TOLL BROTHERS INC
Form 10-Q
June 10, 2013

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UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 10-Q
(Mark One)

þ QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended April 30, 2013
or

o TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from to
Commission file number 1-9186
TOLL BROTHERS, INC.
(Exact name of registrant as specified in its charter)

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

(215) 938-8000
(Registrant's telephone number, including area code)
Not applicable
(Former name, former address and former fiscal year, if changed since last report)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes þ No o

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes þ No o

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

| | | | |
|---|---|---|---|
| Large accelerated filer þ | Accelerated filer o | Non-accelerated filer o<br>(Do not check if a smaller reporting company) | Smaller reporting company o |

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

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date:

At June 4, 2013, there were approximately 169,308,000 shares of Common Stock, $.01 par value, outstanding.

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STATEMENT ON FORWARD-LOOKING INFORMATION

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

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. Consequently, actual results may differ materially from those that might be anticipated from our forward looking statements. Therefore, we caution you not to place undue reliance on our forward-looking statements. The factors that could cause actual results to differ from those expressed or implied by our forward-looking statements include, among others: local, regional, national, and international economic conditions; fluctuating consumer demand and confidence; interest and unemployment rates; changes in sales conditions, including home prices, in the markets where we build homes; conditions in our newly entered markets and newly acquired operations; the competitive environment in which we operate; the availability and cost of land for future growth; conditions that could result in inventory write-downs or write-downs associated with investments in unconsolidated entities; the ability to recover our deferred tax assets; the availability of capital; uncertainties in the capital and securities markets; liquidity in the credit markets; changes in tax laws and their interpretation; effects of governmental legislation and regulation; the outcome of various legal proceedings; the availability of adequate insurance at reasonable cost; the impact of construction defect, product liability and home warranty claims, including the adequacy of self-insurance accruals and the applicability and sufficiency of our insurance coverage; the ability of home buyers to obtain financing for the purchase of homes; the ability of customers to sell their existing homes; the ability of the participants in various joint ventures to honor their commitments; the availability and cost of labor and building and construction materials; the cost of raw materials; construction delays; domestic and international political events; and weather conditions. This statement is provided as permitted by the Private Securities Litigation Reform Act of 1995.

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

For a more detailed discussion of these factors, see the information under the captions “Risk Factors” and “Management's Discussion and Analysis of Financial Condition and Results of Operations” in our most recent annual report on Form 10-K filed with the Securities and Exchange Commission and in this report.

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

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PART I — FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS
TOLL BROTHERS, INC.
CONDENSED CONSOLIDATED BALANCE SHEETS
(Amounts in thousands)

| | April 30, 2013 (unaudited) | October 31, 2012 |
|---|---|---|
| ASSETS | | |
| Cash and cash equivalents | $703,101 | $778,824 |
| Marketable securities | 232,899 | 439,068 |
| Restricted cash | 33,801 | 47,276 |
| Inventory | 4,367,217 | 3,761,187 |
| Property, construction and office equipment, net | 125,289 | 109,971 |
| Receivables, prepaid expenses and other assets | 165,745 | 144,558 |
| Mortgage loans held for sale | 66,538 | 86,386 |
| Customer deposits held in escrow | 45,304 | 29,579 |
| Investments in and advances to unconsolidated entities | 357,532 | 330,617 |
| Investments in distressed loans | 48,707 | 37,169 |
| Investments in foreclosed real estate | 71,458 | 58,353 |
| Deferred tax assets, net of valuation allowances | 341,014 | 358,056 |
| | $6,558,605 | $6,181,044 |
| LIABILITIES AND EQUITY | | |
| Liabilities | | |
| Loans payable | $96,572 | $99,817 |
| Senior notes | 2,322,397 | 2,080,463 |
| Mortgage company warehouse loan | 58,526 | 72,664 |
| Customer deposits | 205,821 | 142,977 |
| Accounts payable | 149,601 | 99,911 |
| Accrued expenses | 469,233 | 476,350 |
| Income taxes payable | 84,157 | 80,991 |
| Total liabilities | 3,386,307 | 3,053,173 |
| Equity | | |
| Stockholders' equity | | |
| Preferred stock, none issued | | |
| Common stock, 169,268 and 168,690 shares issued at April 30, 2013 and October 31, 2012, respectively | 1,693 | 1,687 |
| Additional paid-in capital | 418,844 | 404,418 |
| Retained earnings | 2,750,503 | 2,721,397 |
| Treasury stock, at cost — 2 and 53 shares at April 30, 2013 and October 31, 2012, respectively | (78) | (983) |
| Accumulated other comprehensive loss | (4,861) | (4,819) |
| Total stockholders' equity | 3,166,101 | 3,121,700 |
| Noncontrolling interest | 6,197 | 6,171 |
| Total equity | 3,172,298 | 3,127,871 |
| | $6,558,605 | $6,181,044 |

See accompanying notes

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TOLL BROTHERS, INC.
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(Amounts in thousands, except per share data)
(Unaudited)

| | Six months ended April 30, | | Three months ended April 30, | |
|---|---|---|---|---|
| | 2013 | 2012 | 2013 | 2012 |
| Revenues | $940,605 | $695,636 | $516,004 | $373,681 |
| Cost of revenues | 765,950 | 578,429 | 420,013 | 306,821 |
| Selling, general and administrative | 157,597 | 137,893 | 79,550 | 68,256 |
| | 923,547 | 716,322 | 499,563 | 375,077 |
| Income (loss) from operations | 17,058 | (20,686) | 16,441 | (1,396) |
| Other: | | | | |
| Income from unconsolidated entities | 8,076 | 13,676 | 4,993 | 6,989 |
| Other income - net | 24,160 | 16,251 | 19,534 | 10,056 |
| Income before income taxes | 49,294 | 9,241 | 40,968 | 15,649 |
| Income tax provision (benefit) | 20,188 | (4,845) | 16,294 | (1,223) |
| Net income | $29,106 | $14,086 | $24,674 | $16,872 |
| Income per share: | | | | |
| Basic | $0.17 | $0.08 | $0.15 | $0.10 |
| Diluted | $0.17 | $0.08 | $0.14 | $0.10 |
| Weighted average number of shares: | | | | |
| Basic | 169,222 | 166,652 | 169,380 | 166,994 |
| Diluted | 177,949 | 167,805 | 178,136 | 168,503 |

