TOLL BROTHERS INC
Form 10-K
December 21, 2017

UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 10-K

x ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended October 31, 2017
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	23-2416878
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
250 Gibraltar Road, Horsham, Pennsylvania	19044
(Address of principal executive offices)	(Zip Code)

Registrant's telephone number, including area code
(215) 938-8000

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Name of each exchange on which registered
Common Stock (par value $.01)	New York Stock Exchange
Guarantee of Toll Brothers Finance Corp. 5.625% Senior Notes due 2024	New York Stock Exchange

Securities registered pursuant to Section 12(g) of the Act: None

Indicate by check mark if the Registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes x No o

Indicate by check mark if the Registrant is not required to file reports pursuant to Section 13 or 15(d) of the Securities Act. Yes o No x

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 x 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 x No o

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§229.405 of this chapter) is not contained herein, and will not be contained, to the best of Registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. o

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

Large accelerated filer þ	Accelerated filer o
Non-accelerated filer o (Do not check if a smaller reporting company)	Smaller reporting company o
	Emerging growth company o

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. 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 x

As of April 30, 2017, the aggregate market value of our Common Stock held by non-affiliates (all persons other than executive officers and directors of Registrant) of the Registrant was approximately $5,458,097,000.

As of December 15, 2017, there were approximately 153,173,000 shares of our Common Stock outstanding.

Documents Incorporated by Reference: Portions of the proxy statement of Toll Brothers, Inc. with respect to the 2018 Annual Meeting of Stockholders, scheduled to be held on March 13, 2018, are incorporated by reference into Part III of this report.

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The following exhibits have been filed electronically with this Form 10-K:

PART I

ITEM 1. BUSINESS

Toll Brothers, Inc., a corporation incorporated in Delaware in May 1986, began doing business through predecessor entities in 1967. 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.

General

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, and second-home buyers in the United States (“Traditional Home Building Product”). We also design, build, market, and sell homes in urban infill markets through Toll Brothers City Living® (“City Living”). At October 31, 2017, we were operating in 20 states.

In the five years ended October 31, 2017, we delivered 28,355 homes from 676 communities, including 7,151 homes from 407 communities in fiscal 2017. At October 31, 2017, we had 628 communities containing approximately 48,300 home sites that we owned or controlled through options.

Backlog consists of homes under contract but not yet delivered to our home buyers (“backlog”). We had a backlog of $5.06 billion (5,851 homes) at October 31, 2017; we expect to deliver approximately 97% of these homes in fiscal 2018.

We operate our own land development, architectural, engineering, mortgage, title, landscaping, security and home control solutions, lumber distribution, house component assembly, and manufacturing operations. We also develop, own, and operate golf courses and country clubs, which generally are associated with several of our master planned communities.

We 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. These projects, which are located in the metro Boston to metro Washington, D.C. corridor; Los Angeles, San Francisco, San Diego and Fremont, California; Atlanta, Georgia; Dallas, Texas; and Phoenix, Arizona are being operated or developed, (or we expect will be developed) with partners under the brand names Toll Brothers Apartment Living, Toll Brothers Campus Living, and Toll Brothers Realty Trust. At October 31, 2017, we or joint ventures in which we have an interest controlled 43 land parcels as for-rent apartment projects containing approximately 14,450 units.

Through several joint ventures, our wholly-owned subsidiary, Gibraltar Capital and Asset Management, LLC (“Gibraltar”), provides builders and developers with land banking and venture capital, owns certain foreclosed real estate, and is a participant in an entity that owns and controls a portfolio of loans and real estate.

See “Investments in Unconsolidated Entities” below for more information relating to these joint ventures.

Business Trends and Outlook

The current housing market continues to strengthen and grow. We believe that improving demand for homes, low interest rates, the limited supply of resale and new homes, and the financial strength of the affluent buyers that we target are driving our growth. Our buyers are further benefiting from a positive employment picture, strong consumer confidence, a robust stock market, and increasing equity in their existing homes. In fiscal 2017, the value and number of signed contracts increased 20.9% and 21.7%, respectively, as compared to fiscal 2016; and increased 37.8% and 38.3%, respectively, as compared to fiscal 2015.

In fiscal 2017, we signed 8,175 contracts with an aggregate value of $6.83 billion, compared to 6,719 contracts with an aggregate value of $5.65 billion in fiscal 2016, and 5,910 contracts with an aggregate value of $4.96 billion in fiscal 2015. 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.

We believe we are benefiting from the appeal and national recognition of our brand and a lack of large scale competition in the affordable end of the luxury new home market. Our home designs and our customization program differentiate us within our segment of the luxury home market. The breadth of products we offer enables us to appeal to a wide range of demographic groups, including affluent move-up, empty-nester and millennial buyers, which we believe is also fueling demand for our homes. We continue to believe that many of our communities are in desirable locations that are difficult to replace and that many of these communities have substantial embedded value that may be realized in the future as the housing recovery strengthens.

The supply of new and existing homes continues to trail the growth in population and households. We believe that, in certain markets, the new home market continues to have significant pent-up demand. We are producing strong results even with industry-wide home production levels still well below historical norms. We expect that this increase in demand will drive production of new homes to address the existing deficit in housing supply compared to projected household growth.

For information and analysis of recent trends in our operations and financial condition, see “Management’s Discussion and Analysis of Financial Condition and Results of Operations” in Item 7 of this Annual Report on Form 10-K (“Form 10-K”), and for financial information about our results of operations, assets, liabilities, stockholders’ equity, and cash flows, see the Consolidated Financial Statements and Notes thereto in Item 15(a)1 of this Form 10-K.

At October 31, 2017, we had 628 communities containing approximately 48,300 home sites that we owned or controlled through options; we owned approximately 31,300 of these home sites and controlled approximately 17,000 additional home sites through options. Of the 48,300 home sites, approximately 17,200 were substantially improved. Of the 628 communities, 396 were residential communities under development (“operating communities”) containing 23,846 home sites and 232 were future communities containing 24,465 home sites. In addition, at October 31, 2017, our Land Development Joint Ventures and Home Building Joint Ventures owned approximately 10,200 and approximately 400 home sites, respectively.

