worth was approximately $4.18 billion. Based upon the minimum tangible net worth requirement, our ability to repurchase our common stock was limited to approximately $2.13 billion as of October 31, 2016. At October 31, 2016, we had $250.0 million of outstanding borrowings under the New Credit Facility and had outstanding letters of credit of approximately $83.2 million.

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, 2016 (amounts in millions):

	2017	2018–2019	2020–2021	Thereafter	Total
Senior notes (a)	$ 539.8	$ 834.3	$ 396.6	$ 1,552.6	$ 3,323.3
Loans payable (a)	46.4	77.0	782.4	73.3	979.1
Mortgage company loan facility (a)	215.3				215.3
Operating lease obligations	11.6	16.2	3.3	0.7	31.8
Purchase obligations (b)	889.9	645.5	175.0	302.0	2,012.4
Retirement plans (c)	13.2	11.2	11.1	54.3	89.8
	$ 1,716.2	$ 1,584.2	$ 1,368.4	$ 1,982.9	$ 6,651.7

(a) Amounts include estimated annual interest payments until maturity of the debt. Of the amounts indicated, $2.7 billion of the senior notes, $871.1 million of loans payable, and $210.0 million of the mortgage company loan facility were recorded on the October 31, 2016 Consolidated Balance Sheet. In addition, the 2018 – 2019 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, the estimated remaining amount of the contractual obligation for land development agreements secured by letters of credit and surety bonds and $85.2 million for the acquisition of Coleman in November 2016.

(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, $68.4 million was recorded on the October 31, 2016 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.

The following tables summarize information related to revenues, net contracts signed, and income (loss) before income taxes by segment for fiscal years 2016, 2015, and 2014. Information related to backlog and assets by segment at October 31, 2016 and 2015, has also been provided.

Units Delivered and Revenues:

	Fiscal 2016 Compared to Fiscal 2015								
	Revenues ($ in millions)			Units Delivered			Average Delivered Price ($ in thousands)		
	2016	2015	% Change	2016	2015	% Change	2016	2015	% Change
Traditional Home Building:									
North	$ 814.5	$ 702.2	16%	1,172	1,126	4%	$ 695.0	$ 623.6	11%
Mid-Atlantic	895.7	845.3	6%	1,432	1,342	7%	625.5	629.9	(1)%
South	849.6	892.3	(5)%	1,093	1,175	(7)%	777.3	759.4	2%
West	903.7	665.3	36%	1,304	994	31%	693.0	669.3	4%
California	1,448.5	750.0	93%	1,006	669	50%	1,439.9	1,121.1	28%
Traditional Home Building	4,912.0	3,855.1	27%	6,007	5,306	13%	817.7	726.6	13%
City Living	257.5	316.1	(19)%	91	219	(58)%	2,829.7	1,443.4	96%
Total	$ 5,169.5	$ 4,171.2	24%	6,098	5,525	10%	$ 847.7	$ 755.0	12%

	Fiscal 2015 Compared to Fiscal 2014								
	Revenues ($ in millions)			Units Delivered			Average Delivered Price ($ in thousands)		
	2015	2014	% Change	2015	2014	% Change	2015	2014	% Change
Traditional Home Building:									
North	$ 702.2	$ 662.7	6%	1,126	1,110	1%	$ 623.6	$ 597.0	4%
Mid-Atlantic	845.3	817.3	3%	1,342	1,292	4%	629.9	632.6	—%
South	892.3	836.5	7%	1,175	1,204	(2)%	759.4	694.8	9%
West	665.3	517.9	28%	994	814	22%	669.3	636.2	5%
California	750.0	795.8	(6)%	669	713	(6)%	1,121.1	1,116.1	—%
Traditional Home Building	3,855.1	3,630.2	6%	5,306	5,133	3%	726.6	707.2	3%
City Living	316.1	281.4	12%	219	264	(17)%	1,443.4	1,065.9	35%
Total	$ 4,171.2	$ 3,911.6	7%	5,525	5,397	2%	$ 755.0	$ 724.8	4%

Net Contracts Signed:

	Fiscal 2016 Compared to Fiscal 2015								
	Net Contract Value ($ in millions)			Net Contracted Units			Average Contracted Price ($ in thousands)		
	2016	2015	% Change	2016	2015	% Change	2016	2015	% Change
Traditional Home Building:									
North	$ 888.0	$ 756.8	17%	1,259	1,138	11%	$ 705.3	$ 665.0	6%
Mid-Atlantic	986.8	844.7	17%	1,607	1,323	21%	614.1	638.5	(4)%
South	916.8	838.3	9%	1,229	1,036	19%	746.0	809.2	(8)%
West	1,096.7	846.2	30%	1,508	1,221	24%	727.3	693.0	5%
California	1,418.5	1,343.2	6%	930	1,003	(7)%	1,525.3	1,339.2	14%
Traditional Home Building	5,306.8	4,629.2	15%	6,533	5,721	14%	812.3	809.2	—%
City Living	342.8	326.4	5%	186	189	(2)%	1,843.0	1,727.0	7%
Total	$ 5,649.6	$ 4,955.6	14%	6,719	5,910	14%	$ 840.8	$ 838.5	—%

	Fiscal 2015 Compared to Fiscal 2014								
	Net Contract Value ($ in millions)			Net Contracted Units			Average Contracted Price ($ in thousands)		
	2015	2014	% Change	2015	2014	% Change	2015	2014	% Change
Traditional Home Building:									
North	$ 756.8	$ 664.8	14%	1,138	1,040	9%	$ 665.0	$ 639.2	4%
Mid-Atlantic	844.7	763.9	11%	1,323	1,220	8%	638.5	626.1	2%
South	838.3	886.2	(5)%	1,036	1,211	(14)%	809.2	731.8	11%
West	846.2	618.2	37%	1,221	951	28%	693.0	650.1	7%
California	1,343.2	694.2	93%	1,003	639	57%	1,339.2	1,086.4	23%
Traditional Home Building	4,629.2	3,627.3	28%	5,721	5,061	13%	809.2	716.7	13%
City Living	326.4	269.2	21%	189	210	(10)%	1,727.0	1,281.9	35%
Total	$ 4,955.6	$ 3,896.5	27%	5,910	5,271	12%	$ 838.5	$ 739.2	13%

Backlog at October 31:

Fiscal 2016 Compared to Fiscal 2015

	Backlog Value ($ in millions)			Backlog Units			Average Backlog Price ($ in thousands)		
	2016	2015	% Change	2016	2015	% Change	2016	2015	% Change
Traditional Home Building:									
North	$ 692.8	$ 619.2	12%	977	890	10%	$ 709.1	$ 695.8	2%
Mid-Atlantic	610.0	518.9	18%	986	811	22%	618.7	639.9	(3)%
South	736.4	669.2	10%	960	824	17%	767.1	812.1	(6)%
West	766.5	573.5	34%	1,020	816	25%	751.5	702.8	7%
California	867.7	897.8	(3)%	533	609	(12)%	1,627.9	1,474.2	10%
Traditional Home Building	3,673.4	3,278.6	12%	4,476	3,950	13%	820.7	830.0	(1)%
City Living	310.7	225.4	38%	209	114	83%	1,486.5	1,977.2	(25)%
Total	$ 3,984.1	$ 3,504.0	14%	4,685	4,064	15%	$ 850.4	$ 862.2	(1)%

Fiscal 2015 Compared to Fiscal 2014

	Backlog Value ($ in millions)			Backlog Units			Average Backlog Price ($ in thousands)		
	2015	2014	% Change	2015	2014	% Change	2015	2014	% Change
Traditional Home Building:									
North	$ 619.2	$ 564.6	10%	890	878	1%	$ 695.8	$ 643.1	8%
Mid-Atlantic	518.9	519.5	—%	811	830	(2)%	639.9	625.9	2%
South	669.2	723.2	(7)%	824	963	(14)%	812.1	751.0	8%
West	573.5	392.6	46%	816	589	39%	702.8	666.6	5%
California	897.8	304.6	195%	609	275	121%	1,474.2	1,107.6	33%
Traditional Home Building	3,278.6	2,504.5	31%	3,950	3,535	12%	830.0	708.5	17%
City Living	225.4	215.2	5%	114	144	(21)%	1,977.2	1,494.2	32%
Total	$ 3,504.0	$ 2,719.7	29%	4,064	3,679	10%	$ 862.2	$ 739.2	17%

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

	2016	2015	% Change 2016 vs. 2015	2014	% Change 2015 vs. 2014
Traditional Home Building:					
North	$ 77.0	$ 59.2	30%	$ 57.0	4%
Mid-Atlantic	(29.4)	69.1	(143)%	79.0	(13)%
South	128.6	153.0	(16)%	113.6	35%
West	127.3	106.4	20%	78.8	35%
California	335.2	139.1	141%	157.5	(12)%
Traditional Home Building	638.7	526.8	21%	485.9	8%
City Living	91.1	124.3	(27)%	104.6	19%
Corporate and other	(140.8)	(115.5)	22%	(85.9)	34%
Total	$ 589.0	$ 535.6	10%	$ 504.6	6%

"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, 2016	2015
Traditional Home Building:		
North	$ 1,020.3	$ 1,061.8
Mid-Atlantic	1,166.0	1,226.0
South	1,203.6	1,196.7
West	1,130.6	949.6
California	2,479.9	2,243.3
Traditional Home Building	7,000.4	6,677.4
City Living	946.7	873.0
Corporate and other	1,789.7	1,656.2
Total	$ 9,736.8	$ 9,206.6

"Corporate and other" is comprised principally of cash and cash equivalents, marketable securities, restricted cash and investments, deferred tax assets, investments in our Rental Property Joint Ventures, expected recoveries from insurance carriers and suppliers, our Gibraltar investments, manufacturing facilities, and mortgage and title subsidiaries.

FISCAL 2016 COMPARED TO FISCAL 2015

Traditional Homebuilding

NORTH

	Year ended October 31,		
	2016	2015	% Change
Units Delivered and Revenues:			
Revenues ($ in millions)	$ 814.5	$ 702.2	16%
Units delivered	1,172	1,126	4%
Average delivered price ($ in thousands)	$ 695.0	$ 623.6	11%
Net Contracts Signed:			
Net contract value ($ in millions)	$ 888.0	$ 756.8	17%
Net contracted units	1,259	1,138	11%
Average contracted price ($ in thousands)	$ 705.3	$ 665.0	6%
Cost of revenues as a percentage of revenues	82.6%	82.9%	—%
Income before income taxes ($ in millions)	$ 77.0	$ 59.2	$ 30%

The increase in the average price of homes delivered in fiscal 2016, as compared to fiscal 2015, 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 2016, as compared to fiscal 2015. The increase in the number of homes delivered in fiscal 2016, as compared to fiscal 2015, was mainly due to increases in the number of homes closed in Michigan and New Jersey, partially offset by a decrease in the number of homes closed in Illinois. The increase in the number of homes closed in New Jersey was primarily due to higher backlog conversion in the fiscal 2016 period, as compared to the fiscal 2015 period. In Michigan, the increase was principally due to an increase in the number of homes in backlog as of October 31, 2015, as compared to the number of homes in backlog at October 31, 2014.

The increase in the number of net contracts signed in fiscal 2016, as compared to fiscal 2015, was mainly due to improved market conditions in Michigan, New York, and New Jersey, offset, in part by decreases in Connecticut and Illinois where demand has declined, and in Massachusetts due to a decrease in the number of selling communities. 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 2016, as compared to fiscal 2015.

The 30% increase in income before income taxes in fiscal 2016, as compared to fiscal 2015, was principally attributable to higher earnings from increased revenues and lower inventory impairment charges, offset, in part, by higher cost of revenues, excluding inventory impairment charges, as a percentage of revenues, and higher SG&A costs. During our review of communities for impairment in fiscal 2016 and 2015, primarily due to a lack of improvement and/or a decrease in customer demand as a result of weaker than expected market conditions, we determined that the pricing assumptions used in prior impairment reviews for three operating communities (two located in Connecticut and one in suburban New York) in fiscal 2016, and two operating communities (one located in suburban New York and one located in New Jersey) in fiscal 2015, needed to be reduced. As a result of these reductions in expected sales prices, we determined that these communities were impaired. Accordingly, the carrying values of these communities were written down to their estimated fair values resulting in charges to income before taxes of $7.3 million and $13.9 million in fiscal 2016 and fiscal 2015, respectively. Total inventory impairment charges for fiscal 2016 and fiscal 2015 were $7.6 million and $15.0 million, respectively. The increase in the cost of revenues, excluding inventory impairment charges, as a percentage of revenues, was primarily due to a change in product mix/areas to lower-margin areas.

MID-ATLANTIC

	Year ended October 31,		
	2016	2015	% Change
Units Delivered and Revenues:			
Revenues ($ in millions)	$ 895.7	$ 845.3	6%
Units delivered	1,432	1,342	7%
Average delivered price ($ in thousands)	$ 625.5	$ 629.9	(1)%
Net Contracts Signed:			
Net contract value ($ in millions)	$ 986.8	844.7	17%
Net contracted units	1,607	1,323	21%
Average contracted price ($ in thousands)	$ 614.1	$ 638.5	(4)%
Cost of revenues as a percentage of revenues	95.8%	84.7%	13%
(Loss) income before income taxes ($ in millions)	$ (29.4)	$ 69.1	$ (143)%

The increase in the number of homes delivered in fiscal 2016, as compared to fiscal 2015, was mainly due to a greater number of homes being sold and delivered in fiscal 2016, as compared to fiscal 2015.

The increase in the number of net contracts signed in fiscal 2016, as compared to fiscal 2015, was primarily attributable to increases in demand in Pennsylvania, Maryland, and Virginia and to an increase in the number of selling communities in Pennsylvania and Maryland.

The loss before income taxes in fiscal 2016, as compared to income before income taxes in fiscal 2015, was mainly due to $125.6 million of warranty charges primarily related to older homes built in communities located in Pennsylvania and Delaware in fiscal 2016, as compared to $14.7 million in fiscal 2015. and higher SG&A costs, offset, in part, by lower inventory impairment charges and higher earnings from increased revenues. See Note 6, “Accrued Expenses,” in the Notes to Consolidated Financial Statements for additional information regarding these warranty changes.