See accompanying notes

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(Amounts in thousands)
(Unaudited)

| | Six months ended April 30, | | Three months ended April 30, | |
|---|---|---|---|---|
| | 2013 | 2012 | 2013 | 2012 |
| Net income | $29,106 | $14,086 | $24,674 | $16,872 |
| Other comprehensive (loss) income, net of tax: | | | | |
| Change in pension liability | (18) | 92 | 155 | 201 |
| Change in fair value of available-for-sale securities | (37) | 156 | (133) | (87) |
| Unrealized income (loss) on derivative held by equity investee | 13 | (728) | (80) | 67 |
| Other comprehensive (loss) income | (42) | (480) | (58) | 181 |
| Total comprehensive income | $29,064 | $13,606 | $24,616 | $17,053 |

See accompanying notes

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TOLL BROTHERS, INC.
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(Amounts in thousands)
(Unaudited)

| | Six months ended April 30, | |
|---|---|---|
| | 2013 | 2012 |
| Cash flow used in operating activities: | | |
| Net income | $29,106 | $14,086 |
| Adjustments to reconcile net income to net cash used in operating activities: | | |
| Depreciation and amortization | 12,768 | 10,698 |
| Stock-based compensation | 10,027 | 8,831 |
| Recovery of investments in unconsolidated entities | — | (1,621) |
| Income from unconsolidated entities | (8,076) | (12,055) |
| Distributions of earnings from unconsolidated entities | 8,855 | 1,550 |
| Income from distressed loans and foreclosed real estate | (4,893) | (10,004) |
| Deferred tax provision (benefit) | 18,348 | (3,318) |
| Deferred tax valuation allowances | (1,277) | 3,318 |
| Inventory impairments and write-offs | 1,738 | 10,128 |
| Change in fair value of mortgage loans receivable and derivative instruments | 292 | 284 |
| Gain on marketable securities | (137) | (39) |
| Changes in operating assets and liabilities | | |
| Increase in inventory | (617,360) | (202,466) |
| Origination of mortgage loans | (301,952) | (253,866) |
| Sale of mortgage loans | 322,160 | 266,713 |
| Decrease (increase) in restricted cash | 13,475 | (27,638) |
| Increase in receivables, prepaid expenses and other assets | (15,172) | (29,769) |
| Increase in customer deposits | 47,119 | 28,838 |
| Increase (decrease) in accounts payable and accrued expenses | 36,405 | (67,789) |
| Increase (decrease) in income taxes payable | 3,166 | (6,959) |
| Net cash used in operating activities | (445,408) | (271,078) |
| Cash flow provided by (used in) investing activities: | | |
| Purchase of property and equipment — net | (20,264) | (6,528) |
| Purchase of marketable securities | (36,162) | (177,833) |
| Sale and redemption of marketable securities | 239,484 | 189,716 |
| Investments in and advances to unconsolidated entities | (31,994) | (75,008) |
| Return of investments in unconsolidated entities | 34,686 | 20,568 |
| Investments in distressed loans and foreclosed real estate | (26,155) | (27,490) |
| Return of investments in distressed loans and foreclosed real estate | 6,114 | 11,582 |
| Acquisition of a business | | (144,746) |
| Net cash provided by (used in) investing activities | 165,709 | (209,739) |
| Cash flow provided by financing activities: | | |
| Net proceeds from issuance of senior notes | 298,050 | 296,227 |
| Proceeds from loans payable | 501,884 | 400,092 |
| Principal payments of loans payable | (545,175) | (429,709) |
| Redemption of senior notes | (59,068) | |
| Proceeds from stock-based benefit plans | 8,430 | 17,189 |
| Receipts related to noncontrolling interest | 33 | |
| Purchase of treasury stock | (178) | (284) |

| | | |
|---|---|---|
| Net cash provided by financing activities | 203,976 | 283,515 |
| Net decrease in cash and cash equivalents | (75,723) | (197,302) |
| Cash and cash equivalents, beginning of period | 778,824 | 906,340 |
| Cash and cash equivalents, end of period | $703,101 | $709,038 |

See accompanying notes

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TOLL BROTHERS, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

1. Significant Accounting Policies

Basis of Presentation

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

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with the rules and regulations of the Securities and Exchange Commission (“SEC”) for interim financial information. The October 31, 2012 balance sheet amounts and disclosures included herein have been derived from the Company’s October 31, 2012 audited financial statements. Since the accompanying condensed consolidated financial statements do not include all the information and footnotes required by U.S. generally accepted accounting principles (“GAAP”) for complete financial statements, the Company suggests that they be read in conjunction with the consolidated financial statements and notes thereto included in its Annual Report on Form 10-K for the fiscal year ended October 31, 2012. In the opinion of management, the accompanying unaudited condensed consolidated financial statements include all adjustments, which are of a normal recurring nature, necessary to present fairly the Company’s financial position as of April 30, 2013, the results of its operations for the six-month and three-month periods ended April 30, 2013 and 2012, and its cash flows for the six-month periods ended April 30, 2013 and 2012. The results of operations for such interim periods are not necessarily indicative of the results to be expected for the full year.

Recent Accounting Pronouncements

In June 2011, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") No. 2011-05, “Statement of Comprehensive Income” (“ASU 2011-05”), which requires entities to present comprehensive income in either a single continuous statement or in two separate, but consecutive, statements of net income and other comprehensive income. ASU 2011-05 was effective for our fiscal year beginning November 1, 2012. The adoption of this guidance, which related to presentation only, did not have an impact on the Company’s consolidated financial position, results of operations or cash flows but did require a change in the presentation of the Company’s comprehensive income from the notes of the condensed consolidated financial statements to the face of the condensed consolidated financial statements.

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

Revisions/Reclassifications

The Supplemental Guarantor Information included in Note 18 has been presented in a format that has been adjusted from prior annual and quarterly reports in order to (i) reflect the transfer of the balance sheet, statements of operations and cash flows of certain non-guarantor subsidiaries to guarantor subsidiaries as a result of such entities becoming guarantor subsidiaries as of April 30, 2013 and the reclassification of guarantor and non-guarantor intercompany advances and equity balances with corresponding offsets in the elimination column and (ii) revise the presentation of cash flows from operating activities, financing activities and investing activities in the condensed consolidating statements of cash flows for the six-month period ended April 30, 2012 to reflect intercompany activity, which had previously been included in cash flow from operating activities, as cash flow from investing activities and cash flow from financing activities. This revised presentation of the Supplemental Guarantor Information has no impact or effect on Toll Brothers, Inc.'s condensed consolidated financial statements for any period presented, including the Condensed Consolidated Balance Sheets, Statements of Operations, Statements of Comprehensive Income or

Statements of Cash Flows.