At October 31, 2017, we were offering homes for sale in 299 communities at base prices for our Traditional Home Building Product, generally ranging from approximately $184,000 to $2,800,000. For our City Living Product, we were offering homes for sale in six communities at base prices generally ranging from $413,000 to $5,240,000. In a few of our City Living communities being developed, we are offering homes at prices substantially higher than those indicated. During fiscal 2017, we delivered 7,151 homes at an average base price of approximately $689,000. On average, our home buyers added approximately 22.0%, or $152,000 per home, in customized options and lot premiums to the base price of the homes we delivered in fiscal 2017, as compared to 21.5% or $155,000 per home in fiscal 2016 and 20.7% or $134,000 per home in fiscal 2015.

In fiscal 2017, of the 7,151 homes delivered, 24% had a delivered price of less than $500,000; 36% had a delivered price of between $500,000 and $750,000; 18% had a delivered price of between $750,000 and $1,000,000; and 22% had a delivered price of over $1,000,000. Of the homes delivered in fiscal 2017, approximately 22% of our home buyers paid the full purchase price in cash; the remaining home buyers borrowed approximately 70% of the value of the home.

We had a backlog of $5.06 billion (5,851 homes) at October 31, 2017; $3.98 billion (4,685 homes) at October 31, 2016; and$3.50 billion (4,064 homes) at October 31, 2015. Of the 5,851 homes in backlog at October 31, 2017, approximately 97% are expected to be delivered by October 31, 2018.

Our business is subject to many risks, including risks associated with obtaining the necessary approvals on a property and completing the land improvements on it. We attempt, where possible, to reduce certain risks by controlling land for future development through options (also referred to herein as “land purchase contracts” or “option and purchase agreements”); however, in recent years, we have had more success in negotiating land parcels for immediate purchase since many sellers were not in a position to wait or unwilling to take the financial risk of not completing the sale. These options enable us to obtain the necessary governmental approvals before we acquire title to the land. We also reduce certain risks by generally commencing construction of a detached home only after executing an agreement of sale and receiving a substantial down payment from the buyer and by using subcontractors to perform home construction and land development work on a fixed-price basis.

Acquisition - 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 $83.1 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.

Our Communities and Homes

Our traditional home building communities are generally located in affluent suburban areas near major highways providing access to major cities and are generally located on land we have either acquired and developed or acquired fully approved and, in some cases, improved. We also currently operate in the affluent urban markets of Hoboken and Jersey City, New Jersey; New York City, New York; Philadelphia, Pennsylvania; and the suburbs of Washington, D.C.

At October 31, 2017, we were operating in the following major suburban and urban residential markets:

- Boston, Massachusetts, metropolitan area

- Fairfield, Hartford, New London, and New Haven Counties, Connecticut
- Westchester and Dutchess county, New York
- Boroughs of Manhattan and Brooklyn in New York City
- Central and northern New Jersey
- Philadelphia, Pennsylvania, metropolitan area
- Lehigh Valley area of Pennsylvania
- Virginia and Maryland suburbs of Washington, D.C.
- Raleigh and Charlotte, North Carolina, metropolitan areas
- Southeast and southwest coasts and the Jacksonville and Orlando areas of Florida
- Detroit, Michigan, metropolitan area
- Chicago, Illinois, metropolitan area
- Minneapolis/St. Paul, Minnesota, metropolitan area
- Dallas, Houston, and Austin, Texas, metropolitan areas
- Denver, Colorado, metropolitan area and Fort Collins, Colorado
- Phoenix, Arizona, metropolitan area
- Las Vegas and Reno, Nevada, metropolitan areas
- Boise, Idaho metropolitan area
- San Diego and Palm Springs, California, areas
- Los Angeles, California, metropolitan area
- San Francisco Bay, Sacramento, and San Jose areas of northern California, and
- Seattle, Washington, metropolitan area

We develop individual stand-alone communities as well as multi-product, master planned communities. Our master planned communities, many of which include golf courses and other country club-type amenities, enable us to offer multiple home types and sizes to a broad range of move-up, empty-nester, active-adult, and second-home buyers. We seek to realize efficiencies from shared common costs, such as land development and infrastructure, over the several communities within the master planned community.

Each of our detached home communities offers several home plans with the opportunity for home buyers to select various exterior styles. We design each community to fit existing land characteristics. We strive to achieve diversity among architectural styles within a community by offering a variety of house models and several exterior design options for each model, preserving existing trees and foliage whenever feasible, and curving street layouts to allow relatively few homes to be seen from any vantage point. Our communities have attractive entrances with distinctive signage and landscaping. We believe that our added attention to community detail gives each community a diversified neighborhood appearance that enhances home values.

Our traditional attached home communities generally offer one- to four-story homes, provide for limited exterior options, and often include commonly owned recreational facilities, such as clubhouses, playing fields, swimming pools, and tennis courts.

We are continuously developing new designs to replace or augment existing ones to ensure that our homes reflect current consumer tastes. We use our own architectural staff and also engage unaffiliated architectural firms to develop new designs. During the past fiscal year, we introduced 279 new models for our Traditional Home Building Product (170 detached models and 109 attached models).

In our Traditional Home Building Product communities, a wide selection of options is available to home buyers for additional charges. The number and complexity of options in our Traditional Home Building Product typically increase with the size and base selling price of our homes. Major options include additional garages, extra fireplaces, guest suites, finished lofts, and other additional rooms.

We market our high-quality homes to upscale luxury home buyers, generally comprised of those persons who have previously owned a principal residence and who are seeking to buy a larger or more desirable home — the so-called "move-up" market. We believe our reputation as a builder of homes for this market enhances our competitive position with respect to the sale of our smaller, more moderately priced homes.

We continue to pursue growth initiatives to expand our brand by broadening our residential product lines across the demographic spectrum. In addition to our traditional "move-up" home buyer, we are focusing on the 50+ year-old "empty-nester" market, as well as the millennial generation.