Inventory impairment charges were $2.1 million, as compared to $19.5 million in fiscal 2016 and fiscal 2015, respectively. The impairment charges in fiscal 2016 primarily related to a land purchase contract in Delaware where we were unable to obtain the required approvals to proceed with our development of the underlying property. Accordingly, we terminated the contract and wrote off costs incurred. In fiscal 2015, due to the weakness in certain housing markets in Maryland and West Virginia, we decided to sell or look for alternate uses for two parcels of land rather than develop them as previously intended. The carrying values of these communities were written down to their estimated fair values resulting in charges to income before taxes of $11.9 million. We sold one parcel of land during the fourth quarter of fiscal 2015. In addition, during our review of operating communities for impairment in fiscal 2015, primarily due to a lack of improvement and/or a decrease in customer demand as a result of weaker than expected market conditions, we determined that the pricing assumptions used in prior impairment reviews for one operating community located in Virginia needed to be reduced. As a result of this reduction in expected sales prices, we determined that this community was impaired. Accordingly, the carrying value of this community was written down to its estimated fair value resulting in a charge to income before taxes in fiscal 2015 of $3.1 million.

SOUTH

	Year ended October 31,		
	2016	2015	% Change
Units Delivered and Revenues:			
Revenues ($ in millions)	$ 849.6	$ 892.3	(5)%
Units delivered	1,093	1,175	(7)%
Average delivered price ($ in thousands)	$ 777.3	$ 759.4	2%
Net Contracts Signed:			
Net contract value ($ in millions)	$ 916.8	$ 838.3	9%
Net contracted units	1,229	1,036	19%
Average contracted price ($ in thousands)	$ 746.0	$ 809.2	(8)%
Cost of revenues as a percentage of revenues	79.4%	78.2%	2%
Income before income taxes ($ in millions)	$ 128.6	$ 153.0	$ (16)%

The decrease in the number of homes delivered in fiscal 2016, as compared to fiscal 2015, was principally due a decrease in the number of homes in backlog as of October 31, 2015, as compared to the number of homes in backlog at October 31, 2014. The increase in the average price of the homes delivered in fiscal 2016, as compared to fiscal 2015, was primarily attributable to a shift in the number of homes delivered to more expensive areas and/or products.

The increase in the number of net contracts signed in fiscal 2016, as compared to fiscal 2015, was mainly due to increases in demand in the Raleigh, North Carolina and the Dallas, Texas markets, and an increase in selling communities in Florida. The decreases in the average value of each contract signed in fiscal 2016, as compared to fiscal 2015, was mainly due to a shift in the number of contracts signed to less expensive areas and/or products.

The decrease in income before income taxes in fiscal 2016, as compared to fiscal 2015, was principally due to higher cost of revenues, as a percentage of revenues, lower earnings from decreased revenues, and higher SG&A costs in fiscal 2016, as compared to fiscal 2015. The increase in the cost of revenues, as a percentage of revenues, was primarily due to a change in product mix/areas to lower-margin areas and higher inventory impairment charges. Inventory impairment charges were $3.3 million and $0.7 million in fiscal 2016 and fiscal 2015, respectively. In fiscal 2016, we decided to sell or look for alternate uses for a partially improved land parcel in North Carolina rather than develop it as previously intended. The carrying value of this community was written down to its estimated fair values resulting in a charge to income before taxes of $2.0 million.

WEST

	Year ended October 31,		
	2016	2015	% Change
Units Delivered and Revenues:			
Revenues ($ in millions)	$ 903.7	$ 665.3	36%
Units delivered	1,304	994	31%
Average delivered price ($ in thousands)	$ 693.0	$ 669.3	4%
Net Contracts Signed:			
Net contract value ($ in millions)	$ 1,096.7	$ 846.2	30%
Net contracted units	1,508	1,221	24%
Average contracted price ($ in thousands)	$ 727.3	$ 693.0	5%
Cost of revenues as a percentage of revenues	78.9%	76.4%	3%
Income before income taxes ($ in millions)	$ 127.3	$ 106.4	$ 20%

The increase in the number of homes delivered in fiscal 2016, as compared to fiscal 2015, was primarily due to a higher backlog at October 31, 2015, as compared to October 31, 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 2016, as compared to fiscal 2015.

The increase in the number of net contracts signed in fiscal 2016, as compared to fiscal 2015, was principally due to increases in the number of selling communities in Colorado and the Las Vegas, Nevada market and increased demand in Colorado and Arizona.

The increase in income before income taxes in fiscal 2016, as compared to fiscal 2015, was due mainly to higher earnings from the increased revenues and a $2.9 million recovery in fiscal 2016 of previously incurred charges related to a joint venture located in Nevada partially offset by higher cost of revenues, as a percentage of revenues, and higher SG&A costs. The increase in cost of revenues, as a percentage of revenues, was primarily due to a shift in the number of homes delivered to lower-margin products and/or locations.

CALIFORNIA

	Year ended October 31, 2016	2015	% Change
Units Delivered and Revenues:			
Revenues ($ in millions)	$ 1,448.5	$ 750.0	93%
Units delivered	1,006	669	50%
Average delivered price ($ in thousands)	$ 1,439.9	$ 1,121.1	28%
Net Contracts Signed:			
Net contract value ($ in millions)	$ 1,418.5	$ 1,343.2	6%
Net contracted units	930	1,003	(7)%
Average contracted price ($ in thousands)	$ 1,525.3	$ 1,339.2	14%
Cost of revenues as a percentage of revenues	72.6%	76.4%	(5)%
Income before income taxes ($ in millions)	$ 335.2	$ 139.1	$ 141%

The increase in the number of homes delivered in fiscal 2016, as compared to fiscal 2015, was principally due to an increase in the number of homes in backlog as of October 31, 2015, as compared to October 31, 2014. The increase in the average price of homes delivered in fiscal 2016, as compared to fiscal 2015, was primarily due to a shift in the number of homes delivered to more expensive areas and/or products and increased selling prices of homes delivered.

The decrease in the number of net contracts signed in fiscal 2016, as compared to fiscal 2015, was due primarily to (1) a temporary lack of inventory, primarily in northern California, as we are transitioning between a number of communities that are selling out, and thus have limited inventory, and the opening of new communities and (2) reduced demand resulting from our decision to increase prices in a number of communities with large backlogs to maximize the value of our inventory. Fiscal 2016 was negatively impacted by the continued reduction in demand in our Porter Ranch master planned community in Southern California due to a natural gas leak on unaffiliated land approximately one mile away. In mid-February 2016, the State of California announced that the leak had been permanently sealed. Recent testing has verified that air quality is back to normal levels and, therefore, we are optimistic that operations will gradually return to normal at our Porter Ranch master planned community. The increase in the average sales price of net contracts signed in fiscal 2016, as compared to fiscal 2015, was principally due to a shift in the number of contracts signed to more expensive areas and/or products and increases in selling prices.

The increase in income before income taxes in fiscal 2016, as compared to fiscal 2015, was due mainly to higher earnings from increased revenues and lower cost of revenues, as a percentage of revenues. This increase was partially offset by higher SG&A costs. The decrease in cost of revenues, as a percentage of revenues, was primarily due to a shift in the number of homes delivered to higher-margin products and/or locations and increased selling prices of homes delivered.

City Living

	Year ended October 31, 2016	2015	% Change
Units Delivered and Revenues:			
Revenues ($ in millions)	$ 257.5	$ 316.1	(19)%
Units delivered	91	219	(58)%
Average delivered price ($ in thousands)	$ 2,829.7	$ 1,443.4	96%
Net Contracts Signed:			
Net contract value ($ in millions)	$ 342.8	$ 326.4	5%
Net contracted units	186	189	(2)%
Average contracted price ($ in thousands)	$ 1,843.0	$ 1,727.0	7%
Cost of revenues as a percentage of revenues	66.3%	59.4%	12%
Income before income taxes ($ in millions)	$ 91.1	$ 124.3	$ (27)%

The decrease in the number of homes delivered in fiscal 2016, as compared to fiscal 2015, was principally due to the delivery of homes at one community located in Philadelphia, Pennsylvania, which commenced delivering homes in the third quarter of fiscal 2015 and delivered all homes by October 31, 2015. The increase in the average price of homes delivered in fiscal 2016, as compared to fiscal 2015, was primarily due to a shift in the number of homes delivered from the Philadelphia, Pennsylvania market to the metro New York City market, where average selling prices were higher.

The increase in the average sales price of net contracts signed in fiscal 2016, as compared to fiscal 2015, was principally due to a shift in the number of net contracts signed in the Philadelphia, Pennsylvania market to the metro New York City market, where the average value of each contract is higher, and increases in selling prices.

The decrease in income before income taxes in fiscal 2016, as compared to fiscal 2015, was mainly due to higher cost of revenues, as a percentage of revenues, lower earnings from decreased revenues, and higher SG&A costs, offset, in part, by higher earnings from our Home Building Joint Ventures. The increase in cost of revenues, as a percentage of revenues, was mainly due to a shift in the number of homes delivered to buildings with lower margins in fiscal 2016, as compared to fiscal 2015. The increase in earnings from our Home Building Joint Ventures was principally due to the commencement of closing in the fourth quarter of fiscal 2016 at two buildings located in New York City.

Other

	Year ended October 31,		
	2016	2015	% Change
Loss before income taxes ($ in millions)	$ (140.8)	$ (115.5)	22%

The increase in the loss before income taxes in fiscal 2016, as compared to fiscal 2015, was principally attributable to higher SG&A costs in the fiscal 2016 period, as compared to the fiscal 2015 period, a gain of $1.6 million recognized in the fiscal 2016 period, as compared to $8.1 million in the fiscal 2015 period, from a bulk sale of security monitoring accounts by our home security monitoring business in the fiscal 2015 period, and lower earnings from Gibraltar in the fiscal 2016 period, as compared to the fiscal 2015 period. The increase in SG&A costs was due primarily to increased compensation costs due to our increased number of employees. These increases to the loss before income taxes were partially offset by a $4.9 million gain recognized related to the sale of our ownership interests in one of our joint ventures located in New Jersey in the fiscal 2016 period.

FISCAL 2015 COMPARED TO FISCAL 2014

Traditional Home Building

NORTH

	Year ended October 31,		
	2015	2014	% Change
Units Delivered and Revenues:			
Revenues ($ in millions)	$ 702.2	$ 662.7	6%
Units delivered	1,126	1,110	1%
Average delivered price ($ in thousands)	$ 623.6	$ 597.0	4%
Net Contracts Signed:			
Net contract value ($ in millions)	$ 756.8	$ 664.8	14%
Net contracted units	1,138	1,040	9%
Average contracted price ($ in thousands)	$ 665.0	$ 639.2	4%
Cost of revenues as a percentage of revenues	82.9%	83.4%	(1)%
Income before income taxes ($ in millions)	$ 59.2	$ 57.0	$ 4%

The increase in the average price of homes delivered in fiscal 2015, as compared to fiscal 2014, 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 increase in the number of net contracts signed in fiscal 2015, as compared to fiscal 2014, 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.

The 4% increase in income in fiscal 2015, as compared to fiscal 2014, was primarily attributable to higher earnings from the increased revenues and lower cost of revenues as a percent of revenues, excluding impairment, 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

	Year ended October 31,		
	2015	2014	% Change
Units Delivered and Revenues:			
Revenues ($ in millions)	$ 845.3	$ 817.3	3%
Units delivered	1,342	1,292	4%
Average delivered price ($ in thousands)	$ 629.9	$ 632.6	—%
Net Contracts Signed:			
Net contract value ($ in millions)	$ 844.7	$ 763.9	11%
Net contracted units	1,323	1,220	8%
Average contracted price ($ in thousands)	$ 638.5	$ 626.1	2%
Cost of revenues as a percentage of revenues	84.7%	83.5%	1%
Income before income taxes ($ in millions)	$ 69.1	$ 79.0	$ (13)%

The increase in the number of homes delivered in fiscal 2015, as compared to fiscal 2014, was mainly due to a greater number of homes being sold and delivered in fiscal 2015, as compared to fiscal 2014.

The increase in the number of net contracts signed in fiscal 2015, as compared to fiscal 2014, 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.

The 13% decrease in income before income taxes in fiscal 2015, as compared to fiscal 2014, 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 warranty charges, primarily for older homes built 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 a Rental Property Joint Venture, which sold substantially of its assets in fiscal 2014. In fiscal 2015 and 2014, we recognized $14.7 million and $25.0 million, respectively, in charges for the aforementioned warranty. See Note 6, “Accrued Expenses,” in the Notes to Consolidated Financial Statements for additional information regarding these warranty charges.

SOUTH

	Year ended October 31, 2015	2014	% Change
Units Delivered and Revenues:			
Revenues ($ in millions)	$ 892.3	$ 836.5	7%
Units delivered	1,175	1,204	(2)%
Average delivered price ($ in thousands)	$ 759.4	$ 694.8	9%
Net Contracts Signed:			
Net contract value ($ in millions)	$ 838.3	$ 886.2	(5)%
Net contracted units	1,036	1,211	(14)%
Average contracted price ($ in thousands)	$ 809.2	$ 731.8	11%
Cost of revenues as a percentage of revenues	78.2%	80.4%	(3)%
Income before income taxes ($ in millions)	$ 153.0	$ 113.6	$ 35%

The increase in the average price of the homes delivered in fiscal 2015, as compared to fiscal 2014, was mainly due to a shift in the number of homes delivered to more expensive areas and/or products. 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.

The decrease in the number of net contracts signed in fiscal 2015, as compared to fiscal 2014, 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.

The 35% increase in income before income taxes in fiscal 2015, as compared to fiscal 2014, 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

	Year ended October 31, 2015	2014	% Change
Units Delivered and Revenues:			
Revenues ($ in millions)	$ 665.3	$ 517.9	28%
Units delivered	994	814	22%
Average delivered price ($ in thousands)	$ 669.3	$ 636.2	5%
Net Contracts Signed:			
Net contract value ($ in millions)	$ 846.2	$ 618.2	37%
Net contracted units	1,221	951	28%
Average contracted price ($ in thousands)	$ 693.0	$ 650.1	7%
Cost of revenues as a percentage of revenues	76.4%	76.5%	—%
Income before income taxes ($ in millions)	$ 106.4	$ 78.8	$ 35%

The increase in the number of homes delivered in fiscal 2015, as compared to fiscal 2014, 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 increase in the number of net contracts signed in fiscal 2015, as compared to fiscal 2014, was mainly due to an increase in selling communities in Arizona, Nevada, and Washington. 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.

The 35% increase in income before income taxes in fiscal 2015, as compared to fiscal 2014, 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

	Year ended October 31, 2015	2014	% Change
Units Delivered and Revenues:			
Revenues ($ in millions)	$ 750.0	$ 795.8	(6)%
Units delivered	669	713	(6)%
Average delivered price ($ in thousands)	$ 1,121.1	$ 1,116.1	—%
Net Contracts Signed:			
Net contract value ($ in millions)	$ 1,343.2	$ 694.2	93%
Net contracted units	1,003	639	57%
Average contracted price ($ in thousands)	$ 1,339.2	$ 1,086.4	23%
Cost of revenues as a percentage of revenues	76.4%	73.2%	4%
Income before income taxes ($ in millions)	$ 139.1	$ 157.5	$ (12)%

The decrease in the number of homes delivered in fiscal 2015, as compared to fiscal 2014, was mainly due to a decrease in the number of communities in California where we were delivering homes.