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

2. Inventory

Inventory at April 30, 2013 and October 31, 2012 consisted of the following (amounts in thousands):

| | April 30, 2013 | October 31, 2012 |
|---|---|---|
| Land controlled for future communities | $62,203 | $56,300 |
| Land owned for future communities | 1,083,250 | 1,040,373 |
| Operating communities | 3,221,764 | 2,664,514 |
| | $4,367,217 | $3,761,187 |

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

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

Information regarding the classification, number and carrying value of these temporarily closed communities, as of the date indicated, is provided in the table below.

| | April 30, 2013 | October 31, 2012 |
|---|---|---|
| Land owned for future communities: | | |
| Number of communities | 22 | 40 |
| Carrying value (in thousands) | $157,181 | $240,307 |
| Operating communities: | | |
| Number of communities | 23 | 5 |
| Carrying value (in thousands) | $109,442 | $34,685 |

The Company provided for inventory impairment charges and the expensing of costs that it believed not to be recoverable, for the periods indicated; these are shown in the table below (amounts in thousands).

| | Six months ended April 30, | | Three months ended April 30, | |
|---|---|---|---|---|
| | 2013 | 2012 | 2013 | 2012 |
| Charge: | | | | |
| Land controlled for future communities | $698 | $225 | $689 | $(552) |
| Land owned for future communities | — | 918 | — | — |
| Operating communities | 1,040 | 8,985 | 340 | 2,560 |
| | $1,738 | $10,128 | $1,029 | $2,008 |

See Note 13, "Fair Value Disclosures", for information regarding the number of operating communities that the Company tested for potential impairment, the number of operating communities in which it recognized impairment charges, the amount of impairment charges recognized, and the fair values of those communities, net of impairment charges.

At April 30, 2013, the Company evaluated its land purchase contracts to determine if any of the selling entities were variable interest entities ("VIEs") and, if they were, whether the Company was the primary beneficiary of any of them. Under these land purchase contracts, the Company does not possess legal title to the land and its risk is generally limited to deposits paid to the sellers and the creditors of the sellers generally have no recourse against the Company. At April 30, 2013, the Company determined that 71 land purchase contracts, with an aggregate purchase price of $908.5 million, on which it had made aggregate deposits totaling $32.1 million, were VIEs, and that it was not the primary beneficiary of any VIE related to its land purchase contracts.

Interest incurred, capitalized and expensed, for the periods indicated, was as follows (amounts in thousands):

| | Six months ended April 30, | | Three months ended April 30, | |
|---|---|---|---|---|
| | 2013 | 2012 | 2013 | 2012 |
| Interest capitalized, beginning of period | $330,581 | $298,757 | $340,904 | $311,335 |
| Interest incurred | 64,051 | 60,467 | 32,303 | 31,568 |
| Interest expensed to cost of revenues | (42,990) | (33,989) | (23,016) | (17,668) |
| Write-off against other income | (1,221) | (1,582) | (1,133) | (1,582) |
| Interest capitalized on investments in unconsolidated entities | (2,872) | (1,137) | (1,509) | (1,137) |
| Interest capitalized, end of period | $347,549 | $322,516 | $347,549 | $322,516 |

Inventory impairment charges are recognized against all inventory costs of a community, such as land, land improvements, cost of home construction and capitalized interest. The amounts included in the table directly above reflect the gross amount of capitalized interest without allocation of any impairment charges recognized. The Company estimates that, had inventory impairment charges been allocated on a pro-rata basis to the individual components of inventory, capitalized interest at April 30, 2013 and 2012 would have been reduced by approximately $43.4 million and $54.5 million, respectively.

3. Investments in and Advances to Unconsolidated Entities

The Company has investments in and advances to various unconsolidated entities. These entities include development joint ventures, a planned community joint venture, a structured asset joint venture, Toll Brothers Realty Trust and Trust II and other joint ventures. At April 30, 2013, the Company had investments in and advances to these unconsolidated entities of $357.5 million and was committed to invest or advance up to $126.8 million to these entities if they require additional funding. The Company’s investments in these entities are accounted for using the equity method of accounting. More specific information regarding its investments in, advances to and future commitments to these entities is provided below.

At April 30, 2013, the Company determined that two of its joint ventures were VIEs under the guidance within FASB Accounting Standards Codification ("ASC") 810, "Consolidation". However, the Company concluded that it was not the primary beneficiary of the VIEs because the power to direct the activities of these VIEs that most significantly impact their performance was shared by the Company and the VIEs' other members. Business plans, budgets and other major decisions are required to be unanimously approved by all members. Management and other fees earned by the Company are nominal and believed to be at market rates and there is no significant economic disproportionality between the Company and other members.

Development Joint Ventures

The Company has investments in and advances to a number of joint ventures with unrelated parties to develop land (“Development Joint Ventures”). Some of these Development Joint Ventures develop land for the sole use of the venture participants, including the Company, and others develop land for sale to the joint venture participants and to unrelated builders. The Company recognizes its share of earnings from the sale of home sites by the Development Joint Ventures to other builders. With regard to home sites the Company purchases from the Development Joint Ventures, the Company reduces its cost basis in those home sites by its share of the earnings on the home sites it purchases. At April 30, 2013, the Company had approximately $124.3 million invested in or advanced to the Development Joint Ventures and had a funding commitment of $30.3 million to three of the Development Joint Ventures which would be funded if additional investment in the ventures is required.

In March 2013, the Company entered into a joint venture with an unrelated party to develop a parcel of land in Texas into a master planned community consisting of approximately 2,900 lots. The Company has a 50% interest in this joint venture. The current plan is to develop the property in multiple phases and sell groups of lots to the members of the joint venture and to other third party home builders. The Company contributed $15.5 million of cash to the joint venture. The joint venture entered into a $25.0 million line of credit with a bank, secured by a deed of trust on the property. The line of credit can be expanded up to $40.0 million under certain conditions. At April 30, 2013, the joint venture had $20.0 million of borrowings under its line of credit. At April 30, 2013, the Company had an investment of $15.8 million in this joint venture and was committed to make additional contributions to this joint venture of up to

$16.8 million.