We market to the 50+ year-old "empty-nester" market, which we believe has strong growth potential. We have developed a number of home designs with features such as one-story living and first-floor master bedroom suites, as well as communities with recreational amenities, such as golf courses, marinas, pool complexes, country clubs, and recreation centers that we believe appeal to this category of home buyers. We have integrated certain of these designs and features in some of our other home types and communities. As of October 31, 2017, we were selling from 46 active-adult communities, some of which at least one member must be 55+ years of age. We expect to open additional active-adult communities during the next few years. Of the value and number of net contracts signed in fiscal 2017, approximately 14% and 20%, respectively, were in active-adult communities; in fiscal 2016, approximately 14% and 20%, respectively, were in such communities; and in fiscal 2015, approximately 11% and 16%, respectively were in active-adult communities.

With the millennial generation now entering their thirties and forming families, we are starting to benefit from their desire for home ownership. We are currently focusing on this group with our core suburban homes, urban condominiums and luxury rental apartment products.

We have developed and are developing, on our own or through joint ventures with third parties, a number of high-density, high-, mid- and low-rise urban luxury communities to serve a growing market of affluent move-up families, empty-nesters, and young professionals seeking to live in or close to major cities. These communities are currently marketed under our City Living brand. These communities, which we are currently developing or planning to develop on our own or through joint ventures, are located in Los Angeles, California; Bethesda, Maryland; Hoboken and Jersey City, New Jersey; the boroughs of Manhattan and Brooklyn, New York; and Philadelphia, Pennsylvania.

A great majority of our City Living communities are high-rise projects and take an extended period of time to construct. We generally start selling homes in these communities after construction has commenced and, by the time construction has been completed, we typically have a significant number of homes in backlog. Once construction has been completed, the homes in backlog in these communities are generally delivered very quickly.

We believe that the demographics of the move-up, empty-nester, active-adult, and second-home upscale markets will provide us with an opportunity for growth in the future, and that our financial strength and portfolio of approved home sites in the metro Boston to metro Washington, D.C. corridor and in our California markets, in which land is scarce and approvals are more difficult to obtain, give us a competitive advantage. We continue to believe that many of our communities are in desirable locations that are difficult to replace and that many of these communities have substantial embedded value that may be realized in the future as the housing recovery strengthens.

According to the U.S. Census Bureau ("Census Bureau"), the number of households earning $100,000 or more (in constant 2016 dollars) at September 2017 stood at 35.0 million, or approximately 27.7% of all U.S. households. This group has grown at three times the rate of increase of all U.S. households since 1980. According to Harvard University's 2017 report, "The State of the Nation's Housing," demographic forces are likely to drive the addition of approximately 1.36 million new households per year from 2015 to 2025.

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 or the aging of existing homes. According to the Census Bureau's October 2017 New Residential Sales Report, new home inventory stands at a supply of just 5.0 months, based on current sales paces. If demand and pace increase significantly, the supply of 5.0 months will 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 2016, total housing starts averaged approximately 0.85 million per year according to the Census Bureau. Additionally, the median age of housing stock in the United States has increased from 25 years to 39 years over the last three decades, thus expanding the market for replacement homes.

At October 31, 2017, we were selling homes from 305 communities, compared to 310 communities at October 31, 2016, and 288 communities at October 31, 2015.

The following table summarizes certain information with respect to our operating communities at October 31, 2017:

	Total number of operating communities	Number of selling communities	Homes approved	Homes closed	Homes under contract but not closed	Home sites available
Traditional Home Building:						
North	77	51	10,262	5,469	1,217	3,576
Mid-Atlantic	79	64	11,752	6,643	1,143	3,966
South	85	73	8,729	3,666	1,055	4,008
West	97	73	8,919	3,761	1,397	3,761
California	51	38	5,112	1,800	887	2,425
Traditional Home Building	389	299	44,774	21,339	5,699	17,736
City Living	7	6	737	326	152	259
Total	396	305	45,511	21,665	5,851	17,995

At October 31, 2017, significant site improvements had not yet commenced on approximately 6,600 of the 17,995 available home sites. Of the 17,995 available home sites, 2,141 were not yet owned by us but were controlled through options.

Of our 396 operating communities at October 31, 2017, a total of 305 communities were offering homes for sale; 87 communities were sold out but not all homes had been completed and delivered; and four communities had been temporarily shut down and are expected to reopen in fiscal 2018. Of the 305 communities in which homes were being offered for sale at October 31, 2017, a total of 237 were detached home communities and 68 were attached home communities.

At October 31, 2017, we had 752 homes (exclusive of model homes) under construction or completed but not under contract in our traditional communities, of which 457 were in detached home communities and 295 were in attached home communities. At October 31, 2017, we had 259 homes (exclusive of model homes) under construction or completed but not under contract in six City Living communities that were wholly owned.

As a result of our wide product and geographic diversity, we have a wide range of base sales prices. The general range of base sales prices for our different lines of homes at October 31, 2017 was as follows:

Traditional Home Building Product			
Detached homes			
Move-up	$184,000	to	$720,000
Executive	329,000	to	1,390,000
Estate	330,000	to	2,800,000
Active-adult	254,000	to	813,000
Attached homes			
Flats	$245,000	to	$935,000
Townhomes/Carriage homes	220,000	to	990,000
Active-adult	262,000	to	597,000
City Living Product	$413,000	to	$5,240,000

A few City Living communities that we are developing are offering homes at prices substantially in excess of those listed above.

In fiscal 2017, of the 7,151 homes delivered, 24% had a delivered price of less than $500,000; 36% had a delivered price of between $500,000 and $750,000; 18% had a delivered price of between $750,000 and $1,000,000; and 22% had a delivered price of over $1,000,000. Of the homes delivered in fiscal 2017, approximately 22% of our home buyers paid the full purchase price in cash; the remaining home buyers borrowed approximately 70% of the value of the home.

The table below provides the average value of options purchased by our home buyers, including lot premiums, and the value of the options as a percent of the base selling price of the homes purchased in fiscal 2017, 2016, and 2015:

	2017		2016		2015	
	Option value (in thousands)	Percent of base selling price	Option value (in thousands)	Percent of base selling price	Option value (in thousands)	Percent of base selling price
Overall	$152	22.0 %	$155	21.5 %	$134	20.7 %
Traditional Home Building Product						
Detached	$178	24.9 %	$181	23.9 %	$158	23.6 %
Attached	$77	16.7 %	$74	15.9 %	$69	15.8 %
City Living Product	$32	2.2 %	$50	1.8 %	$47	3.3 %

In general, our attached homes and City Living products do not offer significant structural options to our home buyer and thus they have a smaller option value as a percentage of base selling price.