The increase in the number of net contracts signed in fiscal 2015, as compared to fiscal 2014, 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 in fiscal 2015, as compared to fiscal 2014, was principally due to a shift in the number of contracts signed to more expensive areas and/or products and increases in selling prices.

The 12% decrease in income before income taxes in fiscal 2015, as compared to fiscal 2014, 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

	Year ended October 31, 2015	2014	% Change
Units Delivered and Revenues:			
Revenues ($ in millions)	$ 316.1	$ 281.4	12%
Units delivered	219	264	(17)%
Average delivered price ($ in thousands)	$ 1,443.4	$ 1,065.9	35%
Net Contracts Signed:			
Net contract value ($ in millions)	$ 326.4	$ 269.2	21%
Net contracted units	189	210	(10)%
Average contracted price ($ in thousands)	$ 1,727.0	$ 1,281.9	35%
Cost of revenues as a percentage of revenues	59.4%	58.5%	2%
Income before income taxes ($ in millions)	$ 124.3	$ 104.6	$ 19%

The increase in the average price of homes delivered in fiscal 2015, as compared to fiscal 2014, 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 in fiscal 2015, as compared to fiscal 2014, was mainly due to a lower backlog at October 31, 2014, as compared to October 31, 2013.

The increase in the average value of net contracts signed in fiscal 2015, as compared to fiscal 2014, 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.

The 19% increase in income in fiscal 2015, as compared to fiscal 2014, 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

	Year ended October 31, 2015	2014	% Change
Loss before income taxes ($ in millions)	$ (115.5)	$ (85.9)	34%

The increase in the loss before income taxes in fiscal 2015, as compared to fiscal 2014, 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 a Rental Property Joint venture, which sold substantially all of its assets 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.

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, 2016 ($ amounts in thousands):

	Fixed-rate debt		Variable-rate debt (a)	
Fiscal year of maturity	**Amount**	**Weighted-average interest rate (%)**	**Amount**	**Weighted-average interest rate (%)**
2017	$ 427,179	8.58%	$ 210,150	2.53%
2018 (b)	305,393	0.68%	150	0.88%
2019	372,972	3.98%	150	0.88%
2020	253,764	6.72%	150	0.88%
2021	1,833	5.96%	750,150	1.96%
Thereafter	1,455,084	5.17%	13,210	0.79%
Discount and issuance costs	(13,004)		(1,730)	
Total	$ 2,803,221	5.19%	$ 972,230	2.07%
Fair value at October 31, 2016	$ 2,949,840		$ 973,960	

(a) Based upon the amount of variable-rate debt outstanding at October 31, 2016, and holding the variable-rate debt balance constant, each 1% increase in interest rates would increase the interest incurred by us by approximately $9.7 million per year.

(b) The fixed-rate debt amount for fiscal 2018 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, 2016.

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, 2016, 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, 2016, 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, 2016 and 2015, 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, 2016 and our report dated December 23, 2016 expressed an unqualified opinion thereon.

Ernst & Young LLP

Philadelphia, Pennsylvania
December 23, 2016

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, 2016 and 2015, 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, 2016. 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, 2016 and 2015, and the consolidated results of its operations and its cash flows for each of the three years in the period ended October 31, 2016, 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, 2016, 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 23, 2016 expressed an unqualified opinion thereon.

Ernst & Young LLP

Philadelphia, Pennsylvania
December 23, 2016

CONSOLIDATED BALANCE SHEETS *(Amounts in thousands)*

	October 31, 2016	October 31, 2015
ASSETS		
Cash and cash equivalents	$ 633,715	$ 918,993
Marketable securities		10,001
Restricted cash and investments	31,291	16,795
Inventory	7,353,967	6,997,516
Property, construction, and office equipment, net	169,576	136,755
Receivables, prepaid expenses, and other assets	582,758	335,860
Mortgage loans held for sale	248,601	123,175
Customer deposits held in escrow	53,057	56,105
Investments in unconsolidated entities	496,411	412,860
Deferred tax assets, net of valuation allowances	167,413	198,455
	$ 9,736,789	$ 9,206,515
LIABILITIES AND EQUITY		
Liabilities		
Loans payable	$ 871,079	$ 1,000,439
Senior notes	2,694,372	2,689,801
Mortgage company loan facility	210,000	100,000
Customer deposits	309,099	284,309
Accounts payable	281,955	236,953
Accrued expenses	1,072,300	608,066
Income taxes payable	62,782	58,868
Total liabilities	5,501,587	4,978,436
Equity		
Stockholders' equity		
Preferred stock, none issued	—	—
Common stock, 177,937 and 177,931 shares issued at October 31, 2016 and 2015, respectively	1,779	1,779
Additional paid-in capital	728,464	728,125
Retained earnings	3,977,297	3,595,202
Treasury stock, at cost — 16,154 and 3,084 shares at October 31, 2016 and 2015, respectively	(474,912)	(100,040)
Accumulated other comprehensive loss	(3,336)	(2,509)
Total stockholders' equity	4,229,292	4,222,557
Noncontrolling interest	5,910	5,522
Total equity	4,235,202	4,228,079
	$ 9,736,789	$ 9,206,515

See accompanying notes.

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

	Year ended October 31, 2016	2015	2014
Revenues	$ 5,169,508	$ 4,171,248	$ 3,911,602
Cost of revenues	4,144,065	3,269,270	3,081,837
Selling, general and administrative	535,382	455,108	432,516
	4,679,447	3,724,378	3,514,353
Income from operations	490,061	446,870	397,249
Other:			
Income from unconsolidated entities	40,748	21,119	41,141
Other income – net	58,218	67,573	66,192
Income before income taxes	589,027	535,562	504,582
Income tax provision	206,932	172,395	164,550
Net income	$ 382,095	$ 363,167	$ 340,032
Other comprehensive (loss) income, net of tax:			
Change in pension liability	(858)	311	(677)
Change in fair value of available-for-sale securities		2	3
Change in unrealized income (loss) on derivative held by equity investee	31	16	223
Other comprehensive (loss) income	(827)	329	(451)
Total comprehensive income	$ 381,268	$ 363,496	$ 339,581
Income per share:			
Basic	$ 2.27	$ 2.06	$ 1.91
Diluted	$ 2.18	$ 1.97	$ 1.84
Weighted-average number of shares:			
Basic	168,261	176,425	177,578
Diluted	175,973	184,703	185,875

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, 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
Net income				382,095				382,095
Purchase of treasury stock					(392,772)			(392,772)
Exercise of stock options and stock based compensation issuances	6		(26,294)		16,770			(9,524)
Employee stock purchase plan issuances			(46)		1,130			1,084
Stock-based compensation			26,679					26,679
Other comprehensive loss						(827)		(827)
Loss attributable to noncontrolling interest							(16)	(16)
Capital contribution							404	404
Balance, October 31, 2016	177,937	1,779	728,464	3,977,297	(474,912)	(3,336)	5,910	4,235,202

See accompanying notes.

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

	Year Ended October 31,		
	2016	2015	2014
Cash flow provided by operating activities:			
Net income	$ 382,095	$ 363,167	$ 340,032
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	23,121	23,557	22,999
Stock-based compensation	26,679	22,903	21,656
Excess tax benefits from stock-based compensation	(2,114)	(1,628)	(7,593)
Income from unconsolidated entities	(40,748)	(21,119)	(41,141)
Distributions of earnings from unconsolidated entities	15,287	19,459	43,973
Income from foreclosed real estate and distressed loans	(8,390)	(13,269)	(15,833)
Deferred tax provision	19,252	62,084	47,431
Change in deferred tax valuation allowances	1,018	(12,642)	(11,929)
Inventory impairments and write-offs	13,807	35,709	20,678
Other	(1,739)	(316)	(22)
Changes in operating assets and liabilities			
Increase in inventory	(391,178)	(351,983)	(271,982)
Origination of mortgage loans	(1,275,047)	(1,029,112)	(818,515)
Sale of mortgage loans	1,150,156	1,007,671	829,948
(Increase) decrease in restricted cash and investments	(14,496)	1,547	13,694
Increase in receivables, prepaid expenses, and other assets	(307,351)	(55,553)	(5,214)
Increase in customer deposits	27,838	46,478	10,516
Increase in accounts payable and accrued expenses	524,553	28,729	82,101
Increase (decrease) in income taxes payable	6,028	(65,500)	52,401
Net cash provided by operating activities	148,771	60,182	313,200

	Year Ended October 31,		
	2016	2015	2014
Cash flow provided by (used in) investing activities:			
Purchase of property and equipment — net	(28,426)	(9,447)	(15,074)
Sale and redemption of marketable securities	10,000	2,000	40,242
Investments in unconsolidated entities	(69,655)	(123,940)	(113,029)
Return of investments in unconsolidated entities	47,806	39,766	73,845
Investment in foreclosed real estate and distressed loans	(1,133)	(2,624)	(2,089)
Return of investments in foreclosed real estate and distressed loans	49,619	37,625	53,130
Net increase in cash from purchase of joint venture interest		3,848	
Acquisition of a business, net of cash acquired			(1,489,116)
Net cash provided by (used in) investing activities	8,211	(52,772)	(1,452,091)
Cash flow (used in) provided by financing activities:			
Proceeds from issuance of senior notes		350,000	600,000
Debt issuance costs for senior notes	(35)	(3,175)	(4,739)
Proceeds from loans payable	2,443,496	1,954,432	2,229,371
Debt issuance costs for loans payable	(4,868)		(3,063)
Principal payments of loans payable	(2,497,585)	(1,659,458)	(1,767,115)
Redemption of senior notes		(300,000)	(267,960)
Net proceeds from issuance of common stock			220,365
Proceeds from stock-based benefit plans	6,986	39,514	28,364
Excess tax benefits from stock-based compensation	2,114	1,628	7,593
Purchase of treasury stock	(392,772)	(56,888)	(90,754)
Receipts (payments) related to noncontrolling interest, net	404	(785)	172
Net cash (used in) provided by financing activities	(442,260)	325,268	952,234
Net (decrease) increase in cash and cash equivalents	(285,278)	332,678	(186,657)
Cash and cash equivalents, beginning of period	918,993	586,315	772,972
Cash and cash equivalents, end of period	$ 633,715	$ 918,993	$ 586,315

See accompanying notes.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

The 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 and Investments

Restricted cash and investments primarily represents cash deposits collateralizing certain deductibles under insurance policies, outstanding letters of credit under our bank revolving credit facility, and cash deposited into a voluntary employee benefit association to fund certain 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 and such amounts could be material.

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 $114.5 million and $138.7 million at October 31, 2016 and 2015, respectively. Depreciation is recorded using the straight-line method over the estimated useful lives of the assets. In fiscal 2016, 2015, and 2014, we recognized $15.5 million, $15.7 million, and $13.4 million of depreciation expense, respectively.

Receivables, Prepaid Expenses, and Other Assets

Receivables, prepaid expenses, and other assets at October 31, 2016 and 2015, consisted of the following (amounts in thousands):

	2016	2015
Expected recoveries from insurance carriers and suppliers	$ 165,696	$ 8,314
Improvement cost receivable	85,627	78,565
Escrow cash held by our captive title company	138,633	24,609
Property held for rental development	81,693	78,888
Investment in foreclosed real estate owned	11,552	50,233
Prepaid expenses	25,659	28,044
Other	73,898	67,207
	$ 582,758	$ 335,860

See Note 6, "Accrued Expenses," for additional information regarding the expected recoveries from insurance carriers and suppliers. At October 31, 2016, escrow cash held by our captive title company includes $106.1 million in connection with the formation of a joint venture in December 2016. See Note 4, "Investments in Unconsolidated Entities – Home Building Joint Ventures," for additional information.

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 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.

Our unconsolidated entities that develop land or develop for-sale homes and condominiums evaluate their 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

Foreclosed real estate owned ("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.

As of October 31, 2016 and 2015, our investment in REO was $11.6 million and $50.2 million, respectively, which is included in "Receivables, prepaid expenses, and other assets" in our Consolidated Balance Sheets. In prior periods, we presented our investments in REO in a separate line item in our Consolidated Balance Sheets. Our Consolidated Balance Sheet at October 31, 2015 has been reclassified to conform to the fiscal 2016 presentation.

As of October 31, 2016, approximately $1.5 million and $10.1 million of REO were classified as held-for-sale and held-and-used, respectively. 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. For the years ended October 31, 2016, 2015, and 2014, we recorded impairments on REO of $1.2 million, $0.8 million, and $1.4 million, respectively.

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 $23.1 million, $18.2 million, and $15.6 million for the years ended October 31, 2016, 2015, and 2014, 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. Over the past several years, we have had a significant number of warranty claims related primarily to older homes built in Pennsylvania and Delaware. See Note 6, "Accrued Expenses," for additional information regarding these warranty charges.

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, Washington, and certain areas of Texas, 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 may be made, and the ultimate resolution of the claim. Though state regulations vary, construction defect claims may be 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.

Legal Expenses

Transactional legal expenses for land acquisition and entitlement, and financing are capitalized and expensed over their appropriate life. We expense legal fees related to litigation, warranty and insurance claims when incurred.

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

Related Party Transactions

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

Reclassification

Certain prior period amounts have been reclassified to conform to the fiscal 2016 presentation.

Recent Accounting Pronouncements

In January 2014, the FASB issued Accounting Standards Update ("ASU") No. 2014-04, "Receivables—Troubled Debt Restructurings by Creditors" ("ASU 2014-04"), which clarifies when an 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. We adopted ASU 2014-04 on November 1, 2015, and the adoption did not have a material effect on our consolidated financial statements or disclosures.

In November 2016, the FASB issued ASU No. 2016-18, "Statement of Cash Flows (Topic 230): Restricted Cash" ("ASU 2016-18"), which provides guidance on the classification of restricted cash in the statement of cash flows. ASU 2016-18 is effective for our fiscal year beginning November 1, 2018. Early adoption is permitted. We do not expect the adoption of ASU 2016-18 to have a material effect on our consolidated financial statements and disclosures.

In August 2016, the FASB issued ASU No. 2016-15, "Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments" ("ASU 2016-15"), which is intended to reduce diversity in practice in how certain transactions are classified and will make eight targeted changes to how cash receipts and cash payments are presented in the statement of cash flows. ASU 2016-15 is effective for our fiscal year beginning November 1, 2018. Early adoption is permitted. We do not expect the adoption of ASU 2016-15 to have a material effect on our consolidated financial statements and disclosures.