The Company has a 50% interest in a joint venture that is developing over 2,000 home sites in Orange County, California on land that it owns. Under the terms of the operating agreement, the Company will acquire 266 home sites in the first phase of the property from the joint venture. The Company intends to acquire approximately 545 additional home sites from the joint venture. The Company has a commitment to provide up to $10.0 million of additional funds to this joint venture, if needed. The joint venture has an $80.0 million credit facility from a bank to fund the development of the property. At April 30, 2013, the venture had $29.4 million borrowed under the facility.

Planned Community Joint Venture

The Company entered into a joint venture in October 2008 for the development and sale of homes in a master planned community. At April 30, 2013, the Company had an investment of $30.4 million in this joint venture. At April 30, 2013, the participants agreed to contribute additional funds of up to $8.3 million each, if required.

Other Joint Ventures

At April 30, 2013, the Company had an aggregate of $166.2 million of investments in and advances to various joint ventures with unrelated parties to develop luxury for-sale and rental residential units, commercial space and a hotel. At April 30, 2013, the Company had $88.2 million of funding commitments to five of these joint ventures. Several of the joint ventures expect to finance future construction with external financing.

In April 2013, the Company entered into a joint venture with an unrelated party to develop a luxury, 38-story apartment building and retail space in Jersey City, New Jersey on land that the Company owned. The Company has a 50% interest in this joint venture. As part of the Company's initial capital contribution, it contributed land and improvements with a fair value of $28.8 million to the joint venture and subsequently received distributions of $10.2 million and the joint venture making a $1.2 million payment on our behalf to align the capital accounts of each of the members of the joint venture. The joint venture entered into a $120.0 million construction loan agreement with a bank to finance the development of this project. At April 30, 2013, the joint venture had no borrowings under the construction loan agreement. At April 30, 2013, the Company had an investment of $17.7 million in this joint venture and was committed to make additional contributions to this joint venture of up to $16.7 million.

Toll Brothers Realty Trust and Trust II

In fiscal 2005, the Company, together with the Pennsylvania State Employees Retirement System (“PASERS”), formed Toll Brothers Realty Trust II (“Trust II”) to be in a position to invest in commercial real estate opportunities. Trust II is owned 50% by the Company and 50% by an affiliate of PASERS. At April 30, 2013, the Company had an investment of $3.3 million in Trust II. Prior to the formation of Trust II, the Company formed Toll Brothers Realty Trust (“Trust”) in 1998 to invest in commercial real estate opportunities. The Trust is effectively owned one-third by the Company; one-third by Robert I. Toll, Bruce E. Toll (and members of his family), Douglas C. Yearley, Jr. and former members of the Company’s senior management; and one-third by an affiliate of PASERS. As of April 30, 2013, the Company had a net investment in the Trust of $0.2 million. The Company provides development, finance and management services to the Trust and recognized fees under the terms of various agreements in the amounts of $1.1 million in each of the six-month periods ended April 30, 2013 and 2012, and $0.5 million and $0.6 million in the three-month periods ended April 30, 2013 and 2012, respectively.

Structured Asset Joint Venture

The Company, through Gibraltar Capital and Asset Management LLC (“Gibraltar”), is a 20% participant with two unrelated parties that purchased a 40% interest in an entity that owns and controls a portfolio of loans and real estate (“Structured Asset Joint Venture”). At April 30, 2013, the Company had an investment of $33.2 million in this Structured Asset Joint Venture. At April 30, 2013, the Company did not have any commitments to make additional contributions to this Structured Asset Joint Venture and has not guaranteed any of the joint venture’s liabilities.

Guarantees

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

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

be liable for more than its proportionate share.
The Company believes that as of April 30, 2013, in the event it becomes legally obligated to perform under a guarantee of the obligation of an unconsolidated entity due to a triggering event, the collateral should be sufficient to repay a significant portion

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of the obligation. If it is not, the Company and its partners would need to contribute additional capital into the venture. At April 30, 2013, the unconsolidated entities that have guarantees related to debt had loan commitments aggregating $225.0 million and had borrowed an aggregate of $49.4 million. The Company estimates that the maximum potential exposure under these guarantees, if the full amount of the loan commitments were borrowed, would be $225.0 million before any reimbursement from the Company's partners. Based on the amounts borrowed at April 30, 2013, the Company's maximum potential exposure under these guarantees is estimated to be $49.4 million before any reimbursement from the Company's partners.

In addition, the Company has guaranteed approximately $11.9 million of ground lease payments and insurance deductibles for two joint ventures.

As of April 30, 2013, the estimated aggregate fair value of the guarantees was approximately $1.3 million. The Company has not made payments under any of the guarantees.

The condensed balance sheets, as of the dates indicated, and the condensed statements of operations and comprehensive income (loss), for the periods indicated, for the Company’s unconsolidated entities in which it has an investment, aggregated by type of business, are included below (in thousands). The column titled "Home Building Joint Ventures" includes the Planned Community and Other Joint Ventures described above.

Condensed Balance Sheets:

| | April 30, 2013 | | | | |
|---|---|---|---|---|---|
| | Develop-ment Joint Ventures | Home Building Joint Ventures | Trust and Trust II | Structured Asset Joint Venture | Total |
| Cash and cash equivalents | $19,963 | $38,771 | $12,681 | $33,717 | $105,132 |
| Inventory | 308,294 | 272,326 | 5,685 | | 586,305 |
| Non-performing loan portfolio | | | | 159,925 | 159,925 |
| Rental properties | | | 168,340 | | 168,340 |
| Rental properties under development | | 78,799 | | | 78,799 |
| Real estate owned (“REO”) | | | 557 | 243,245 | 243,802 |
| Other assets (1) | 12,539 | 69,535 | 9,239 | 311,806 | 403,119 |
| Total assets | $340,796 | $459,431 | $196,502 | $748,693 | $1,745,422 |
| Debt (1) | $119,601 | $29,532 | $193,483 | $311,801 | $654,417 |
| Other liabilities | 22,046 | 14,320 | 5,059 | 1,179 | 42,604 |
| Members’ equity (deficit) | 199,149 | 415,579 | (2,040) | 174,285 | 786,973 |
| Noncontrolling interest | | | | 261,428 | 261,428 |
| Total liabilities and equity | $340,796 | $459,431 | $196,502 | $748,693 | $1,745,422 |
| Company’s net investment in unconsolidated entities (2) | $124,317 | $196,584 | $3,480 | $33,151 | $357,532 |