For more information regarding revenues, net contracts signed, income (loss) before income taxes, and assets by segment, see "Management's Discussion and Analysis of Financial Condition and Results of Operations – Segments" in Item 7 of this Form 10-K.

Land Policy

Before entering into an agreement to purchase a land parcel, we complete extensive comparative studies and analysis that assist us in evaluating the acquisition. Historically, we have attempted to enter into option agreements to purchase land for future communities; however, in recent years, we have had more success in negotiating land parcels for immediate purchase since many sellers were not in a position to wait or unwilling to take the financial risk of not completing the sale. We have also entered into several joint ventures with other builders or developers to develop land for the use of the joint venture participants or for sale to outside parties. In addition, we have, at times, acquired the underlying mortgage on a property and subsequently obtained title to that property.

Where possible, we enter into agreements to purchase land, referred to in this Form 10-K as "land purchase contracts," "purchase agreements," "options," or "option agreements," on a non-recourse basis, thereby limiting our financial exposure to the amounts expended in obtaining any necessary governmental approvals, the costs incurred in the planning and design of the community, and, in some cases, some or all of our deposit. The use of these agreements may increase the price of land that we eventually acquire, but reduces our risk by allowing us to obtain the necessary development approvals before acquiring the land or allowing us to delay the acquisition to a later date. Historically, as approvals were obtained, the value of the purchase agreements and land generally increased; however, in any given time period, this may not happen. We have the ability to extend some of these purchase agreements for varying periods of time, in some cases by making an additional payment and, in other cases, without making any additional payment. Our purchase agreements are typically subject to numerous conditions, including, but not limited to, the ability to obtain necessary governmental approvals for the proposed community. Our deposit under an agreement may be returned to us if all approvals are not obtained, although predevelopment costs usually will not be recoverable. We generally have the right to cancel any of our agreements to purchase land by forfeiture of some or all of the deposits we have made pursuant to the agreement.

During fiscal 2017 and 2016, we acquired control of approximately 6,600 home sites (net of options terminated and home sites sold) and approximately 10,700 home sites (net of options terminated), respectively. At October 31, 2017, we controlled approximately 48,300 home sites, as compared to approximately 48,800 home sites at October 31, 2016, and approximately 44,300 home sites at October 31, 2015.

We are developing several parcels of land 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. At October 31, 2017, our Land Development Joint Ventures owned approximately 10,200 home sites, and our Home Building Joint Ventures owned approximately 400 home sites. At October 31, 2017, we had agreed to acquire 347 home sites from two of our Land Development Joint Ventures and we expect to purchase approximately 3,100 additional home sites over a number of years from several other joint ventures in which we have interests.

Our ability to continue development activities over the long term will be dependent upon, among other things, a suitable economic environment and our continued ability to locate and enter into options or agreements to purchase land, obtain governmental approvals for suitable parcels of land, and consummate the acquisition and complete the development of such land.

The following is a summary of home sites for future communities that we either owned or controlled through options or purchase agreements at October 31, 2017, as distinguished from our operating communities:

	Number of communities	Number of home sites
Traditional Home Building:		
North	40	4,465
Mid-Atlantic	58	4,668
South	23	2,447
West	74	9,016
California	28	2,945
Traditional Home Building	223	23,541
City Living	9	924
Total	232	24,465

Of the 24,465 planned home sites at October 31, 2017, we owned 9,636 and controlled 14,829 through options and purchase agreements.

At October 31, 2017, the aggregate purchase price of land parcels subject to option and purchase agreements in operating communities and future communities was approximately $2.24 billion (including $248.8 million of land to be acquired from joint ventures in which we have invested). Of the $2.24 billion of land purchase commitments, we paid or deposited $97.7 million, and, if we acquire all of these land parcels, we will be required to pay an additional $2.14 billion. The purchases of these land parcels are expected to occur over the next several years. We have additional land parcels under option that have been excluded from the aforementioned aggregate purchase price 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. These option contracts have either been written off or written down to the estimated amount that we expect to recover on them when the contracts are terminated.

We have a substantial amount of land currently under control for which approvals have been obtained or are being sought. We devote significant resources to locating suitable land for future development and obtaining the required approvals on land under our control. There can be no assurance that the necessary development approvals will be secured for the land currently under our control or for land that we may acquire control of in the future or that, upon obtaining such development approvals, we will elect to complete the purchases of land under option or complete the development of land that we own. We generally have been successful in obtaining governmental approvals in the past. We believe that we have an adequate supply of land in our existing communities and proposed communities (assuming that all properties are developed) to maintain our operations at current levels for several years.

Community Development

We typically expend considerable effort in developing a concept for each community, which includes determining the size, style, and price range of the homes; the layout of the streets and individual home sites; and the overall community design. After the necessary governmental subdivision and other approvals have been obtained, which may take several years, we improve the land by clearing and grading it; installing roads, underground utility lines, recreational amenities, and distinctive entrance features; and staking out individual home sites.

Each community is generally managed by a project manager. Working with sales staff, construction managers, marketing personnel, and, when required, other in-house and outside professionals such as accountants, engineers, and architects, a project manager is responsible for supervising and coordinating the various developmental steps such as land approval, land acquisition, marketing, selling, construction, and customer service, and monitoring the progress of work and controlling expenditures. Major decisions regarding each community are made in consultation with senior members of our management team.

We act as a general contractor for most of our projects. Subcontractors perform all home construction and land development work, generally under fixed-price contracts. We generally have multiple sources for the materials we purchase, and we have not experienced significant delays due to unavailability of necessary materials. See “Manufacturing/Distribution Facilities” in Item 2 of this Form 10-K.

Our construction managers coordinate subcontracting activities and supervise all aspects of construction work and quality control. One of the ways in which we seek to achieve home buyer satisfaction is by providing our construction managers with incentive compensation arrangements based upon each home buyer's satisfaction, as expressed by the buyers' responses on pre- and post-closing questionnaires.