In June 2016, the FASB issued ASU No. 2016-13, "Financial Instruments - Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments" ("ASU 2016-13"). ASU 2016-13 replaces the current incurred loss impairment methodology with a methodology that reflects expected credit losses and requires consideration of a broader range of reasonable and supportable information to estimate credit losses. ASU 2016-13 is effective for our fiscal year beginning November 1, 2020, with early adoption permitted as of November 1, 2019. We do not expect the adoption of ASU 2016-13 to have a material effect on our consolidated financial statements and disclosures.

In March 2016, the FASB issued ASU No. 2016-09, "Compensation - Stock Compensation (Topic 718): Improvements to Employee Share-Based Payment Accounting" ("ASU 2016-09"). ASU 2016-09 simplifies several aspects related to the accounting for share-based payment transactions, including the accounting for income taxes and forfeitures, statutory tax withholding requirements and classification on the statement of cash flows. ASU 2016-09 is effective for our fiscal year beginning November 1, 2017. We are currently evaluating the impact that the adoption of ASU 2016-09 may have on our consolidated financial statements and disclosures.

In February 2016, the FASB issued ASU No. 2016-02, "Leases" ("ASU 2016-02"), which requires an entity to recognize assets and liabilities on the balance sheet for the rights and obligations created by leased assets and provide additional disclosures. ASU 2016-02 is effective for our fiscal year beginning November 1, 2019, and, at that time, we will adopt the new standard using a modified retrospective approach. We are currently evaluating the impact that the adoption of ASU 2016-02 may have on our consolidated financial statements and disclosures.

In April 2015, the FASB issued ASU No. 2015-05, "Intangibles - Goodwill and Other - Internal-Use Software (Subtopic 350-40): Customers' Accounting for Fees Paid in a Cloud Computing Arrangement" ("ASU 2015-05"). ASU 2015-05 provides guidance for a customer to determine whether a cloud computing arrangement contains a software license or should be accounted for as a service contract. ASU 2015-05 is effective for our fiscal year beginning November 1, 2016, and, at that time, we will adopt the new standard on a prospective basis. We do not expect the adoption of ASU 2015-05 to 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 our fiscal year beginning November 1, 2016. Upon adoption of ASU 2015-02, we expect that one unconsolidated joint venture, not previously identified as a VIE, will be determined to be a VIE, which will result in a modification of our current disclosures. However, the adoption of ASU 2015-02 is not expected to have a material effect on our consolidated financial statements.

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 our fiscal year beginning November 1, 2018, and, at that time, we expect to adopt the new standard under the modified retrospective approach. We do not believe the adoption of ASU 2014-09 will have a material impact on the amount or timing of our home building revenues. We are continuing to evaluate the impact the adoption of ASU 2014-09 may have on other aspects of our business and on our consolidated financial statements and disclosures.

2. ACQUISITIONS

Shapell Industries, Inc.

On February 4, 2014, we completed our acquisition of Shapell Industries, Inc. ("Shapell") pursuant to a purchase and sale 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 provided 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.

Coleman Real Estate Holdings, LLC

In October 2016, we entered into an agreement to acquire substantially all of the assets and operations of Coleman Real Estate Holdings, LLC ("Coleman"). In November 2016, we completed the acquisition of Coleman for approximately $85.2 million in cash. The assets acquired were primarily inventory, including approximately 1,750 home sites owned or controlled through land purchase agreements. As part of the acquisition, we assumed contracts to deliver 128 homes with an aggregate value of $38.8 million. The average price of the undelivered homes at the date of acquisition was approximately $303,000. As a result of this acquisition, our selling community count increased by 15 communities at the acquisition date.

3. INVENTORY

Inventory at October 31, 2016 and 2015 consisted of the following (amounts in thousands):

	2016	2015
Land controlled for future communities	$ 71,729	$ 75,214
Land owned for future communities	1,884,146	2,033,447
Operating communities	5,398,092	4,888,855
	$ 7,353,967	$ 6,997,516

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, 2016, 2015, and 2014, is provided in the table below ($ amounts in thousands):

	2016	2015	2014
Land owned for future communities:			
Number of communities	18	15	16
Carrying value (in thousands)	$ 123,936	$ 119,138	$ 122,015
Operating communities:			
Number of communities	3	11	9
Carrying value (in thousands)	$ 8,523	$ 63,668	$ 42,092

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, 2016, 2015, and 2014, as shown in the table below (amounts in thousands):

	2016	2015	2014
Charge:			
Land controlled for future communities	$ 3,142	$ 809	$ 3,123
Land owned for future communities	2,300	12,600	
Operating communities	8,365	22,300	17,555
	$ 13,807	$ 35,709	$ 20,678

See Note 11, "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 14, "Commitments and Contingencies," for information regarding land purchase commitments.

At October 31, 2016, 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, 2016, we determined that 78 land purchase contracts, with an aggregate purchase price of $987.3 million, on which we had made aggregate deposits totaling $44.1 million, were VIEs and that we were not the primary beneficiary of any VIE related to our land purchase contracts. 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.

Interest incurred, capitalized, and expensed in each of the three fiscal years ended October 31, 2016, 2015, and 2014, was as follows (amounts in thousands):

	2016	2015	2014
Interest capitalized, beginning of year	$ 373,128	$ 356,180	$ 343,077
Interest incurred	164,001	155,170	163,815
Interest expensed to cost of revenues	(160,337)	(142,947)	(137,457)
Write-off against other income	(1,143)	(3,843)	(5,394)
Interest reclassified to property, construction, and office equipment	(1,111)		
Interest capitalized on investments in unconsolidated entities	(5,818)	(7,467)	(9,672)
Previously capitalized interest on investments in unconsolidated entities transferred to inventory	699	16,035	1,811
Interest capitalized, end of year	$ 369,419	$ 373,128	$ 356,180

During fiscal 2016, we reclassified $17.1 million of inventory related to two golf course facilities and a parking garage to property, construction, and office equipment and such amount was net of $2.1 million transferred to accrued liabilities related to golf deferred membership fees. The amounts were reclassified due to the completion of construction of the facilities and the substantial completion of the master planned communities of which the golf facilities are a part.

During fiscal 2015, we transferred $132.3 million from investment in unconsolidated entities to inventory. The transfer related to the transfer of title of condominium units built by a Home Building Joint Venture to us.

4. INVESTMENTS IN UNCONSOLIDATED ENTITIES

We have investments in various unconsolidated joint venture 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"), which includes our investment in Toll Brothers Realty Trust (the "Trust"); and (iv) invest in distressed loans and real estate and provide financing for residential builders and developers for the acquisition and development of land and home sites ("Gibraltar Joint Ventures"). In fiscal 2016, 2015 and 2014, we recognized income from the unconsolidated entities in which we had an investment of $40.7 million, $21.1 million, and $41.1 million, respectively.

The table below provides information as of October 31, 2016, 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	Gibraltar Joint Ventures	Total
Number of unconsolidated entities	7	3	12	4	26
Investment in unconsolidated entities	$ 223,483	$ 98,754	$ 153,640	$ 20,534	$ 496,411
Number of unconsolidated entities with funding commitments by the Company	5	2	4	1	12
Company's remaining funding commitment to unconsolidated entities	$ 244,287	$ 9,902	$ 9,623	$ 10,000	$ 273,812

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, 2016, 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	10	16
Aggregate loan commitments	$ 470,000	$ 135,253	$ 854,266	$ 1,459,519
Amounts borrowed under commitments	$ 393,741	$ 106,857	$ 659,191	$ 1,159,789

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

During the year ended October 31, 2016, our Land Development Joint Ventures sold approximately 776 lots and recognized revenues of $142.0 million. We acquired 207 of these lots for $64.2 million. Our share of the joint venture income from the lots we acquired of $9.3 million was deferred. During the year ended October 31, 2015, our Land Development Joint Ventures sold approximately 1,015 lots and recognized revenues of $128.9 million. We acquired 376 of these lots for $56.2 million. Our share of the income from the lots we acquired of $9.8 million was deferred.

SUBSEQUENT EVENT

We have an investment in a joint venture in which we have a 50% interest to develop a parcel of land located in Irvine, California. The joint venture expects to develop approximately 840 home sites on this land and sell approximately 50% of the value of the home sites to each of the members of the joint venture. At October 31, 2016, we had an investment of $85.3 million in this joint venture and were committed to make additional contributions to this joint venture of up to $213.0 million. To finance a portion of the land purchase, the joint venture entered into a $320.0 million purchase money mortgage with the seller at the formation of the joint venture. Subsequent to October 31, 2016, the joint venture entered into a $200.0 million building loan agreement and each member made a capital contribution of $80.0 million. A portion of the proceeds from the building loan in addition to the capital contributions made subsequent to October 31, 2016, were used to repay the purchase money mortgage. We and an affiliate of our partner provided certain guarantees under the building loan agreement. Each partner has an obligation to fund 50% of the payments made as a result of performing under these guarantees. We estimate that the maximum exposure under these guarantees would be $200.0 million without taking into account any recoveries from the underlying collateral or any reimbursement from our partner.

Home Building Joint Ventures

Our Home Building Joint Ventures are delivering homes in New York City and Jupiter, Florida. During the year ended October 31, 2016, our Home Building Joint Ventures delivered 115 homes with a value of $164.9 million. During the year ended October 31, 2015, our Home Building Joint Ventures delivered 96 homes with a value of $78.1 million.

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 in fiscal 2015 was deferred and will be recognized in our results of operations as units are sold and delivered to the ultimate home buyer. In fiscal 2016, the joint venture commenced settlement of units and, accordingly, we recognized $1.5 million of previously deferred gains. At October 31, 2016, we had an investment of $19.8 million in this joint venture. In fiscal 2015, 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, 2016, the joint venture had $83.0 million borrowed under the construction loan.

SUBSEQUENT EVENT

In December 2016, 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. Before the formation of this joint venture, we acquired the property and incurred approximately $176.0 million of land and land development costs. The joint venture, in which we have a 20% interest, purchased the property from us for at our cost, of which $59.8 million was financed by a $236.5 million construction loan obtained by the joint venture. From the sale, we received proceeds of $148.0 million, of which $106.1 million was held in escrow by our captive title company at October 31, 2016 and included in "Receivables, prepaid expenses, and other assets" on our Consolidated Balance Sheet at October 31, 2016. We have an initial investment in the joint venture of $27.8 million. We and an affiliate of our partner provided certain guarantees under the construction loan agreement. We estimate that the maximum exposure under these guarantees, if the full amount of the loan commitment was borrowed, would be $236.5 million without taking into account any recoveries from the underlying collateral or any reimbursement from our partner.

Rental Property Joint Ventures

As of October 31, 2016, our Rental Property Joint Ventures owned 11 for-rent apartment projects, which are located in the metro Boston to metro Washington, D.C. corridor. At October 31, 2016, our joint ventures had approximately 2,950 units that were occupied or ready for occupancy, 600 units in the lease-up stage, 900 units under active development, and 400 units in the planning stage. In addition, we either own, have under contract, or under a letter of intent approximately 4,750 units, which are in the planning stage. We intend to develop these units with joint venture partners in the future.

In the second quarter of fiscal 2016, we entered into a joint venture with an unrelated party to develop a 525-unit luxury for-rent residential apartment building near Union Station in Washington, D.C. Prior to the formation of this joint venture, we acquired the land, through a 100%-owned entity, and incurred $35.1 million of land and land development costs. Our partner acquired a 50% interest in this entity for $20.2 million and we subsequently received cash of $18.7 million to align the capital accounts of each of the partners of the joint venture. As a result of the sale of 50% of our interests to our partner, we recognized a gain of $3.0 million, which is recorded in "Other income-net" on our Condensed Consolidated Statement of Operations and Comprehensive Income in fiscal 2016. Due to our continued involvement in the joint venture through our ownership interest, we deferred $3.0 million of the gain realized on the sale. At October 31, 2016, we had an investment of $24.5 million in this joint venture and expect to make additional investments of approximately $4.8 million for the development of this project. Subsequent to October 31, 2016, the joint venture entered into a $130.6 million construction loan agreement. Each partner has an obligation to fund 50% of the payments made as a result of performing under these guarantees. We estimate that the maximum exposure under these guarantees, if the full amount of the loan commitment was borrowed, would be $130.6 million without taking into account any recoveries from the underlying collateral or any reimbursement from our partner.

In the fourth quarter of fiscal 2016, we entered into a joint venture with an unrelated party to develop a 390-unit luxury for-rent residential apartment building in a Boston, Massachusetts suburb, on land that we were under contract to purchase. We have a 25% interest in this joint venture. In the fourth quarter of fiscal 2016, the joint venture entered into a $91.0 million construction loan agreement with a bank to finance the development of this project. At October 31, 2016, there were no outstanding borrowings under the construction loan agreement. At October 31, 2016, we had an investment of $7.9 million in this joint venture and expect to make additional investments of approximately $3.0 million for the development of this project.

In 1998, we formed the Trust to invest in commercial real estate opportunities. The Trust is effectively owned one-third by us; one-third by current and former members of our senior management; and one-third by an unrelated party. As of October 31, 2016, 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 $1.6 million, $2.2 million, and $2.3 million in fiscal 2016, 2015 and 2014, 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 fiscal 2015 Consolidated Statement 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.

Gibraltar Joint Ventures

In the second quarter of fiscal 2016, we, through our wholly owned subsidiary, Gibraltar Capital and Asset Management, LLC ("Gibraltar"), entered into two ventures with an institutional investor to provide builders and developers with land banking and venture capital. We have a 25% interest in these ventures. These ventures will finance builders' and developers' acquisition and development of land and home sites and pursue other complementary investment strategies. We may invest up to $100.0 million in these ventures. As of October 31, 2016, we had an investment of $8.8 million in these ventures.

In addition, in the second quarter of fiscal 2016, we entered into a separate venture with the same institutional investor to purchase, from Gibraltar, certain foreclosed real estate owned and distressed loans for $24.1 million. We have a 24% interest in this venture. In fiscal 2016, we recognized a gain of $1.3 million from the sale of these assets to the venture. At October 31, 2016, we had a $5.7 million investment in this venture and are committed to invest an additional $10.0 million, if necessary.