| | October 31, 2012 | | | | |
|---|---|---|---|---|---|
| | Develop-ment Joint Ventures | Home Building Joint Ventures | Trust and Trust II | Structured Asset Joint Venture | Total |
| Cash and cash equivalents | $17,189 | $40,126 | $11,005 | $44,176 | $112,496 |
| Inventory | 255,561 | 251,029 | 5,643 | | 512,233 |
| Non-performing loan portfolio | | | | 226,315 | 226,315 |
| Rental properties | | | 173,767 | | 173,767 |
| Rental properties under development | | 43,695 | | | 43,695 |
| Real estate owned (“REO”) | | | | 254,250 | 254,250 |
| Other assets (1) | 12,427 | 72,301 | 9,182 | 237,476 | 331,386 |
| Total assets | $285,177 | $407,151 | $199,597 | $762,217 | $1,654,142 |
| Debt (1) | $96,362 | $30,121 | $195,359 | $311,801 | $633,643 |
| Other liabilities | 14,390 | 9,770 | 5,202 | 561 | 29,923 |
| Members’ equity (deficit) | 174,425 | 367,260 | (964 ) | 179,942 | 720,663 |
| Noncontrolling interest | | | | 269,913 | 269,913 |
| Total liabilities and equity | $285,177 | $407,151 | $199,597 | $762,217 | $1,654,142 |
| Company’s net investment in unconsolidated entities (2) | $116,452 | $173,465 | $3,357 | $37,343 | $330,617 |

(1) Included in other assets of the Structured Asset Joint Venture at April 30, 2013 and October 31, 2012 is $311.8 million and $237.5 million, respectively, of restricted cash held in a defeasance account which will be used to repay debt of the Structured Asset Joint Venture.

(2) Differences between the Company’s net investment in unconsolidated entities and its underlying equity in the net assets of the entities is primarily a result of the acquisition price of an investment in an entity in fiscal 2012 which was in excess of the Company's pro-rata share of the underlying equity, impairments related to the Company’s investments in unconsolidated entities, a loan made to one of the entities by the Company, and distributions from entities in excess of the carrying amount of the Company’s net investment.

Condensed Statements of Operations and Comprehensive Income (Loss):

| | For the six months ended April 30, 2013 | | | | |
|---|---|---|---|---|---|
| | Development Joint Ventures | Home Building Joint Ventures | Trust and Trust II | Structured Asset Joint Venture | Total |
| Revenues | $35,022 | $22,757 | $20,303 | $21,714 | $99,796 |
| Cost of revenues | 17,805 | 19,973 | 9,010 | 19,493 | 66,281 |
| Other expenses | 758 | 1,292 | 10,427 | 2,316 | 14,793 |
| Total expenses—net | 18,563 | 21,265 | 19,437 | 21,809 | 81,074 |
| Gain on disposition of loans and REO | | | | 39,704 | 39,704 |
| Income from operations | 16,459 | 1,492 | 866 | 39,609 | 58,426 |
| Other income | 5 | 444 | | 154 | 603 |
| Net income before noncontrolling interest | 16,464 | 1,936 | 866 | 39,763 | 59,029 |
| Less: Net income attributable to noncontrolling interest | | | | (23,858) | (23,858) |
| Net income | 16,464 | 1,936 | 866 | 15,905 | 35,171 |
| Other comprehensive income (loss) | | (195) | 477 | | 282 |
| Total comprehensive income | $16,464 | $1,741 | $1,343 | $15,905 | $35,453 |
| Company's equity in earnings of unconsolidated entities (3) | $2,796 | $1,199 | $1,010 | $3,071 | $8,076 |

| | For the three months ended April 30, 2013 | | | | |
|---|---|---|---|---|---|
| | Development Joint Ventures | Home Building Joint Ventures | Trust and Trust II | Structured Asset Joint Venture | Total |
| Revenues | $33,395 | $13,787 | $10,621 | $12,009 | $69,812 |
| Cost of revenues | 16,587 | 12,868 | 4,717 | 9,155 | 43,327 |
| Other expenses | 567 | 1,098 | 4,661 | 1,259 | 7,585 |
| Total expenses—net | 17,154 | 13,966 | 9,378 | 10,414 | 50,912 |
| Gain on disposition of loans and REO | | | | 12,812 | 12,812 |
| Income (loss) from operations | 16,241 | (179) | 1,243 | 14,407 | 31,712 |
| Other income | 2 | 424 | | 75 | 501 |
| Net income before noncontrolling interest | 16,243 | 245 | 1,243 | 14,482 | 32,213 |
| Less: Net income attributable to noncontrolling interest | | | | (8,689) | (8,689) |
| Net income | 16,243 | 245 | 1,243 | 5,793 | 23,524 |
| Other comprehensive income (loss) | | (195) | 175 | | (20) |
| Total comprehensive income | $16,243 | $50 | $1,418 | 5,793 | $23,504 |
| Company's equity in earnings of unconsolidated entities (3) | $2,894 | $356 | $585 | $1,158 | $4,993 |

| | For the six months ended April 30, 2012 | | | | |
|---|---|---|---|---|---|
| | Develop-ment Joint Ventures | Home Building Joint Ventures | Trust and Trust II | Structured Asset Joint Venture | Total |
| Revenues | $33,584 | $47,466 | $18,698 | $12,362 | $112,110 |
| Cost of revenues | 31,771 | 34,754 | 6,736 | 17,227 | 90,488 |
| Other expenses | 430 | 2,110 | 11,427 | 4,898 | 18,865 |
| Total expenses—net | 32,201 | 36,864 | 18,163 | 22,125 | 109,353 |
| Gain on disposition of loans and REO | | | | 22,826 | 22,826 |
| Income from operations | 1,383 | 10,602 | 535 | 13,063 | 25,583 |
| Other income | 2,653 | 79 | | 275 | 3,007 |
| Net income before noncontrolling interest | 4,036 | 10,681 | 535 | 13,338 | 28,590 |
| Less: Net income attributable to noncontrolling interest | | | | (8,004) | (8,004) |
| Net income | 4,036 | 10,681 | 535 | 5,334 | 20,586 |
| Other comprehensive loss | | | (50) | | (50) |
| Total comprehensive income | $4,036 | $10,681 | $485 | $5,334 | $20,536 |
| Company’s equity in earnings of unconsolidated entities (3) | $3,532 | $8,010 | $1,081 | $1,053 | $13,676 |