The most significant variable affecting the timing of our revenue stream, other than housing demand, is the opening of the community for sale, which generally occurs shortly after receipt of final land regulatory approvals. Receipt of approvals permits us to begin the process of obtaining executed sales contracts from home buyers. Although our sales and construction activities vary somewhat by season, which can affect the timing of closings, any such seasonal effect is relatively insignificant compared to the effect of the timing of receipt of final regulatory approvals, the opening of the community, and the subsequent timing of closings.

Marketing and Sales

We believe that our marketing strategy for our Traditional Home Building Product, which emphasizes our more expensive "Estate" and "Executive" lines of homes, has enhanced our reputation as a builder and developer of high quality upscale homes. We believe this reputation results in greater demand for all of our lines of homes. We generally include attractive decorative features even in our less expensive homes, based on our belief that this customization enhances our product and improves our marketing and sales effort.

In determining the prices for our homes, we utilize, in addition to management's extensive experience, an internally developed value analysis program that compares our homes with homes offered by other builders in each local marketing area. In our application of this program, we assign a positive or negative dollar value to differences between our product features and those of our competitors, such as house and community amenities, location, and reputation.

We typically have a sales office in each community that is staffed by our own sales personnel. Sales personnel are generally compensated with both salary and commission. A significant portion of our sales is also derived from the introduction of customers to our communities by local real estate agents.

We expend great effort and cost in designing and decorating our model homes, which play an important role in our marketing. Interior decorating varies among the models and is carefully selected to reflect the lifestyles of prospective buyers.

Visitors to our website, www.TollBrothers.com, can obtain detailed information regarding our communities and homes across the country, take panoramic or video tours of our homes, and design their own home based upon our available floor plans and options. We also advertise in newspapers, in other local and regional publications, and on billboards.

We have a two-step sales process. The first step takes place when a potential home buyer visits one of our communities and decides to purchase one of our homes, at which point the home buyer signs a non-binding deposit agreement and provides a small, refundable deposit. This deposit will reserve, for a short period of time, the home site or unit that the home buyer has selected. This deposit also locks in the base price of the home. Because these deposit agreements are non-binding, they are not recorded as signed contracts, nor are they recorded in backlog. Deposit rates are tracked on a weekly basis to help us monitor the strength or weakness in demand in each of our communities. If demand for homes in a particular community is strong, senior management determines whether the base selling prices in that community should be increased. If demand for the homes in a particular community is weak, we determine whether or not sales incentives and/or discounts on home prices should be adjusted.

The second step in the sales process occurs when we sign a binding agreement of sale with the home buyer and the home buyer gives us a cash down payment that is generally nonrefundable. Cash down payments currently average approximately 8% of the total purchase price of a home. Between the time that the home buyer signs the non-binding deposit agreement and the binding agreement of sale, he or she is required to complete a financial questionnaire that gives us the ability to evaluate whether the home buyer has the financial resources necessary to purchase the home. If we determine that the home buyer is not financially qualified, we will not enter into an agreement of sale with the home buyer. During fiscal 2017, 2016, and 2015, our customers signed net contracts for $6.83 billion (8,175 homes), $5.65 billion (6,719 homes), and $4.96 billion (5,910 homes), respectively. When we report net contracts signed, the number and value of contracts signed are reported net of all cancellations occurring during the reporting period, whether signed in that reporting period or in a prior period. Only outstanding agreements of sale that have been signed by both the home buyer and us as of the end of the period for which we are reporting are included in backlog.

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 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.

Our mortgage subsidiary provides mortgage financing for a portion of our home closings. Our mortgage subsidiary determines whether the home buyer qualifies for the mortgage that he or she is seeking 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.

Information about the number and amount of loans funded by our mortgage subsidiary is contained in the table below.

Fiscal year	Total Toll Brothers, Inc. settlements (a)	TBI Mortgage Company financed settlements* (b)	Gross capture rate (b/a)	Amount financed (in millions)
2017	7,151	2,407	33.7%	$ 1,168.4
2016	6,098	2,523	41.4%	$ 1,240.9
2015	5,525	2,103	38.1%	$ 1,001.2
2014	5,397	1,866	34.6%	$ 801.5
2013	4,184	1,803	43.1%	$ 717.3

* Amounts under “TBI Mortgage Company financed settlements” exclude brokered and referred loans, which amounted to approximately 3.6%, 4.2%, 6.2%, 4.4%, and 5.1% of our home closings in fiscal 2017, 2016, 2015, 2014, and 2013, respectively.

Prior to the actual closing of the home and funding of the mortgage, the home buyer may 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 are willing to honor the terms and conditions, including the interest rate, committed to the home buyer. We believe that these investors have adequate financial resources to honor their commitments to our mortgage subsidiary. At October 31, 2017, our mortgage subsidiary was committed to fund $1.50 billion of mortgage loans. Of these commitments, $350.7 million, as well as $125.7 million of mortgage loans receivable, have “locked-in” interest rates. Our mortgage subsidiary funds its commitments through a combination of its own capital, capital provided from us, its loan facility, and the sale of mortgage loans to various investors. Our mortgage subsidiary has commitments from investors to acquire all $476.5 million of these locked-in loans and receivables. Our home buyers have not locked in the interest rate on the remaining $1.15 billion of mortgage loans.

Competition

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.

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.

Investments in Unconsolidated Entities

We have investments in various unconsolidated entities. These entities include Land Development Joint Ventures, Home Building Joint Ventures, Rental Property Joint Ventures, and Gibraltar Joint Ventures. At October 31, 2017, we had investments of $481.8 million in these unconsolidated entities and were committed to invest or advance up to an additional $52.5 million to these entities if they require additional funding.

In fiscal 2017, 2016, and 2015, we recognized income from the unconsolidated entities in which we had an investment of $116.1 million, $40.7 million, and $21.1 million, respectively. In addition, we earned construction and management fee income from these unconsolidated entities of $19.1 million in fiscal 2017, $16.4 million in fiscal 2016, and $17.0 million in fiscal 2015.

Land Development Joint Ventures

We have investments in a number of Land Development Joint Ventures to develop land. Some of these Land Development Joint Ventures develop land for the sole use of the venture participants, including us, and others develop land for sale to the joint venture participants and to unrelated builders. At October 31, 2017, we had approximately $236.1 million invested in our Land Development Joint Ventures and funding commitments of $33.7 million to five of the Land Development Joint Ventures which will be funded if additional investments in the ventures are required. At October 31, 2017, four of these joint ventures had aggregate loan commitments of $239.2 million and outstanding borrowings against these commitments of $223.0 million. At October 31, 2017, our Land Development Joint Ventures owned approximately 10,200 home sites.