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) carry cost guarantees, which cover costs such as interest; real estate taxes, and insurance; (iv) an environmental indemnity provided to the lender that holds the lender harmless from and against losses arising from the discharge of hazardous materials from the property and non- compliance with applicable environmental laws; 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, 2016, 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, 2016, the unconsolidated entities that have guarantees related to debt had loan commitments aggregating $875.7 million and had borrowed an aggregate of $576.0 million. The term of these guarantees generally ranges from one month to 48 months. We estimate that the maximum potential exposure under these guarantees, if the full amount of the loan commitments were borrowed, would be $875.7 million, without taking into account any recoveries from the underlying collateral or any reimbursement from our partners. Of this maximum potential exposure, $87.0 million is related to repayment and carry cost guarantees. Based on the amounts borrowed at October 31, 2016, our maximum potential exposure under all guarantees is estimated to be approximately $576.0 million, without taking into account any recoveries from the underlying collateral or any reimbursement from our partners. Of the estimated $576.0 million, $61.5 million is related to repayment and carry cost guarantees.

In addition, we have guaranteed approximately $4.3 million of ground lease payments and insurance deductibles for three joint ventures.

As of October 31, 2016, 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, 2016 and 2015, we determined that three and one, respectively, of our joint ventures were VIEs under the guidance within ASC 810. However, we have concluded that we were not the primary beneficiary of the VIEs because the power to direct the activities of such VIEs that most significantly impact their performance was either shared by us and the VIEs' other partners or such activities were controlled by our partner. For VIEs where the power to direct significant activities is shared, 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, 2016 and 2015, 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 $16.4 million and $6.7 million, respectively. At October 31, 2016, the maximum exposure of loss to our investments in unconsolidated joint ventures that are VIEs was limited to our investments in the unconsolidated VIEs, except with regard to $70.0 million of loan guarantees and $1.4 million of additional commitments to the VIEs. At October 31, 2015, the maximum exposure to loss of our investment in the unconsolidated joint venture that was a VIE was limited to our investment in the unconsolidated VIE, except with regard to $89.8 million of loan guarantees and $0.4 million of additional commitments to fund the VIE. Of our potential exposure for these loan guarantees at October 31, 2016 and 2015, $14.3 million is related to repayment and carry cost guarantees.

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	Gibraltar Joint Ventures	Total
CONDENSED BALANCE SHEETS:			**October 31, 2016**		
Cash and cash equivalents	$ 38,466	$ 12,820	$ 29,103	$ 50,405	$ 130,794
Inventory	719,732	345,588		9,568	1,074,888
Non-performing loan portfolio				4,298	4,298
Rental properties			621,615		621,615
Rental properties under development			302,632		302,632
Real estate owned				87,226	87,226
Other assets	76,518	82,794	14,574	1,919	175,805
Total assets	$ 834,716	$ 441,202	$ 967,924	$ 153,416	$ 2,397,258
Debt	394,813	110,879	659,191		1,164,883
Other liabilities	38,769	75,419	35,303	3,390	152,881
Members' equity	401,134	254,904	273,430	50,886	980,354
Noncontrolling interest				99,140	99,140
Total liabilities and equity	$ 834,716	$ 441,202	$ 967,924	$ 153,416	$ 2,397,258
Company's net investment in unconsolidated entities (2)	$ 223,483	$ 98,754	$ 153,640	$ 20,534	$ 496,411
			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

(1) Included in other assets of the Gibraltar Joint Ventures at October 31, 2015 was $78.0 million of restricted cash held in a defeasance account that was used to repay debt of one of the Gibraltar Joint Ventures in December 2015.

(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; interest capitalized on our investments; 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	Gibraltar Joint Ventures	Total
CONDENSED STATEMENTS OF OPERATIONS AND COMPREHENSIVE INCOME:	**For the year ended October 31, 2016**				
Revenues	$ 142,015	$ 168,164	$ 58,707	$ 5,929	$ 374,815
Cost of revenues	63,429	118,621	29,791	24,684	236,525
Other expenses	3,904	8,124	30,779	2,043	44,850
Total expenses	67,333	126,745	60,570	26,727	281,375
Gain on disposition of loans and REO				49,579	49,579
Income (loss) from operations	74,682	41,419	(1,863)	28,781	143,019
Other income (expense)	3,464	(486)	1,144	1,172	5,294
Net income (loss)	78,146	40,933	(719)	29,953	148,313
Less: income attributable to noncontrolling interest				(18,218)	(18,218)
Net income (loss) attributable to controlling interest	78,146	40,933	(719)	11,735	130,095
Other comprehensive income			100		100
Total comprehensive income (loss)	$ 78,146	$ 40,933	$ (619)	$ 11,735	$ 130,195
Company's equity in earnings of unconsolidated entities (3)	$ 15,772	$ 16,945	$ 5,721	$ 2,310	$ 40,748
	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 REO				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 REO				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

(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; recoveries of previously incurred charges; a gain recognized for the sale of our ownership interest in one of our joint ventures; and our share of the entities' profits related to home sites purchased by us which reduces our cost basis of the home sites acquired.

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

Loans Payable

At October 31, 2016 and 2015, loans payable consisted of the following (amounts in thousands):

	2016	2015
Senior unsecured term loan	$ 500,000	$ 500,000
Credit facility borrowings	250,000	350,000
Loans payable – other	122,809	151,702
Deferred issuance costs	(1,730)	(1,263)
	$ 871,079	$ 1,000,439

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.

On May 19, 2016, we entered into an amendment to the Term Loan Facility to, among other things, (1) amend the financial maintenance covenants therein to be substantially the same as the financial maintenance covenants applicable under the New Credit Facility described below and (2) revise certain provisions relating to the interest rate applicable on outstanding borrowings. In addition, in August 2016, we amended the Term Loan Facility to extend the maturity date from February 3, 2019 to August 2, 2021.

Under the Term Loan Facility, as amended, we may select interest rates equal to (i) London Interbank Offered Rate ("LIBOR") plus an applicable margin, (ii) the base rate (as defined in the agreement) plus an applicable margin, or (iii) the federal funds/Euro rate (as defined in the agreement) plus an applicable margin, in each case, based on our leverage ratio. At October 31, 2016, the interest rate on the Term Loan Facility was 1.93% 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.

CREDIT FACILITY

On August 1, 2013, we entered into a $1.035 billion unsecured, five-year revolving credit facility ("Credit Facility"). The commitments under the Credit Facility were scheduled to expire on August 1, 2018. On May 19, 2016, we entered into a new $1.215 billion (subsequently increased to $1.295 billion) (the "Aggregate Credit Commitment"), unsecured, five-year revolving credit facility (the "New Credit Facility") with a syndicate of banks and terminated the Credit Facility. The commitments under the New Credit Facility are scheduled to expire on May 19, 2021. Up to 50% of the Aggregate Credit Commitment is available for letters of credit. The New Credit Facility has an accordion feature under which we may, subject to certain conditions set forth in the agreement, increase the New Credit Facility up to a maximum aggregate amount of $2.0 billion. We may select interest rates for the New 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, 2016, the interest rate on outstanding borrowings under the New Credit Facility was 2.03% 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 New Credit Facility may be used for general corporate purposes. We and substantially all of our 100%-owned home building subsidiaries are guarantors under the New Credit Facility.

Under the terms of the New 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 agreement) of no less than approximately $2.60 billion. Under the terms of the New Credit Facility, at October 31, 2016, our leverage ratio was approximately 0.71 to 1.00 and our tangible net worth was approximately $4.18 billion. Based upon the minimum tangible net worth requirement, our ability to repurchase our common stock was limited to approximately $2.13 billion as of October 31, 2016.

At October 31, 2016, we had $250.0 million of outstanding borrowings under the New Credit Facility and had outstanding letters of credit of approximately $83.2 million.

LOANS PAYABLE – OTHER

Our "Loans payable – other" primarily 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 our behalf to finance community infrastructure and our manufacturing facilities. Information regarding our loans payable at October 31, 2016 and 2015, is included in the table below ($ amounts in thousands):

	2016	2015
Aggregate loans payable at October 31	$ 122,809	$ 151,702
Weighted-average interest rate	3.99%	3.78%
Interest rate range	0.78% - 7.87%	0.15% – 7.87%
Loans secured by assets		
Carrying value of loans secured by assets	$ 122,570	$ 151,702
Carrying value of assets securing loans	$ 461,162	$ 378,864

The contractual maturities of "Loans payable – other" as of October 31, 2016, ranged from three months to 30 years.

Senior Notes

At October 31, 2016 and 2015, senior notes consisted of the following (amounts in thousands):

	2016	2015
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	350,000
0.5% Exchangeable Senior Notes due September 15, 2032	287,500	287,500
Bond discount and deferred issuance costs	(13,004)	(17,575)
	$ 2,694,372	$ 2,689,801

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 New 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% 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. 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 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.

Mortgage Company Loan Facility

In October 2016, TBI Mortgage® Company ("TBI Mortgage"), our wholly owned mortgage subsidiary, entered into a Mortgage Warehousing Agreement ("Warehousing Agreement") with a syndicate of banks. The purpose of the Warehousing Agreement is to finance the origination of mortgage loans by TBI Mortgage, and the Warehousing Agreement is accounted for as a secured borrowing under ASC 860, "Transfers and Servicing." The Warehousing Agreement provides for loan purchases up to $150 million, subject to certain sublimits. In addition, the Warehousing Agreement provides for an accordion feature under which TBI Mortgage may request that the aggregate commitments under the Warehousing Agreement be increased to an amount up to $210 million for a short period of time. The Warehousing Agreement, expires on October 27, 2017, and borrowings thereunder bear interest at LIBOR plus 2.00% per annum. At October 31, 2016, the interest rate on the Warehousing Agreement was 2.53% per annum. In addition, we are subject to an under usage fee based on outstanding balances, as defined in the Warehousing Agreement. Borrowings under this facility are included in the fiscal 2017 maturities.

Prior to entering into the Warehousing Agreement, TBI Mortgage had a Master Repurchase Agreement, as amended (the "Repurchase Agreement") with a bank, which provided for loan purchases up to $85 million subject to certain sublimits. In addition, the Repurchase Agreement provided for an accordion feature under which TBI Mortgage could request that the aggregate commitments under the Repurchase Agreement be increased to an amount up to $125 million for a short period of time. The borrowings under the Repurchase Agreement bore interest at LIBOR plus 2.00% per annum, with a minimum rate of 2.00%. The Repurchase Agreement was terminated when we entered into the Warehousing Agreement.

At October 31, 2016 and 2015, there were $210.0 million and $100.0 million, respectively, outstanding under the Warehousing and Repurchase Agreements, respectively, which are included in liabilities in our Consolidated Balance Sheets. At October 31, 2016 and 2015, amounts outstanding under the agreements were collateralized by 231.4 million and $115.9 million, respectively, of mortgage loans held for sale, which are included in assets in our Consolidated Balance Sheets. As of October 31, 2016, there were no aggregate outstanding purchase price limitations reducing the amount available to TBI Mortgage. There are several restrictions on purchased loans under the agreements, 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, 2016, the annual aggregate maturities of our loans and notes during each of the next five fiscal years are as follows (amounts in thousands):

	Amount
2017	$ 637,329
2018 (a)	$ 305,543
2019	$ 373,122
2020	$ 253,914
2021	$ 751,983

(a) Since the Holders of the 0.5% Exchangeable Senior Notes have the right to require Toll Brothers Finance Corp. to repurchase their notes on December 15,2017, these notes are included as a fiscal 2018 maturity.

6. ACCRUED EXPENSES

Accrued expenses at October 31, 2016 and 2015, consisted of the following (amounts in thousands):

	2016	2015
Land, land development and construction	$ 153,264	$ 118,634
Compensation and employee benefits	138,282	125,045
Escrow liability (1)	137,396	24,023
Self-insurance	126,431	113,727
Warranty (2)	370,992	93,083
Deferred income (1)	43,488	43,059
Interest	34,903	26,926
Commitments to unconsolidated entities	5,637	5,534
Other (1)	61,907	58,035
	$ 1,072,300	$ 608,066

(1) In prior periods, Escrow liability and Deferred income were included in Other in the above schedule. The October 31, 2015 column presented above has been reclassified to conform to the fiscal 2016 presentation.

(2) The fiscal 2016 amount includes $159.0 million of warranty charges expected to be recovered from our insurance carriers and suppliers, which we recorded as a receivable at October 31, 2016 and is included in "Receivables, prepaid expenses, and other assets" in our Consolidated Balance Sheet.

In response to an increasing number of water intrusion claims received in the second half of fiscal 2014 from owners of stucco homes in certain completed communities located in Pennsylvania and Delaware (which are in our Mid-Atlantic region), we undertook a review of homes built in these communities during fiscal 2003 through fiscal 2009 to determine whether additional repairs related to stucco homes would likely be needed in these communities.

Our quarterly review process includes an analysis of many factors to determine whether a claim is likely to be received and the estimated costs to resolve any such claim, including: the closing dates of the stucco homes in each community; the number of claims received; our inspection of homes; an estimate of the number of homes we expect to repair; the type and cost of repairs that have been performed in each community; the estimated costs to remediate pending and future claims in each community; the expected recovery from our insurance carriers; and the amount of warranty and self-insurance reserves already recorded.

At the end of fiscal 2014, we estimated our liability for known and unknown warranty claims for stucco homes in the affected communities to be approximately $54.0 million, of which we expected to recover approximately $21.5 million from our outside insurance carriers. We recognized a $25.0 million net charge, after reduction for expected insurance recoveries, in the fourth quarter of fiscal 2014 for estimated repair costs for these homes.

During our fiscal fourth-quarter 2015 review of the estimated liability for warranty claims for stucco homes, we determined that the average cost of repairs had increased based on the actual costs we incurred to complete repairs of homes in the second half of fiscal 2015. We also determined that additional repairs would 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 estimates, the estimated liability for known and unknown warranty claims for stucco homes increased to approximately $80.3 million as of October 31, 2015, of which we expected to recover approximately $32.6 million from outside insurance carriers. We recognized a $14.7 million additional net charge, after reduction for expected insurance recoveries, in the fourth quarter of fiscal 2015 for estimated repair costs for these homes.

Based upon the reviews conducted in the second and third quarters of fiscal 2016, we determined that the actual costs incurred per claim had increased. We recognized additional net charges of $2.5 million and $1.9 million in the second and third quarters of fiscal 2016, respectively, for repairs to stucco homes. In the third quarter of fiscal 2016, our estimated liability also included estimated costs for a small number of water intrusion claims for non-stucco homes in these same completed communities.

In the fourth quarter of fiscal 2016, we increased our estimate of the aggregate number of homes we expect to repair for stucco-related issues as well as the expected repair costs per home. These increases were largely attributable to the repairs taking place in the affected communities and our experience in responding to and adjusting claims received as we completed an increasing number of fully resolved repairs. The fourth-quarter 2016 increase in the estimated number of homes we expect to repair was further affected by an increase in the rate of claims received. In response to our remediation experience, we modified our repair protocol in the fourth quarter of fiscal 2016. The increase in the projected cost per claim in the fourth quarter is attributable to the modified repair protocol, as well as construction cost increases affecting the industry generally.