| | For the three months ended April 30, 2012 | | | | |
|---|---|---|---|---|---|
| | Develop-ment Joint Ventures | Home Building Joint Ventures | Trust and Trust II | Structured Asset Joint Venture | Total |
| Revenues | $— | $24,036 | $9,222 | $7,654 | $40,912 |
| Cost of revenues | — | 16,961 | 3,393 | 5,701 | 26,055 |
| Other expenses | 205 | 1,165 | 4,642 | 2,013 | 8,025 |
| Total expenses—net | 205 | 18,126 | 8,035 | 7,714 | 34,080 |
| Gain on disposition of loans and REO | | | | 7,517 | 7,517 |
| Income (loss) from operations | (205) | 5,910 | 1,187 | 7,457 | 14,349 |
| Other income | 1 | 74 | | 138 | 213 |
| Net income (loss) before noncontrolling interest | (204) | 5,984 | 1,187 | 7,595 | 14,562 |
| Less: Net income attributable to noncontrolling interest | | | | (4,557) | (4,557) |
| Net income (loss) | (204) | 5,984 | 1,187 | 3,038 | 10,005 |
| Other comprehensive income | | | 239 | | 239 |
| Comprehensive income (loss) | $(204) | $5,984 | $1,426 | $3,038 | $10,244 |
| Company’s equity in earnings of unconsolidated entities (3) | $1,536 | $3,490 | $458 | $1,505 | $6,989 |

(3) Differences between the Company’s equity in earnings of unconsolidated entities and the Company's percentage interest in the underlying net income (loss) of the entities is primarily a result of impairments related to the Company’s investment in unconsolidated entities, distributions from entities in excess of the carrying amount of the Company’s net investment, and the Company’s share of the entities’ profits related to home sites purchased by the

Company which reduces the Company's cost basis of the home sites.

4. Investments in Distressed Loans and Foreclosed Real Estate

Investments in Distressed Loans

The Company’s investment in distressed loans consisted of the following as of the dates indicated (amounts in thousands):

| | April 30, 2013 | October 31, 2012 |
|---|---|---|
| Unpaid principal balance | $102,131 | $99,693 |
| Discount on acquired loans | (53,424) | (62,524) |
| Carrying value | $48,707 | $37,169 |

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

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

The Company may acquire distressed loans where it has determined that (1) it is possible to collect all contractual amounts due under the terms of the loan, (2) it expects to utilize the real estate secured by the loans in its operations, or (3) forecasted cash flows cannot be reasonably estimated. For non-performing loans acquired meeting these conditions, in accordance with ASC 310-10, "Receivable," the loans are classified as nonaccrual and interest income is not recognized. When a loan is classified as nonaccrual, any subsequent cash receipt is accounted for using the cost recovery method. For performing loans, payments are applied to principal and interest in accordance with the terms of the loan when received. As of April 30, 2013, the Company had investments in performing and non-performing loans, accounted for in accordance with ASC 310-10, of $13.9 million and $15.9 million, respectively. At October 31, 2012, the Company had investments in non-performing loans of $9.2 million. The Company had no investments in performing loans at October 31, 2012.

In the six months ended April 30, 2013, Gibraltar purchased distressed loans for approximately $26.0 million. The purchases included performing and non-performing loans secured by retail shopping centers, residential land and golf courses located in seven states.

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

| | Six-month period ended April 30, 2012 |
|---|---|
| Contractually required payments, including interest | $52,524 |
| Nonaccretable difference | (5,125) |
| Cash flows expected to be collected | 47,399 |
| Accretable yield | (20,514) |
| Non-performing loans carrying amount | $26,885 |

There were no distressed loans purchased during the six months ended April 30, 2013 that met the requirements of ASC 310-30.

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

| | Six months ended April 30, | | Three months ended April 30, | |
|---|---|---|---|---|
| | 2013 | 2012 | 2013 | 2012 |
| Balance, beginning of period | $17,196 | $42,326 | $13,406 | $57,844 |
| Loans acquired | | 20,514 | | |
| Additions | 471 | 2,826 | 471 | 3,010 |
| Deletions | (3,915) | (9,851) | (1,528) | (8,267) |
| Accretion | (2,523) | (6,559) | (1,120) | (3,331) |
| Balance, end of period | $11,229 | $49,256 | $11,229 | $49,256 |

Additions primarily respresent the reclassification to accretable yield from nonaccretable yield and the impact of impairments. Deletions primarily represent loan dispositions, which include foreclosure of the underlying collateral and resulting removal of the loans from the accretable yield portfolios, and reclassifications from accretable yield to nonaccretable yield. The reclassifications between accretable and nonaccretable yield and the accretion of interest income are based on various estimates regarding loan performance and the value of the underlying real estate securing the loans. As the Company continues to gather additional information regarding the loans and the underlying collateral, the accretable yield may change. Therefore, the amount of accretable income recorded in the six-month and three-month periods ended April 30, 2013 and 2012 is not necessarily indicative of future results.

Real Estate Owned (REO)

The following table presents the activity in REO for the six-month and three-month periods ended April 30, 2013 and 2012 (amounts in thousands):

| | Six months ended April 30, | | Three months ended April 30, | |
|---|---|---|---|---|
| | 2013 | 2012 | 2013 | 2012 |
| Balance, beginning of period | $58,353 | $5,939 | $68,764 | $6,488 |
| Additions | 14,317 | 12,802 | 3,277 | 11,638 |
| Sales | (911) | (615) | (472) | |
| Impairments | (15) | | | |
| Depreciation | (286) | (18) | (111) | (18) |
| Balance, end of period | $71,458 | $18,108 | $71,458 | $18,108 |

As of April 30, 2013, approximately $9.4 million and $62.0 million of REO was classified as held-for-sale and held-and-used, respectively. As of April 30, 2012, approximately $1.3 million and $16.8 million of REO was classified as held-for-sale and held-and-used, respectively. For the six-month and three-month periods ended April 30, 2013, the Company recorded gains of $1.5 million and $0.8 million from acquisitions of REO through foreclosure, respectively. For both the six-month and three-month period ended April 30, 2012, the Company recorded gains of $1.7 million from acquisitions of REO through foreclosure.