At October 31, 2017, we had agreed to acquire 347 home sites from two of our Land Development Joint Ventures for an aggregate purchase price of approximately $248.8 million. In addition, we expect to purchase approximately 3,100 additional home sites over a number of years from several joint ventures in which we have interests; the purchase prices of these home sites will be determined at a future date.

Home Building Joint Ventures

At October 31, 2017, we had an aggregate of $102.2 million of investments in various Home Building Joint Ventures to develop approximately 400 luxury for-sale homes. At October 31, 2017, we had $8.3 million of funding commitments to one of these joint ventures. In fiscal 2017, the value of net contracts signed by our Home Building Joint Ventures was $196.7 million (143 homes), and they delivered $475.3 million (197 homes) of revenue. At October 31, 2017, our Home Building Joint Ventures had a backlog of undelivered homes of $167.4 million (116 homes).

Rental Property Joint Ventures

Over the past several years, we acquired control of a number of land parcels as for-rent apartment projects, including two student housing sites. At October 31, 2017, we had an aggregate of $127.4 million of investments in various Rental Property Joint Ventures. At October 31, 2017, we or joint ventures in which we have an interest controlled 43 land parcels as for-rent apartment projects containing approximately 14,450 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 or developed (or we expect will be developed) with partners under the brand names Toll Brothers Apartment Living, Toll Brothers Campus Living and Toll Brothers Realty Trust.

At October 31, 2017, we had approximately 3,200 units in for-rent apartment projects that were occupied or ready for occupancy, 750 units in the lease-up stage, 2,000 units under active development, and 8,500 units in the planning stage. Of the 14,450 units at October 31, 2017, 5,200 were owned by joint ventures in which we have an interest; approximately 2,550 were owned by us, as we look for joint venture partners; 6,500 were under contract to be purchased by us; and 200 were under a letter of intent.

Gibraltar Joint Ventures

Over the past two years, we, through Gibraltar, entered into three 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, 2017, we had an investment of $8.5 million in these ventures.

In addition, in 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, 2017, we have a $4.0 million investment in this venture and are committed to invest an additional $9.6 million, if necessary.

Regulation and Environmental Matters

We are subject to various local, state, and federal statutes, ordinances, rules, and regulations concerning zoning, building design, construction, and similar matters, including local regulations that impose restrictive zoning and density requirements. In a number of our markets, there has been an increase in state and local legislation authorizing the acquisition of land as dedicated open space, mainly by governmental, quasi-public, and nonprofit entities. In addition, we are subject to various licensing, registration, and filing requirements in connection with the construction, advertisement, and sale of homes in our communities. The impact of these laws and requirements has been to increase our overall costs, and they may have delayed, and in the future may delay, the opening of communities, or may have caused, and in the future may cause, us to conclude that development of particular communities would not be economically feasible, even if any or all necessary governmental approvals were obtained. See “Land Policy” in this Item 1. We also may be subject to periodic delays or may be precluded entirely from developing communities due to building moratoriums in one or more of the areas in which we operate. Generally, such moratoriums often relate to insufficient water or sewage facilities or inadequate road capacity.

In order to secure certain approvals in some areas, we may be required to provide affordable housing at below market rental or sales prices. The impact of these requirements on us depends on how the various state and local governments in the areas in which we engage, or intend to engage, in development implement their programs for affordable housing. To date, these restrictions have not had a material impact on us.

We also are subject to a variety of local, state, and federal statutes, ordinances, rules, and regulations concerning protection of public health and the environment ("environmental laws"). The particular environmental laws that apply to any given community vary according to the location and environmental condition of the site and the present and former uses of the site. Complying with these environmental laws may result in delays, may cause us to incur substantial compliance and other costs, and/or may prohibit or severely restrict development in certain environmentally sensitive regions or areas.

Before consummating an acquisition, we generally engage independent environmental consultants to evaluate land for the potential of hazardous or toxic materials, wastes, or substances, and because of this, we have not been significantly affected to date by the presence of such materials on our land.

Our mortgage subsidiary is subject to various state and federal statutes, rules, and regulations, including those that relate to licensing, lending operations, and other areas of mortgage origination and financing. The impact of those statutes, rules, and regulations can be to increase our home buyers' cost of financing, increase our cost of doing business, and restrict our home buyers' access to some types of loans.

Insurance/Warranty

All of our homes are sold under our limited warranty as to workmanship and mechanical equipment. Many homes also come with a limited multi-year warranty as to structural integrity.

We maintain insurance, subject to deductibles and self-insured amounts, to protect us against various risks associated with our activities, including, among others, general liability, "all-risk" property, construction defects, workers' compensation, automobile, and employee fidelity. We accrue for our expected costs associated with the deductibles and self-insured amounts.

Employees

At October 31, 2017, we employed approximately 4,500 persons full-time. At October 31, 2017, we were subject to one collective bargaining agreement that covered less than 2% of our employees. We believe our employee relations are good.

Available Information

We file annual, quarterly and current reports, proxy statements, and other information with the Securities and Exchange Commission (the "SEC"). These filings are available over the internet at the SEC's website at http://www.sec.gov. All of the documents we file with the SEC may also be read and copied at the SEC's public reference room located at 100 F Street, NE, Washington, DC 20549. Please call the SEC at 1-800-SEC-0330 for further information on the public reference room.

Our principal Internet address is www.TollBrothers.com. We make our annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, and any amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934 available through our website, free of charge, as soon as reasonably practicable after we electronically file such material with, or furnish it to, the SEC.

We provide information about our business and financial performance, including our corporate profile, on our Investor Relations website. Additionally, we webcast our earnings calls and certain events we participate in with members of the investment community on our Investor Relations website. Further corporate governance information, including our code of ethics, code of business conduct, corporate governance guidelines, and board committee charters, is also available on our Investor Relations website. The content of our websites is not incorporated by reference into this Annual Report on Form 10-K or in any other report or document we file with the SEC, and any references to our websites are intended to be inactive textual references only.