In addition, based upon an increase in the number of water intrusion claims received on non-stucco homes and further investigation of these claims, we determined that an accrual was needed for projected warranty claims from these non-stucco homes in these same completed communities. We did not see a change in the geographic concentration of claims, and we believe these claims are attributable to local construction practices employed by independent contractors in this region.

Our estimated liability for known and unknown water intrusion claims increased in the fourth quarter of fiscal 2016 to approximately $324.4 million as of October 31, 2016, of which we expect to recover approximately $152.6 million from outside insurance carriers and suppliers. Of the $324.4 million total estimated liability, approximately $115.5 million relates to water intrusion at non-stucco homes. We recognized a $121.2 million and $125.6 million additional net charge, after reduction for expected insurance and supplier recoveries, for estimated repair costs in the fourth quarter and full fiscal year of 2016, respectively. The charges discussed above are included in "Cost of revenues" in our Consolidated Statements of Operations and Comprehensive Income. Resolution of these known and unknown claims is expected to take several years.

Our estimates are predicated on several assumptions for which there is significant uncertainty including, but not limited to, the number of homes to be repaired, the extent of repairs needed, the cost of those repairs, and expected recoveries from insurance carriers and suppliers. At October 31, 2016, the number of known claims represented approximately a third of the total number of claims included in our estimates. Due to the degree of judgment required and the potential for variability in the underlying assumptions, it is reasonably possible that our actual costs could differ from those estimated, such differences could be material, and therefore, we are unable to estimate the range of any such differences.

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 one of these claims in 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 evaluation of the remaining claim, we recorded a charge of $6.9 million in fiscal 2015. We do not believe that the resolution of any of these matters, in excess of the amounts currently accrued would be material to our results of operations, liquidity, or on 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 2016, 2015, and 2014 as follows (amounts in thousands):

	2016	2015	2014
Balance, beginning of year	$ 93,083	$ 86,282	$ 43,819
Additions - homes closed during the year	28,927	20,934	18,588
Addition - liabilities acquired			11,044
Increase in accruals for homes closed in prior years*	26,689	2,661	2,913
Reclassification from self-insurance accruals			7,554
Increase to water intrusion reserves (see above)†	267,258	14,685	24,950
Charges incurred	(44,965)	(31,479)	(22,586)
Balance, end of year	$ 370,992	$ 93,083	$ 86,282

*The fiscal 2016 amount includes (i) the current year charge of $9.3 million, which is included in "Cost of sales" in our 2016 Consolidated Statement of Operations and Comprehensive Income and (ii) $17.3 million of non-water intrusion warranty charges expected to be recovered from our insurance carriers and suppliers, which we recorded as a receivable at October 31, 2016 and is included in "Receivables, prepaid expenses, and other assets" on our 2016 Consolidated Balance Sheet.

†The fiscal 2016 amount includes (i) the current year charge of $125.6 million, which is included in "Cost of sales" in our 2016 Consolidated Statement of Operations and Comprehensive Income and (ii) $141.7 million of water intrusion warranty charges expected to be recovered from our insurance carriers and suppliers, which we recorded as a receivable at October 31, 2016 and is included in "Receivables, prepaid expenses, and other assets" on our 2016 Consolidated Balance Sheet.

7. 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, 2016, 2015, and 2014 ($ amounts in thousands):

	2016		2015		2014	
	$	%*	$	%*	$	%*
Federal tax provision at statutory rate	206,159	35.0	187,447	35.0	176,604	35.0
State tax provision, net of federal benefit	26,970	4.6	21,947	4.1	23,778	4.7
Domestic production activities deduction	(16,874)	(2.9)	(12,284)	(2.3)	(14,796)	(2.9)
Other permanent differences	(7,037)	(1.2)	(7,821)	(1.5)	(6,214)	(1.2)
Reversal of accrual for uncertain tax positions	(11,177)	(1.9)	(15,331)	(2.9)	(11,022)	(2.2)
Accrued interest on anticipated tax assessments	1,964	0.3	2,588	0.5	1,847	0.4
Increase in unrecognized tax benefits	2,052	0.3	3,214	0.6	5,694	1.1
Valuation allowance — recognized	1,018	0.2	3,681	0.7	1,328	0.3
Valuation allowance — reversed	—	—	(16,323)	(3.0)	(13,256)	(2.6)
Other	3,857	0.7	5,277	1.0	587	0.1
Income tax provision*	206,932	35.1	172,395	32.2	164,550	32.6

*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 will be 7.0% in fiscal 2016. Our state income tax rate was 6.3% and 7.2% in fiscal 2015 and 2014, respectively.

The following table provides information regarding the provision (benefit) for income taxes for each of the fiscal years ended October 31, 2016, 2015, and 2014 (amounts in thousands):

	2016	2015	2014
Federal	$ 189,170	$ 181,819	$ 163,089
State	17,762	(9,424)	1,461
	$ 206,932	$ 172,395	$ 164,550
Current	$ 186,662	$ 122,953	$ 129,047
Deferred	20,270	49,442	35,503
	$ 206,932	$ 172,395	$ 164,550

The following table provides a reconciliation of the change in the unrecognized tax benefits for the years ended October 31, 2016, 2015, and 2014 (amounts in thousands):

	2016	2015	2014
Balance, beginning of year	$ 51,889	$ 58,318	$ 78,105
Increase in benefit as a result of tax positions taken in prior years	8,110	16,802	10,314
Increase in benefit as a result of tax positions taken in current year	694	9,005	442
Decrease in benefit as a result of settlements	(28,976)	(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	(1,445)	(1,223)	(29,321)
Balance, end of year	$ 30,272	$ 51,889	$ 58,318

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.

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, 2016, 2015, and 2014, and the amounts accrued for potential interest and penalties at October 31, 2016 and 2015 (amounts in thousands):

Expense recognized in Consolidated Statements of Operations and Comprehensive Income	
Fiscal year	
2016	$ 3,426
2015	$ 4,454
2014	$ 9,694
Accrued at:	
October 31, 2016	$ 9,282
October 31, 2015	$ 17,012

The components of net deferred tax assets and liabilities at October 31, 2016 and 2015 are set forth below (amounts in thousands):

	2016	2015
Deferred tax assets:		
Accrued expenses	$ 103,134	$ 72,426
Impairment charges	113,950	130,709
Inventory valuation differences	78,483	67,610
Stock-based compensation expense	49,004	54,768
Amounts related to unrecognized tax benefits	8,345	25,267
State tax, net operating loss carryforward	50,031	53,103
Other	6,329	7,410
Total assets	409,276	411,293
Deferred tax liabilities:		
Capitalized interest	85,873	107,970
Deferred income	52,406	17,661
Expenses taken for tax purposes not for book	47,045	37,868
Depreciation	5,440	3,819
Deferred marketing	18,945	14,384
Total liabilities	209,709	181,702
Net deferred tax assets before valuation allowances	199,567	229,591
Cumulative valuation allowance - state	(32,154)	(31,136)
Net deferred tax assets	$ 167,413	$ 198,455

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, 2016 and 2015, we determined that it was more-likely-than-not that our deferred assets would be realized for federal purposes. Accordingly, at October 31, 2016 and 2015, 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, 2016 and 2015, as shown above. During fiscal 2015 and 2014, due to improved actual and/or projected operating results, we reversed $16.3 million, and $13.3 million, respectively, of state deferred tax asset valuation allowance previously recognized. During fiscal 2016, no state deferred tax asset valuation allowances were reversed. 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 2016, 2015, and 2014, we recognized new valuation allowances of $1.0 million, $3.7 million, and $1.3 million, respectively. We will continue to review our deferred tax assets in accordance with ASC 740.

8. 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, 2016, we had 161.8 million shares of common stock issued and outstanding, 10.2 million shares of common stock reserved for outstanding stock options and restricted stock units, 6.8 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, 2016, 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

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 obtaining shares for the Company's equity award and other employee benefit plans and for any other additional purpose or purposes as may be determined from time to time by the Board of Directors. Effective May 23, 2016, our Board of Directors terminated the December 2014 share repurchase program and authorized, under a new repurchase program, the repurchase of 20 million shares of our common stock in open market transactions or otherwise for general corporate purposes, including to obtain shares for the Company's equity award and other employee benefit plans. The Board of Directors did not fix any expiration date for this repurchase program.

The following table provides information about the share repurchase programs for the fiscal years ended October 31, 2016, 2015, and 2014:

	2016	2015	2014
Number of shares purchased (in thousands)	13,652	1,665	2,947
Average price per share	$ 28.77	$ 34.17	$ 30.80
Remaining authorization at October 31 (in thousands)	15,838	18,535	5,321

Subsequent to October 31, 2016, we repurchased approximately 550,000 shares of our common stock at an average price of $27.28 per share.

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, 2016. The 2007 Rights Plan will expire on July 11, 2017.

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. 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.

9. 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, 2016, 2015, and 2014, we had 6.8 million; 7.5 million; and 8.8 million shares, respectively, available for grant under our stock incentive plans.

We have three additional stock incentive plans for employees, officers, and directors that are inactive except for outstanding stock option awards at October 31, 2016. 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 2016, 2015, and 2014 (amounts in thousands):

	2016	2015	2014
Total stock-based compensation expense recognized	$ 26,679	$ 22,903	$ 21,656
Income tax benefit recognized	$ 10,450	$ 8,767	$ 8,322

At October 31, 2016, 2015, and 2014, the aggregate unamortized value of outstanding stock-based compensation awards was approximately $27.0 million, $25.2 million, and $24.0 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, 2016, 2015, and 2014:

	2016	2015	2014
Expected volatility	32.03% - 42.31%	32.69% - 42.58%	36.44% - 44.71%
Weighted-average volatility	34.69%	36.36%	42.71%
Risk-free interest rate	1.58% - 2.14%	1.53% - 2.11%	1.45% - 2.71%
Expected life (years)	4.56 - 9.17	4.54 - 9.12	4.55 - 9.02
Dividends	none	none	none
Weighted-average fair value per share of options granted	$ 11.24	$ 11.67	$ 14.26

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 2016, 2015 and 2014 was as follows (amounts in thousands):

	2016	2015	2014
Stock compensation expense recognized - options	$ 10,986	$ 9,610	$ 9,005

At October 31, 2016, total compensation cost related to nonvested stock option awards not yet recognized was approximately $13.7 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, 2016, 2015, and 2014 (amounts in thousands, except per share amounts):

	2016		2015		2014	
	Number of options	Weighted-average exercise price	Number of options	Weighted-average exercise price	Number of options	Weighted-average exercise price
Balance, beginning	8,025	$ 25.75	9,358	$ 25.94	9,924	$ 24.51
Granted	965	32.85	870	32.49	819	35.16
Exercised	(255)	24.04	(1,441)	27.52	(1,313)	20.88
Canceled	(221)	35.23	(762)	32.48	(72)	25.23
Balance, ending	8,514	$ 26.36	8,025	$ 25.75	9,358	$ 25.94
Options exercisable, at October 31,	6,407	$ 24.14	6,098	$ 23.67	7,482	$ 24.91

The weighted average remaining contractual life (in years) for options outstanding and exercisable at October 31, 2016, was 4.4 and 3.1, 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, 2016, 2015, and 2014 (amounts in thousands):

	2016	2015	2014
Intrinsic value of options outstanding	$ 31,852	$ 82,058	$ 62,073
Intrinsic value of options exercisable	$ 31,852	$ 75,034	$ 55,776

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, 2016, 2015, and 2014, is provided below (amounts in thousands):

	2016	2015	2014
Intrinsic value of options exercised	$ 2,337	$ 12,923	$ 18,361
Fair market value of options vested	$ 9,690	$ 9,183	$ 8,447

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 2016, 2015, and 2014:

	2016	2015	2014
Options exercised	5,000	30,000	96,162
Shares withheld	3,547	29,917	58,819
Shares issued	1,453	83	37,343
Average fair market value per share withheld	$ 32.85	$ 32.64	$ 33.78
Aggregate fair market value of shares withheld (in thousands)	$ 117	$ 976	$ 1,987

Performance-Based Restricted Stock Units:

In fiscal 2016, 2015, and 2014, 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 2016, 2015, and 2014:

	2016	2015	2014
Number of shares underlying Performance-Based RSUs to be issued	182,853	300,042	288,814
Aggregate number of Performance-Based RSUs outstanding at October 31	1,074,222	1,261,545	961,503
Closing price of our common stock on Valuation Date	$ 32.85	$ 32.49	$ 35.16
Aggregate fair value of Performance-Based RSUs issued (in thousands)	$ 6,007	$ 9,748	$ 10,155
Performance-Based RSU expense recognized (in thousands)	$ 8,301	$ 9,863	$ 9,310
Unamortized value of Performance-Based RSUs at October 31 (in thousands)	$ 6,556	$ 8,850	$ 8,965

Performance-Based RSUs issued in December 2011 were paid in fiscal 2016. 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 $12.2 million (370,171 shares), the minimum income tax withholding was $5.4 million (164,090 shares) and the net value of the shares delivered was $6.8 million (206,081 shares).

Total Shareholder Return Restricted Stock Units:

In December 2015, the Executive Compensation Committee approved awards of total shareholder return restricted stock units ("TSRs") relating to 171,705 shares of our common stock to certain members of our senior management (the "Initial Grant"). The TSRs granted are earned by comparing our total shareholder return during three distinct performance periods to the respective total shareholder returns of companies in a performance peer group as defined in the award document. The three distinct performance periods are as follows:

	Performance Period	Initial Number of TSR RSUs issued
Tranche 1	November 1, 2015 to October 31, 2016	61,796
Tranche 2	November 1, 2015 to October 31, 2017	57,230
Tranche 3	November 1, 2015 to October 31, 2018	52,679

The TSRs vest over a three-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. Based upon our ranking in the performance peer group, the recipient of the TSRs may earn a total award ranging from 0% to 200% of the Initial Grant. In 2016, recipients of Tranche 1 TRSs earned 0% of the grants based upon our total shareholder return ranking in the performance peer group during the one-year period ended October 31, 2016.

We estimated the fair value of the TSRs at the grant date using a Monte Carlo simulation. The assumptions used in the Monte Carlo simulation for risk-free rate of return, expected dividend yield, and expected volatility were 1.23%, 0%, and 28.66%, respectively. The length of each performance period was used as the expected term in the simulation for each respective tranche. The weighted average grant date fair value of TSRs granted during 2016 was $41.16 per unit. In fiscal 2016, we recognized $3.3 million of expense related to TSRs. At October 31, 2016, the unamortized value of the TSRs was $3.8 million.