General

The Company's earnings from Gibraltar's operations, excluding its investment in the Structured Asset Joint Venture, are included in other income - net in its condensed consolidated statements of operations. In the six-month periods ended April 30, 2013 and 2012, the Company recognized $1.1 million and $5.9 million of earnings, respectively, from Gibraltar's operations.

5. Senior Notes and Mortgage Company Loan Facilities

Senior Notes

At April 30, 2013, the Company had eight issues of Senior Notes outstanding with an aggregate principal amount of $2.33 billion.

On April 3, 2013, the Company, through Toll Brothers Finance Corp., issued $300 million principal amount of 4.375% Senior Notes due 2023 (the "4.375% Senior Notes") at par. The Company received $298.1 million of net proceeds from this issuance of 4.375% Senior Notes.

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

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

Mortgage Company Loan Facilities

In July 2012, TBI Mortgage Company (“TBI Mortgage”), the Company's wholly-owned mortgage subsidiary, amended its Master Repurchase Agreement (the “Repurchase Agreement”) with Comerica Bank. The purpose of the Repurchase Agreement is to finance the origination of mortgage loans by TBI Mortgage and it is accounted for as a secured borrowing under ASC 860, “Transfers and Servicing.” The Repurchase Agreement, as amended, provides for loan purchases of up to $50 million, subject to certain sublimits. In addition, the Repurchase Agreement provides for an accordion feature under which TBI Mortgage may request that the aggregate commitments under the Repurchase Agreement be increased to an amount up to $75 million for a short period of time. The Repurchase Agreement, as amended, expires on July 23, 2013 and bears interest at LIBOR plus 2.00% per annum, with a minimum rate of 3.00%.

6. Accrued Expenses

Accrued expenses at April 30, 2013 and October 31, 2012 consisted of the following (amounts in thousands):

| | April 30, 2013 | October 31, 2012 |
|---|---|---|
| Land, land development and construction | $132,718 | $126,866 |
| Compensation and employee benefits | 97,072 | 111,243 |
| Insurance and litigation | 96,443 | 101,908 |
| Warranty | 41,109 | 41,706 |
| Interest | 26,821 | 28,204 |
| Other | 75,070 | 66,423 |
| | $469,233 | $476,350 |

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

| | Six months ended April 30, | | Three months ended April 30, | |
|---|---|---|---|---|
| | 2013 | 2012 | 2013 | 2012 |
| Balance, beginning of period | $41,706 | $42,474 | $41,241 | $43,109 |
| Additions – homes closed during the period | 5,223 | 3,944 | 2,934 | 2,073 |
| Addition – liabilities acquired | | 731 | | |
| (Decrease) increase in accruals for homes closed in prior periods | (478) | 1,765 | (212) | (18) |
| Charges incurred | (5,342) | (5,917) | (2,854) | (2,167) |
| Balance, end of period | $41,109 | $42,997 | $41,109 | $42,997 |

7. Income Taxes

The tables below provide, for the periods indicated, reconciliations of the Company's effective tax rate from the federal statutory tax rate (amounts in thousands).

| | Six months ended April 30, | | | |
|---|---|---|---|---|
| | 2013 | | 2012 | |
| | $ | %* | $ | %* |
| Federal tax provision at statutory rate | 17,253 | 35.0 | 3,234 | 35.0 |
| State tax provision, net of federal benefit | 2,051 | 4.2 | 391 | 4.2 |
| Increase in unrecognized tax benefits | | | 277 | 3.0 |
| Reversal of accrual for uncertain tax positions | | | (5,279) | (57.1) |
| Increase in deferred tax assets – net | | | (2,100) | (22.7) |
| Valuation allowance – reversed | (1,277) | (2.6) | (3,318) | (35.9) |
| Accrued interest on anticipated tax assessments | 1,982 | 4.0 | 1,950 | 21.1 |
| Other | 179 | 0.4 | | |
| Income tax provision (benefit) | 20,188 | 41.0 | (4,845) | (52.4) |

| | Three months ended April 30, | | | |
|---|---|---|---|---|
| | 2013 | | 2012 | |
| | $ | %* | $ | %* |
| Federal tax provision at statutory rate | 14,339 | 35.0 | 5,477 | 35.0 |
| State tax provision, net of federal benefit | 1,705 | 4.2 | 662 | 4.2 |
| Increase in unrecognized tax benefits | | | (1,223) | (7.8) |
| Increase in deferred tax assets – net | | | (1,575) | (10.0) |
| Valuation allowance – reversed | (1,061) | (2.6) | (4,564) | (29.2) |
| Accrued interest on anticipated tax assessments | 817 | 2.0 | | |
| Other | 494 | 1.2 | | |
| Income tax provision (benefit) | 16,294 | 39.8 | (1,223) | (7.8) |

* Due to rounding, amounts may not add.

The Company currently operates in 19 states and is subject to various state tax jurisdictions. The Company estimates its state tax liability based upon the individual taxing authorities' regulations, estimates of income by taxing jurisdiction and the Company's ability to utilize certain tax-saving strategies. Based on the Company's estimate of the allocation of income or loss among the various taxing jurisdictions and changes in tax regulations and their impact on the Company's tax strategies, the Company estimated its rate for state income taxes at 6.4% and 6.5% for fiscal 2013 and 2012, respectively.

At October 31, 2012, the Company evaluated evidence related to the need for its deferred tax asset valuation allowances and determined that the valuation allowance on its federal deferred tax assets and certain state valuation allowances were no longer needed. Accordingly, in the fourth quarter of fiscal 2012, the Company reversed a valuation allowance in the amount of $394.7 million.

For state tax purposes, due to past and projected losses in certain jurisdictions where the Company does not have carryback potential and/or cannot sufficiently forecast future taxable income, the Company has recognized net cumulative valuation allowances against its state deferred tax assets of $55.8 million and $57.0 million as of April 30, 2013 and October 31, 2012, respectively.

8. Stock-Based Benefit Plans

The Company grants stock options, restricted stock and various types of restricted stock units to its employees and its non-employee directors. Beginning in fiscal 2012, the Company changed the mix of stock-based compensation to its employees (other than certain senior executives) by reducing the number of stock options it grants and, in their place, issued non-performance based restricted stock units ("RSUs") as a form of compensation. The Company also replaced its stock price-based restricted stock unit ("Stock Price-Based RSUs") awards for certain senior executives with a performance-based restricted stock ("Performance-Based RSUs") award program. Additionally, the Company has an employee stock purchase plan that allows employees to purchase Company stock at a discount.