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. One 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, "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; home warranty and construction defect claims; 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, investigations, 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.

For a discussion of factors that we believe could cause our actual results to differ materially from expected and historical results, see "Item 1A – Risk Factors" below. This discussion is provided as permitted by the Private Securities Litigation Reform Act of 1995, and all of our forward-looking statements are expressly qualified in their entirety by the cautionary statements contained or referenced in this section.

EXECUTIVE OFFICERS OF THE REGISTRANT

Information about our executive officers is incorporated by reference from Part III, Item 10 of this Form 10-K.

ITEM 1A. RISK FACTORS

We are subject to demand fluctuations in the housing industry. Any reduction in demand would adversely affect our business, results of operations, and financial condition.

Demand for our homes is subject to fluctuations, often due to factors outside of our control. In a housing market downturn, our sales and results of operations will be adversely affected; we may have significant inventory impairments and other write-offs; our gross margins may decline significantly from historical levels; and we may incur substantial losses from operations. We cannot predict the continuation of the current housing recovery, nor can we provide assurance that should the recovery not continue, our response will be successful.

Adverse changes in economic conditions in markets where we conduct our operations and where prospective purchasers of our homes live could reduce the demand for homes and, as a result, could adversely affect our business, results of operations, and financial condition.

Adverse changes in economic conditions in markets where we conduct our operations and where prospective purchasers of our homes live have had and may in the future have a negative impact on our business. Adverse changes in employment levels, job growth, consumer confidence, interest rates, and population growth, or an oversupply of homes for sale may reduce demand and depress prices for our homes and cause home buyers to cancel their agreements to purchase our homes. This, in turn, could adversely affect our results of operations and financial condition.

A significant portion of our revenues and income from operations are generated from California in our Traditional Home Building segment.

A significant portion of our Traditional Home Building revenues and income from operations are concentrated in California. Factors beyond our control could have a material adverse effect on our revenues and/or income from operations generated in California. These factors include, but are not limited to: changes in the regulatory and fiscal environment; prolonged economic downturns; high levels of foreclosures; lack of affordability; a decline in foreign buyer demand; severe weather including drought and the risk of local governments imposing building moratoriums; natural disasters such as earthquakes and fires; environmental incidents; and declining population and/or growth rates and the related reduction in housing demand in these regions. If home sale activity or selling prices decline in California, our costs may not decline at all or at the same rate and, as a result, our consolidated financial results may be adversely affected.

In the construction of a high-rise building, whether a for-sale or a for-rent property, we incur significant costs before we can begin construction, sell and deliver the units to our customers, or commence the collection of rent and recover our costs. We may be subject to delays in construction that could lead to higher costs which could adversely affect our operating results. Changing market conditions during the construction period could negatively impact selling prices and rents, which could adversely affect our operating results.

Before a high-rise building generates any revenues, we make significant expenditures to acquire land; to obtain permits, development approvals, and entitlements; and to construct the building. It generally takes several years for us to acquire the land and construct, market, and deliver units or lease units in a high-rise building. Completion times vary on a building-by-building basis depending on the complexity of the project, its stage of development when acquired, and the regulatory and community issues involved. As a result of these potential delays in the completion of a building, we face the risk that demand for housing may decline during the period and we may be forced to sell or lease units at a loss or for prices that generate lower profit margins than we initially anticipated. Furthermore, if construction is delayed, we may face increased costs as a result of inflation or other causes and/or asset carrying costs (including interest on funds used to acquire land and construct the building). These costs can be significant and can adversely affect our operating results. In addition, if values of the building or units decline, we may also be required to recognize material write-downs of the book value of the building in accordance with U.S. generally accepted accounting principles.

Increases in cancellations of existing agreements of sale could have an adverse effect on our business.

Our backlog reflects agreements of sale with our home buyers for homes that have not yet been delivered. We have received a deposit from our home buyer for each home reflected in our backlog, and generally we have the right to retain the deposit if the home buyer does not complete the purchase. In some cases, however, a home buyer may cancel the agreement of sale and receive a complete or partial refund of the deposit for reasons such as state and local law, the home buyer's inability to obtain mortgage financing, his or her inability to sell his or her current home, or our inability to complete and deliver the home within the specified time. At October 31, 2017, we had 5,851 homes with a sales value of $5.06 billion in backlog. If economic conditions decline, if mortgage financing becomes less available, or if our homes become less attractive due to conditions at or in the vicinity of our communities, we could experience an increase in home buyers canceling their agreements of sale with us, which could have an adverse effect on our business and results of operations.

The home building industry is highly competitive, and, if other home builders are more successful or offer better value to our customers, our business could decline.

We operate in a very competitive environment, in which we face competition from a number of other home builders in each market in which we operate. We compete with large national and regional home building companies and with smaller local home builders for land, financing, raw materials, and skilled management and labor resources. We also compete with the resale home market, also referred to as the "previously owned or existing" home market. An oversupply of homes available for sale or the heavy discounting of home prices by some of our competitors could adversely affect demand for our homes and the results of our operations. An increase in competitive conditions can have any of the following impacts on us: delivery of fewer homes; sale of fewer homes or higher cancellations by our home buyers; an increase in selling incentives and/or reduction of prices; and realization of lower gross margins due

to lower selling prices or an inability to increase selling prices to offset increased costs of the homes delivered. If we are unable to compete effectively in our markets, our business could decline disproportionately to that of our competitors.
If we are not able to obtain suitable financing, or if the interest rates on our debt are increased, or if our credit ratings are lowered, our business and results of operations may decline.
Our business and results of operations depend substantially on our ability to obtain financing, whether from bank borrowings or from financing in the public debt markets. Our revolving credit facility matures in May 2021, our $500.0 million term loan

matures in August 2021, and $2.47 billion of our senior notes become due and payable at various times from December 2018 through March 2027. We cannot be certain that we will be able to continue to replace existing financing or find additional sources of financing in the future on favorable terms or at all.

If we are not able to obtain suitable financing at reasonable terms or replace existing debt and credit facilities when they become due or expire, our costs for borrowings will likely increase and our revenues may decrease or we could be precluded from continuing our operations at current levels.