Stock Price-Based Restricted Stock Units:

In December 2010, 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).

In fiscal 2014, we recognized $0.2 million of expense related to Stock Price-Based RSUs. No expenses related to Stock Price-Based RSUs were recognized in fiscal 2016 or fiscal 2015. At October 31, 2016 and 2015, no Stock Price-Based RSUs were outstanding.

Nonperformance-Based Restricted Stock Units:

In fiscal 2016, 2015, and 2014, 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 2016, 2015, and 2014:

	2016	2015	2014
Nonperformance-Based RSUs issued:			
Number of RSUs issued	139,684	124,568	99,336
Weighted average closing price of our common stock on date of issuance	$ 32.85	$ 32.74	$ 35.16
Aggregate fair value of RSUs issued (in thousands)	$ 4,589	$ 4,078	$ 3,493
Nonperformance-Based RSU expense recognized (in thousands):	$ 3,958	$ 3,317	$ 3,012

	2016	2015	2014
At October 31:			
Aggregate Nonperformance-Based RSUs outstanding	396,716	380,548	304,286
Cumulative unamortized value of Nonperformance-Based RSUs (in thousands)	$ 2,956	$ 2,542	$ 2,043

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 2016, we withheld 25,340 of the shares subject to restricted stock units to cover $827,800 of income tax withholdings and we issued the remaining 70,627 shares to the recipients. 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.

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, 2016, 501,000 shares were available for issuance.

The following table provides information regarding our employee stock purchase plan for fiscal 2016, 2015, and 2014:

	2016	2015	2014
Shares issued	36,778	26,674	24,275
Average price per share	$ 25.97	$ 31.65	$ 30.59
Compensation expense recognized (in thousands)	$ 129	$ 113	$ 98

10. INCOME PER SHARE INFORMATION

Information pertaining to the calculation of income per share for each of the fiscal years ended October 31, 2016, 2015, and 2014, is as follows (amounts in thousands):

	2016	2015	2014
Numerator:			
Net income as reported	$ 382,095	$ 363,167	$ 340,032
Plus: Interest and costs attributable to 0.5% Exchangeable Senior Notes, net of income tax benefit	1,538	1,561	1,557
Numerator for diluted earnings per share	$ 383,633	$ 364,728	$ 341,589
Denominator:			
Basic weighted-average shares	168,261	176,425	177,578
Common stock equivalents (a)	1,854	2,420	2,439
Shares attributable to 0.5% Exchangeable Senior Notes	5,858	5,858	5,858
Diluted weighted-average shares	175,973	184,703	185,875
Other information:			
Weighted-average number of antidilutive options and restricted stock units (b)	3,932	1,826	1,970
Shares issued under stock incentive and employee stock purchase plans	587	1,467	1,453

(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.

11. FAIR VALUE DISCLOSURES

Financial Instruments

A summary of assets and (liabilities) at October 31, 2016 and 2015, 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, 2016	Fair Value October 31, 2015
Marketable Securities	Level 2		$ 10,001
Residential Mortgage Loans Held for Sale	Level 2	$ 248,601	$ 123,175
Forward Loan Commitments – Residential Mortgage Loans Held for Sale	Level 2	$ 1,390	$ 186
Interest Rate Lock Commitments (“IRLCs”)	Level 2	$ (921)	$ (297)
Forward Loan Commitments – IRLCs	Level 2	$ 921	$ 297

At October 31, 2016 and 2015, the carrying value of cash and cash equivalents and restricted cash approximated fair value.

Marketable Securities

The fair value of our marketable securities approximated their amortized costs basis as of October 31, 2015. The estimated fair value of marketable securities was based on quoted prices provided by brokers.

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 also 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 unpaid principal balance	Fair value	Excess
2016	$ 246,794	$ 248,601	$ 1,807
2015	$ 121,904	$ 123,175	$ 1,271

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, 2016	—	—	—
Three months ended July 31, 2016	—	—	—
Three months ended April 30, 2016	369 - 394	18 - 23	16.3%
Three months ended January 31, 2016	—	—	—
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%

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

		Impaired operating communities		
Three months ended:	Number of communities tested	Number of communities	Fair value of communities, net of impairment charges	Impairment charges recognized
Fiscal 2016:				
January 31	43	2	$ 1,713	$ 600
April 30	41	2	$ 10,103	6,100
July 31	51	2	$ 11,714	1,250
October 31	59	2	$ 1,126	415
				$ 8,365
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

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.

Debt

The table below provides, as of the dates indicated, the book value and estimated fair value of our debt at October 31, 2016 and 2015 (amounts in thousands):

		2016		2015	
	Fair value hierarchy	Book value	Estimated fair value	Book value	Estimated fair value
Loans payable (a)	Level 2	$ 872,809	$ 870,384	$ 1,001,702	$ 1,001,366
Senior notes (b)	Level 1	2,707,376	2,843,177	2,707,376	2,877,039
Mortgage company loan facility (c)	Level 2	210,000	210,000	100,000	100,000
		$ 3,790,185	$ 3,923,561	$ 3,809,078	$ 3,978,405

(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.

12. 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 $10.3 million, $8.9 million, and $7.8 million for the fiscal years ended October 31, 2016, 2015, and 2014, 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 $24.6 million and $21.6 million at October 31, 2016 and 2015, 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 2.98%, 3.55%, and 3.55% discount rate in our calculation of the present value of our projected benefit obligations at October 31, 2016, 2015, and 2014, 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, 2016, 2015 and 2014.

Information related to our retirement plans for each of the fiscal years ended October 31, 2016, 2015, and 2014, is as follows (amounts in thousands):

	2016	2015	2014
Plan costs:			
Service cost	$ 562	$ 579	$ 470
Interest cost	1,276	1,232	1,277
Amortization of prior service cost	947	806	662
Amortization of unrecognized losses	42	81	8
	$ 2,827	$ 2,698	$ 2,417
Projected benefit obligation:			
Beginning of year	$ 35,815	$ 34,606	$ 32,136
Plan amendments adopted during year	757	768	511
Service cost	562	579	470
Interest cost	1,276	1,232	1,277
Benefit payments	(1,129)	(988)	(971)
Change in unrecognized loss	1,699	(382)	1,183
Projected benefit obligation, end of year	$ 38,980	$ 35,815	$ 34,606
Unamortized prior service cost:			
Beginning of year	$ 2,965	$ 3,003	$ 3,154
Plan amendments adopted during year	757	768	511
Amortization of prior service cost	(947)	(806)	(662)
Unamortized prior service cost, end of year	$ 2,775	$ 2,965	$ 3,003
Accumulated unrecognized loss, October 31	$ 2,898	$ 1,240	$ 1,703
Accumulated benefit obligation, October 31	$ 38,980	$ 35,815	$ 34,606
Accrued benefit obligation, October 31	$ 38,980	$ 35,815	$ 34,606

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, 2026 in the aggregate (in thousands):

Year ending October 31,	Amount
2017	$ 1,326
2018	$ 2,124
2019	$ 2,503
2020	$ 2,611
2021	$ 2,702
November 1, 2021 – October 31, 2026	$ 15,290

13. ACCUMULATED OTHER COMPREHENSIVE LOSS

The tables below provide, for the fiscal years ended October 31, 2016 and 2015, the components of accumulated other comprehensive loss (amounts in thousands):

	2016		
	Employee retirement plans	Derivative instruments	Total
Balance, beginning of period	$ (2,478)	$ (31)	$ (2,509)
Other comprehensive (loss) income before reclassifications	(2,456)	50	(2,406)
Gross amounts reclassified from accumulated other comprehensive income	989		989
Income tax benefit (expense)	609	(19)	590
Other comprehensive (loss) income, net of tax	(858)	31	(827)
Balance, end of period	$ (3,336)	$ —	$ (3,336)

	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)

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.

14. 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 whether 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 nonrefundable 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, 2016 and 2015, is provided in the table below (amounts in thousands):

	2016	2015
Aggregate purchase commitments:		
Unrelated parties	$ 1,544,185	$ 1,081,008
Unconsolidated entities that the Company has investments in	79,204	136,340
Total	$ 1,623,389	$ 1,217,348
Deposits against aggregate purchase commitments	$ 65,299	$ 79,072
Additional cash required to acquire land	1,558,090	1,138,276
Total	$ 1,623,389	$ 1,217,348
Amount of additional cash required to acquire land included in accrued expenses	$ 18,266	$ 4,809

At October 31, 2016, we had agreed to acquire 240 home sites from two of our Land Development Joint Ventures for an aggregate purchase price of $79.2 million and an agreement for the acquisition of Coleman for $85.2 million, which are included in the table above. 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, 2016, we also had purchase commitments to acquire land for apartment developments of approximately $71.8 million, of which we had outstanding deposits in the amount of $3.7 million.

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, 2016, 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, 2016, we had outstanding surety bonds amounting to $617.3 million, primarily related to our obligations to governmental entities to construct improvements in our communities. We estimate that $326.1 million of work remains on these improvements. We have an additional $140.9 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, 2016, we had outstanding letters of credit of $83.2 million under our New 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 do not believe that it is probable that any outstanding letters of credit will be drawn upon.

Backlog

At October 31, 2016, we had agreements of sale outstanding to deliver 4,685 homes with an aggregate sales value of $3.98 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, 2016 and 2015, is provided in the table below (amounts in thousands):

	2016	2015
Aggregate mortgage loan commitments:		
IRLCs	$ 255,647	$ 316,184
Non-IRLCs	1,094,861	941,243
Total	$ 1,350,508	$ 1,257,427
Investor commitments to purchase:		
IRLCs	$ 255,647	$ 316,184
Mortgage loans receivable	231,398	115,859
Total	$ 487,045	$ 432,043

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
2016	$ 13,360
2015	$ 12,584
2014	$ 12,385

At October 31, 2016, future minimum rent payments under our operating leases were (amounts in thousands):

Year ending October 31,	Amount
2017	$ 11,634
2018	9,182
2019	7,044
2020	2,337
2021	994
Thereafter	694
	$ 31,885

15. OTHER INCOME - NET

The table below provides the components of other income - net for the years ended October 31, 2016, 2015, and 2014 (amounts in thousands):

	2016	2015	2014
Interest income	$ 2,443	$ 1,939	$ 2,493
Income from ancillary businesses	17,473	23,530	10,653
Gibraltar	6,646	10,168	14,364
Management fee income from unconsolidated entities	10,270	11,299	7,306
Retained customer deposits	5,866	5,224	3,067
Income from land sales	13,327	13,150	25,489
Directly expensed interest			(656)
Other	2,193	2,263	3,476
Total other income – net	$ 58,218	$ 67,573	$ 66,192

During the years ended October 31, 2016 and 2015, our security monitoring business recognized gains of $1.6 million and $8.1 million, respectively, from a bulk sale of security monitoring accounts in the fiscal 2015, 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 a Rental Property Joint Venture, which sold substantially all of its assets in December 2013.

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, 2016, 2015, and 2014 (amounts in thousands):

	2016	2015	2014
Revenue	$ 123,512	$ 119,732	$ 100,284
Expense	$ 106,039	$ 96,202	$ 89,631

The table below provides revenues and expenses recognized from land sales for the years ended October 31, 2016, 2015, and 2014 (amounts in thousands):

	2016	2015	2014
Revenue	$ 85,268	$ 183,870	$ 242,931
Expense	(70,488)	(161,460)	(217,442)
Deferred gains on land sales to joint ventures	(2,999)	(9,260)	
Deferred gains recognized	1,546		
	$ 13,327	$ 13,150	$ 25,489

Land sale revenues for the year ended October 31, 2016 includes $38.1 million related to an in substance real estate sale transaction which resulted in a new Rental Property Joint Venture in which we have a 50% interest. Due to our continued involvement in the joint venture through our ownership interest, we deferred 50% of the gain realized on the sale. We will amortize the deferred gain into income using the straight line method over the life of the rental property. Land sale revenues for the year October 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 are recognizing the gain as units are sold to the ultimate home buyers. See Note 4, "Investments in Unconsolidated Entities," for more information on these transactions.

16. INFORMATION ON SEGMENTS

The table below summarizes revenue and income (loss) before income taxes for our segments for each of the fiscal years ended October 31, 2016, 2015, and 2014 (amounts in thousands):

	Revenues			Income (loss) before income taxes		
	2016	2015	2014	2016	2015	2014
Traditional Home Building:						
North	$ 814,519	$ 702,175	$ 662,734	$ 77,017	$ 59,172	$ 56,983
Mid-Atlantic	895,736	845,328	817,306	(29,361)	69,093	78,971
South	849,548	892,303	836,498	128,613	152,991	113,584
West	903,691	665,282	517,925	127,265	106,365	78,802
California	1,448,546	750,036	795,802	335,173	139,133	157,561
Traditional Home Building	4,912,040	3,855,124	3,630,265	638,707	526,754	485,901
City Living	257,468	316,124	281,337	91,109	124,290	104,580
Corporate and other				(140,789)	(115,482)	(85,899)
	$ 5,169,508	$ 4,171,248	$ 3,911,602	$ 589,027	$ 535,562	$ 504,582

"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 segments at October 31, 2016 and 2015, are shown in the table below (amounts in thousands):

	2016	2015
Traditional Home Building:		
North	$ 1,020,250	$ 1,061,777
Mid-Atlantic	1,166,023	1,225,988
South	1,203,554	1,196,650
West	1,130,625	949,566
California	2,479,885	2,243,309
Traditional Home Building	7,000,337	6,677,290
City Living	946,738	873,013
Corporate and other	1,789,714	1,656,212
	$ 9,736,789	$ 9,206,515

"Corporate and other" is comprised principally of cash and cash equivalents, marketable securities, restricted cash and investments, deferred tax assets, investments in our Rental Property Joint Ventures, expected recoveries from insurance carriers and suppliers, our Gibraltar investments, manufacturing facilities, and mortgage and title subsidiaries .