Information regarding the amount of total stock-based compensation expense and tax benefit recognized by the Company, for the periods indicated, is as follows (amounts in thousands):

| | Six months ended April 30, | | Three months ended April 30, | |
|---|---|---|---|---|
| | 2013 | 2012 | 2013 | 2012 |
| Total stock-based compensation expense recognized | $10,027 | $8,831 | $4,343 | $3,205 |
| Income tax benefit recognized | $3,666 | $3,235 | $1,588 | $1,174 |

At April 30, 2013 and October 31, 2012, the aggregate unamortized value of outstanding stock-based compensation awards was approximately $28.2 million and $14.2 million, respectively.

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

Stock Options

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 the Company's stock, historical volatility of the Company's stock and other factors. The expected lives of options granted were derived from the historical exercise patterns and anticipated future patterns and represent the period of time that options granted are expected to be outstanding; the range given below results from certain groups of employees exhibiting different behaviors. The risk-free rate for periods within the contractual life of the option is based on the U.S. Treasury yield curve in effect at the time of grant.

The weighted-average assumptions and the fair value used for stock option grants in fiscal 2013 and 2012 were as follows:

| | 2013 | 2012 |
|---|---|---|
| Expected volatility | 44.04% - 48.13% | 44.20% - 50.24% |
| Weighted-average volatility | 46.70% | 46.99% |
| Risk-free interest rate | 0.64% - 1.56% | 0.78% - 1.77% |
| Expected life (years) | 4.48 - 8.88 | 4.59 - 9.06 |
| Dividends | none | none |
| Weighted-average grant date fair value per share of options granted | $13.05 | $8.70 |

Stock compensation expense, related to stock options, for the periods indicated, was as follows (amounts in thousands):

| | 2013 | 2012 |
|---|---|---|
| Six months ended April 30, | $4,835 | $4,745 |
| Three months ended April 30, | $1,360 | $1,225 |

Performance-Based Restricted Stock Units

In the first quarter of fiscal 2013, the Executive Compensation Committee of the Company's Board of Directors ("Executive Compensation Committee") approved awards of Performance-Based RSUs relating to shares of the Company's common stock to certain of its senior management. The Performance-Based RSUs are based on the attainment of certain performance metrics of the Company in fiscal 2013. 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 as compared to the target

performance goals. The Performance-Based RSUs vest over a four-year period provided the recipients continue to be employed by the Company or serve on the board of directors of the Company (as applicable) as specified in the award document.

The value of the Performance-Based RSUs was determined to be equal to the estimated number of shares of the Company's common stock to be issued multiplied by the closing price of the Company's common stock on the NYSE on the date the performance goals were approved by the Executive Compensation Committee. The Company evaluates the performance goals quarterly and estimates the number of shares underlying the Performance-Based RSUs that are probable of being issued. Information regarding the issuance, valuation assumptions and amortization of the Company's Performance-Based RSUs issued in fiscal 2013 and 2012 is provided below.

| | 2013 | 2012 |
|---|---|---|
| Estimated number of shares underlying Performance-Based RSUs to be issued | 289,490 | 360,000 |
| Closing price of the Company's common stock on date performance goals were approved | $37.78 | $20.50 |
| Estimated aggregate fair value of Performance-Based RSUs to be issued (in thousands) | $10,937 | $7,371 |
| Performance-Based RSU expense recognized in the six months ended April 30, (in thousands): | $2,588 | $1,920 |
| Performance-Based RSU expense recognized in the three months ended April 30, (in thousands): | $2,074 | $984 |
| Unamortized value of Performance-Based RSUs at April 30, (in thousands): | $11,986 | $5,452 |

Stock Price-Based Restricted Stock Units

Information regarding the amortization of the Company's Stock Price-Based RSUs, for the periods indicated, is provided below (amounts in thousands).

| | 2013 | 2012 |
|---|---|---|
| Six months ended April 30, | $979 | $1,528 |
| Three months ended April 30, | $416 | $679 |

Information regarding the aggregate number of outstanding Stock Price-Based RSUs and aggregate unamortized value of the outstanding Stock Price-Based RSUs, as of the date indicated, is provided below.

| | April 30, 2013 | October 31, 2012 |
|---|---|---|
| Aggregate outstanding Stock Price-Based RSUs | 306,000 | 506,000 |
| Cumulative unamortized value of Stock Price-Based RSUs (in thousands) | $1,064 | $2,042 |

In December 2012, the Company issued and distributed 200,000 shares of stock pursuant to a Stock Price-Based RSU award.

Non-Performance Based Restricted Stock Units

The Company issued RSUs to various officers, employees and non-employee directors. The value of the RSUs was determined to be equal to the number of shares of the Company's common stock to be issued pursuant to the RSUs, multiplied by the closing price of the Company's common stock on the NYSE on the date the RSUs were awarded. Information regarding these RSUs issued in the six months ended April 30, 2013 and 2012 is as follows:

| | 2013 | 2012 |
|---|---|---|
| Number of RSUs issued | 94,080 | 107,820 |
| Closing price of the Company's common stock on date of issuance | $32.22 | $20.50 |
| Aggregate fair value of RSUs issued (in thousands) | $3,031 | $2,210 |

Information regarding the amortization of the Company's RSUs, for the periods indicated, is as follows (amounts in thousands):

| | 2013 | 2012 |
|---|---|---|
| Six months ended April 30, | $1,584 | $625 |

| | | |
|---|---|---|
| Three months ended April 30, | $472 | $311 |

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Information regarding the aggregate number of outstanding RSUs and aggregate unamortized value of the outstanding RSUs, as of the date indicated, is as follows:

| | April 30, 2013 | October 31, 2012 |
|---|---|---|
| Aggregate outstanding RSUs | 228,490 | 137,764 |
| Cumulative unamortized value of RSUs (in thousands) | $2,692 | $1,326 |

9. Employee Retirement Plans

The Company has two unfunded supplemental retirement plans (“SERPs”). The table below provides, for the periods indicated, costs recognized and payments made related to its SERPs (amounts in thousands):

Six months ended April 30,