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, 2016				
Traditional Home Building:				
North	$ 20,671	$ 79,299	$ 883,195	$ 983,165
Mid-Atlantic	30,967	109,551	982,482	1,123,000
South	6,024	96,900	927,400	1,030,324
West	7,724	191,995	906,334	1,106,053
California	5,337	989,689	1,293,509	2,288,535
Traditional Home Building	70,723	1,467,434	4,992,920	6,531,077
City Living	1,006	416,712	405,172	822,890
	$ 71,729	$ 1,884,146	$ 5,398,092	$ 7,353,967
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

The amounts we have provided for inventory impairment charges and the expensing of costs that we believed not to be recoverable for each of our segments, for the years ended October 31, 2016, 2015, and 2014, are shown in the table below (amounts in thousands):

	2016	2015	2014
Traditional Home Building:			
North	$ 7,579	$ 15,033	$ 9,148
Mid-Atlantic	2,076	19,488	9,069
South	3,316	720	2,285
West	746	420	169
California			7
Traditional Home Building	13,717	35,661	20,678
City Living	90	48	
	$ 13,807	$ 35,709	$ 20,678

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

	Investments in unconsolidated entities		Equity in earnings (losses) from unconsolidated entities		
	At October 31,		Year ended October 31,		
	2016	2015	2016	2015	2014
Traditional Home Building:					
Mid-Atlantic	$ 12,639	$ 12,167			$ (8)
South	93,182	97,041	$ 11,013	$ 11,074	2,621
West			2,921	447	(166)
California	130,534	128,338	5,896	5,089	302
Traditional Home Building	236,355	237,546	19,830	16,610	2,749
City Living	85,882	52,634	13,184	(1,158)	(3,593)
Corporate and other	174,174	122,680	7,734	5,667	41,985
	$ 496,411	$ 412,860	$ 40,748	$ 21,119	$ 41,141

“Corporate and other” is comprised of our investments in the Rental Property Joint Ventures and the Gibraltar Joint Ventures.

17. 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, 2016, 2015 and 2014 (amounts in thousands):

	2016	2015	2014
Cash flow information:			
Interest paid, net of amount capitalized	$ 12,131	$ 23,930	$ 10,131
Income tax payments	$ 185,084	$ 205,412	$ 71,608
Income tax refunds	$ 4,451	$ 16,965	$ 8
Noncash activity:			
Cost of inventory acquired through seller financing or municipal bonds, net	$ 5,807	$ 67,890	$ 96,497
Financed portion of land sale		$ 2,273	$ 6,586
Reduction in inventory for our share of earnings in land purchased from unconsolidated entities and allocation of basis difference	$ 9,012	$ 9,188	$ 4,177
Reclassification of deferred income from inventory to accrued liabilities	$ 2,111		
Reclassification of inventory to property, construction, and office equipment	$ 17,064		$ 9,482
Increase (decrease) in unrecognized losses in defined benefit plans	$ 1,699	$ (382)	$ 1,183
Defined benefit plan amendment	$ 757	$ 768	$ 511
Deferred tax decrease related to stock-based compensation activity included in additional paid-in capital	$ 11,363	$ 2,325	$ 312
Increase in accrued expenses related to stock-based compensation	$ 6,240		$ 5,086
Income tax benefit (expense) recognized in total comprehensive income	$ 590	$ (200)	$ 202
Transfer of inventory to investment in unconsolidated entities			$ 4,152
Transfer of investment in unconsolidated entities to inventory		$ 132,256	$ 2,704
Transfer of other assets to investment in unconsolidated entities	$ 24,967	$ 4,852	
Unrealized gain on derivatives held by equity investees		$ 26	$ 364
Increase in investments in unconsolidated entities for change in the fair value of debt guarantees	$ 29	$ 1,843	$ 1,356
Miscellaneous increases to investments in unconsolidated entities	$ 1,510	$ 144	$ 249
Business Acquisition:			
Fair value of assets purchased, excluding cash acquired			$1,524,964
Liabilities assumed			$ 35,848
Cash paid, net of cash acquired			$ 1,489,116

18. SUMMARY CONSOLIDATED QUARTERLY FINANCIAL DATA (UNAUDITED)

The table below provides summary income statement data for each quarter of fiscal 2016 and 2015 (amounts in thousands, except per share data):

	Three Months Ended,			
	October 31	July 31	April 30	January 31
Fiscal 2016:				
Revenue	$ 1,855,451	$ 1,269,934	$ 1,115,557	$ 928,566
Gross profit (a)	$ 285,684	$ 278,518	$ 244,986	$ 216,255
Income before income taxes	$ 168,160	$ 163,653	$ 140,397	$ 116,817
Net income	$ 114,378	$ 105,483	$ 89,054	$ 73,180
Income per share (b)				
Basic	$ 0.70	$ 0.64	$ 0.53	$ 0.42
Diluted	$ 0.67	$ 0.61	$ 0.51	$ 0.40
Weighted-average number of shares				
Basic	163,970	165,919	168,952	174,205
Diluted	171,683	173,405	176,414	182,391
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

(a) Gross profit in the fourth quarters of fiscal 2016 and 2015 include $121.2 million and $14.7 million, respectively, of warranty charges. See Note 6, "Accrued Expenses," for additional information regarding these warranty 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
2016				
High	$ 32.25	$ 29.96	$ 30.17	$ 38.15
Low	$ 27.00	$ 25.30	$ 23.75	$ 26.57
2015				
High	$ 41.88	$ 39.40	$ 39.99	$ 35.37
Low	$ 34.02	$ 35.54	$ 34.65	$ 30.92

The closing price of our common stock on the NYSE on the last trading day of our fiscal years ended October 31, 2016, 2015, and 2014 was $27.44, $35.97, and $31.95, respectively. At December 19, 2016, there were approximately 638 record holders of our common stock.

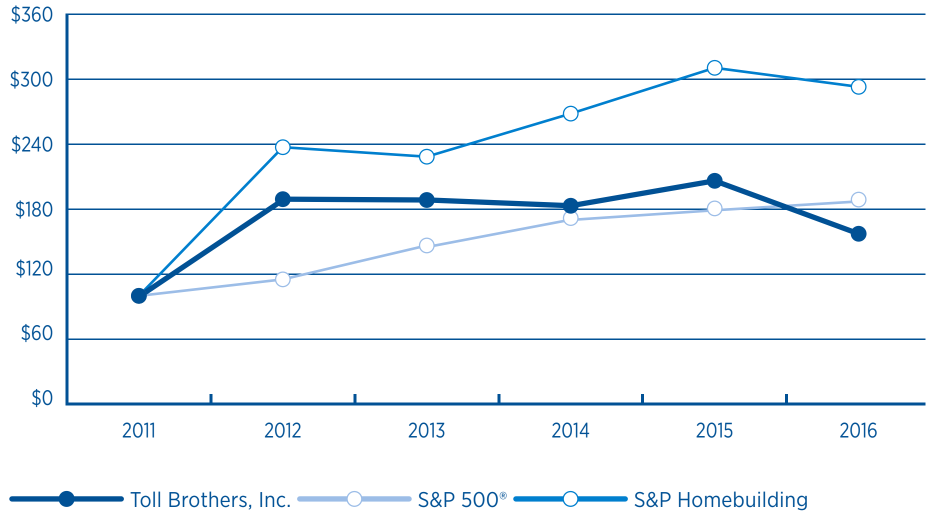
DIVIDENDS

We have not paid any cash dividends on 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, 2016, under the most restrictive provisions of our bank credit agreement, we could have paid up to approximately $1.58 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, 2011, and that dividends, if any, were reinvested) from October 31, 2011 to October 31, 2016, 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:	2011	2012	2013	2014	2015	2016
Toll Brothers, Inc.	100.00	189.28	188.53	183.20	206.25	157.34
S&P 500®	100.00	115.21	146.52	171.82	180.75	188.90
S&P Homebuilding	100.00	237.26	228.53	268.32	310.61	293.05

RECONCILIATION OF NON-GAAP MEASURES

Adjusted Pre-tax Income Reconciliation (in thousands)

	Twelve Months Ended October 31, 2016	2015
Pre-tax income	$ 589,027	$ 535,562
Add: Inventory write-downs	13,807	35,709
Warranty charges primarily related to older stucco homes	125,576	14,685
Adjusted pre-tax income	$ 728,410	$ 585,956

Adjusted gross margin reconciliation ($ amounts in thousands)

	Twelve Months Ended October 31, 2016	2015
Revenues	$ 5,169,508	$ 4,171,248
Cost of revenues	4,144,065	3,269,270
Gross margin	1,025,443	901,978
Add: Interest recognized in cost of sales	160,337	142,947
Inventory write-downs	13,807	35,709
Adjusted gross margin	1,199,587	1,080,634
Add: Warranty charges primarily related to older stucco homes	125,576	14,685
Adjusted gross margin, further adjusted for warranty charges primarily related to older stucco homes	$ 1,325,163	$ 1,095,319
As a percentage of revenue:		
Gross margin	19.8%	21.6%
Adjusted Gross Margin	23.2%	25.9%
Adjusted gross margin, further adjusted for warranty charges primarily related to older stucco homes	25.6%	26.3%

Net Debt-to-Capital Ratio Reconciliation ($ amounts in thousands)

As of October 31,	2016	2015	2014	2013	2012	2011	2010	2009	2008	2007
Loans payable	$ 871,079	$ 1,000,439	$ 652,619	$ 107,222	$ 99,817	$ 106,556	$ 94,491	$ 472,854	$ 613,594	$ 696,814
Senior notes	2,694,372	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
Subordinated notes								47,836	342,064	348,664
Mortgage company loan facility	210,000	100,000	90,281	75,000	72,664	57,409	72,367	27,015	37,867	76,730
Total debt	3,775,451	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
Total stockholders' equity	4,229,292	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
Total capital	$ 8,004,743	$ 8,012,797	$ 7,235,517	$ 5,820,974	$ 5,359,515	$ 4,234,522	$ 4,258,316	$ 4,639,116	$ 5,371,073	$ 5,787,507
Ratio of debt to capital	47.2%	47.3%	46.7%	42.7%	41.8%	38.9%	40.0%	45.8%	39.7%	39.1%
Total debt	$ 3,775,451	$ 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
Less: Mortgage company loan facility	(210,000)	(100,000)	(90,281)	(75,000)	(72,664)	(57,409)	(72,367)	(27,015)	(37,867)	(76,730)
Cash and cash equivalents and marketable securities	(633,715)	(928,994)	(598,341)	(825,480)	(1,217,892)	(1,139,912)	(1,236,927)	(1,908,894)	(1,633,495)	(900,337)
Total net debt	2,931,736	2,761,246	2,692,519	1,587,507	947,259	450,848	393,569	190,008	462,058	1,283,206
Total stockholders' equity	4,229,292	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
Total net capital	$ 7,161,028	$ 6,983,803	$ 6,546,895	$ 4,920,494	$ 4,068,959	$ 3,037,201	$ 2,949,022	$ 2,703,207	$ 3,699,711	$ 4,810,440
Net debt-to-capital ratio	40.9%	39.5%	41.1%	32.3%	23.3%	14.8%	13.3%	7.0%	12.5%	26.7%

CORPORATE DIRECTORS AND OFFICERS

Board of Directors

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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

John A. McLean
Chief Executive Officer and Distribution Principal — Hartford Funds Distributors

Stephen A. Novick
Senior Advisor — Chasbro Investments

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

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Chief Financial Officer

Martin P. Connor* *(8)*

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Finance, International Development and Investor Relations

John Critikos *(3)*
Chief Information Officer

Joseph R. DeSanto *(13)*
Tax

Benjamin D. Jogodnik *(21)*
Mergers & Acquisitions

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Michael I. Snyder *(36)*
Secretary and Chief Planning Officer

Kira Sterling *(31)*
Chief Marketing Officer

Gregg L. Ziegler *(14)*
Treasurer

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Barry A. Depew *(33)*
Kevin D. Duermit *(29)*
John G. Mangano *(29)*
Robert Parahus *(30)*

Toll Brothers City Living®

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President

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Christopher G. Gaffney *(20)*
Gregory E. Kamedulski *(24)*
Gary M. Mayo *(19)*
Karl Mistry *(12)*
Robert D. Moore *(3)*
Thomas J. Murray *(22)*
Seth J. Ring *(13)*

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David S. Assid *(16)*
Mark G. Bailey *(16)*
David Bauer *(12)*
Charles T. Breder *(16)*
Thomas M. Coleman, Jr
James Fitzpatrick *(15)*
Robert L. Flaherty *(19)*
David E. Kelly *(12)*
John S. Lannamann *(15)*
Kelley Moldstad *(5)*

Division Presidents
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Gregory S. Netro *(16)*
Mark J. Nosal *(15)*
Robert G. Paul *(15)*
Anthony J. Rocco *(19)*
Andrew J. Semon *(14)*
David R. Straub *(16)*
Kenneth S. Thirtyacre *(19)*
John R. Tolbert *(17)*
David H. Von Spreckelsen *(13)*

Subsidiary and Affiliate Operations

Toll Brothers Apartment Living
Toll Brothers Campus Living

Charles L. Elliott *(5)*
SR. VP/Managing Director

Gibraltar Capital and Asset Management, LLC

Roger A. Brush *(23)*
President

Michael L. LaPat *(17)*
Chief Financial Officer

Golf and Country Club Operations

Maurice Darbyshire *(11)*
President

Land Development Operations

Robert N. McCarron *(24)*
Executive Vice President

Joseph J. Palka *(23)*
Executive Vice President

ESE Consultants, Inc.

Mark S. Mayhew *(3)*
SR. VP/Managing Director

TBI Mortgage® Company

Donald L. Salmon *(17)*
President

TBI Smart Home Solutions

Felicia Ratka *(16)*
President

Toll Architecture, Inc.

Jed Gibson *(23)*
President

Toll Integrated Systems

Keith Fell *(8)*
Director of Manufacturing

Toll Landscape, LLC

Mark Culichia *(19)*
President

Westminster Title Company, Inc.

William T. Unkel *(12)*
President

*Executive Officer of the Company.
Director and employee listing as of 1/1/17.
( ) 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, 2016, we had approximately 4,200 full-time employees.

Stockholders

As of December 19, 2016, we had 638 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, 2016. 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 Bank of America Merrill Lynch, Bloomberg Business Week, Bloomberg L.P., Citigroup, Claritas, The Conference Board, Credit Suisse, Deutsche Bank Securities, Evercore ISI, 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, John Burns Real Estate Consulting, Joint Center for Housing Studies of 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, S&P Corelogic Case-Shiller U.S. National Home Price NSA Index, Standard & Poor’s, Thomson Reuters Corporation, Urban Land Institute Terwilliger Center for Housing, 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 following individuals 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 Members of the Board of Directors, and a Code of Ethics and Business Conduct which applies to all officers and employees. Copies of these charters, guidelines, and codes can be obtained on our website and are also available upon request from the individuals listed above.

Production Notes

Front Cover Photo
The Torrey | Iron Oak at Alamo Creek | Danville, CA

Photography by:
Jennifer Evensen, Evan Joseph, Shawn May, Christopher Mayer, Chris Roberts, Studio J Inc., Bill Taylor, Jim Wilson

Renderings by:
By-Encore, Toll Architecture

TOL LISTED NYSE

The Carriage Barn | Liseter | Newtown Square, PA

Woodson's Club | Woodson's Reserve | Spring, TX