Increases in interest rates can make it more difficult and/or expensive for us to obtain the funds we need to operate our business. The amount of interest we incur on our revolving bank credit facility and term loan fluctuates based on changes in short-term interest rates and the amount of borrowings we incur. Increases in interest rates generally and/or any downgrade in the ratings that national rating agencies assign to our outstanding debt securities could increase the interest rates we must pay on any subsequent issuances of debt securities, and any such ratings downgrade could also make it more difficult for us to sell such debt securities.

If we cannot obtain letters of credit and surety bonds, our ability to operate may be restricted.

We use letters of credit and surety bonds to secure our performance under various construction and land development agreements, escrow agreements, financial guarantees, and other arrangements. Should banks decline to issue letters of credit or surety companies decline to issue surety bonds, our ability to operate could be significantly restricted and could have an adverse effect on our business and results of operations.

If home buyers are not able to obtain suitable financing, our results of operations may decline.

Our results of operations also depend on the ability of our potential home buyers to obtain mortgages for the purchase of our homes. Any uncertainty in the mortgage markets and its impact on the overall mortgage market, including the tightening of credit standards, future increases in the effective cost of home mortgage financing (including as a result of changes to federal tax law), and increased government regulation, could adversely affect the ability of our customers to obtain financing for a home purchase, thus preventing our potential home buyers from purchasing our homes. In addition, where our potential home buyers must sell their existing homes in order to buy a home from us, increases in mortgage costs and/or lack of availability of mortgages could prevent the buyers of our potential home buyers’ existing homes from obtaining the mortgages they need to complete their purchases, which would result in our potential home buyers’ inability to buy a home from us. Similar risks apply to those buyers whose contracts are in our backlog of homes to be delivered. If our home buyers, potential buyers, or buyers of our home buyers’ current homes cannot obtain suitable financing, our sales and results of operations could be adversely affected.

If our ability to resell mortgages to investors is impaired, our home buyers may be required to find alternative financing.

Generally, when our mortgage subsidiary closes a mortgage for a home buyer at a previously locked-in rate, it already has an agreement in place with an investor to acquire the mortgage following the closing. Should the resale market for our mortgages decline or the underwriting standards of our investors become more stringent, our ability to sell future mortgages could be adversely affected and either we would have to commit our own funds to long-term investments in mortgage loans, which could, among other things, delay the time when we recognize revenues from home sales on our statements of operations, or our home buyers would be required to find an alternative source of financing. If our home buyers cannot obtain another source of financing in order to purchase our homes, our sales and results of operations could be adversely affected.

If land is not available at reasonable prices, our sales and results of operations could decrease.

In the long term, our operations depend on our ability to obtain land at reasonable prices for the development of our residential communities. At October 31, 2017, we had approximately 48,300 home sites that we owned or controlled through options. In the future, changes in the general availability of land, competition for available land, availability of financing to acquire land, zoning regulations that limit housing density, and other market conditions may hurt our ability to obtain land for new residential communities at prices that will allow us to make a reasonable profit. If the supply of land appropriate for development of our residential communities becomes more limited because of these factors or for any other reason, the cost of land could increase and/or the number of homes that we are able to sell and build could be reduced.

If the market value of our land and homes declines, our results of operations will likely decrease.

The market value of our land and housing inventories depends on market conditions. We acquire land for expansion into new markets and for replacement of land inventory and expansion within our current markets. If housing demand decreases below what we anticipated when we acquired our inventory, we may not be able to make profits similar to what we have made in the past, may experience less than anticipated profits, and/or may not be able to recover our costs when we sell and build homes.

Due to the significant decline in our business during the 2006–2011 downturn in the housing industry, we recognized significant write-downs of our inventory.

We rely on subcontractors to construct our homes and on building supply companies to supply components for the construction of our homes. The failure of our subcontractors to properly construct our homes or defects in the components we obtain from building supply companies could have an adverse effect on us.

We engage subcontractors to perform the actual construction of our homes and purchase components used in the construction of our homes from building supply companies. Despite our quality control efforts, we may discover that our subcontractors were engaging in improper construction practices or that the components purchased from building supply companies are not performing as specified. The occurrence of such events could require us to repair the homes in accordance with our standards and as required by law. The cost of satisfying our legal obligations in these instances may be significant, and we may be unable to recover the cost of repair from subcontractors, suppliers and insurers. For example, we have incurred or expect to incur significant costs to repair homes built in Pennsylvania and Delaware. See Note 7 – "Accrued Expenses" in Item 15(a)1 of this Form 10-K for additional information regarding warranty charges.

We participate in certain joint ventures where we may be adversely impacted by the failure of the joint venture or its participants to fulfill their obligations.

We have investments in and commitments to certain joint ventures with unrelated parties. These joint ventures may borrow money to help finance their activities. In certain circumstances, the joint venture participants, including ourselves, are required to provide guarantees of certain obligations relating to the joint ventures. In most of these joint ventures, we do not have a controlling interest and, as a result, are not able to require these joint ventures or their participants to honor their obligations or renegotiate them on acceptable terms. If the joint ventures or their participants do not honor their obligations, we may be required to expend additional resources or suffer losses, which could be significant.

Government regulations and legal challenges may delay the start or completion of our communities, increase our expenses, or limit our home building activities, which could have a negative impact on our operations.

We must obtain the approval of numerous governmental authorities in connection with our development activities, and these governmental authorities often have broad discretion in exercising their approval authority. We incur substantial costs related to compliance with legal and regulatory requirements. Any increase in legal and regulatory requirements may cause us to incur substantial additional costs or, in some cases, cause us to determine that the property is not feasible for development.

Various local, state, and federal statutes, ordinances, rules, and regulations concerning building, zoning, sales, and similar matters apply to and/or affect the housing industry. Governmental regulation affects construction activities as well as sales activities, mortgage lending activities, and other dealings with home buyers. The industry also has experienced an increase in state and local legislation and regulations that limit the availability or use of land. Municipalities may also restrict or place moratoriums on the availability of utilities, such as water and sewer taps. In some areas, municipalities may enact growth control initiatives, which will restrict the number of building permits available in a given year. In addition, we may be required to apply for additional approvals or modify our existing approvals because of changes in local circumstances or applicable law. If municipalities in which we operate take actions like these, it could have an adverse effect on our business by causing delays, increasing our costs, or limiting our ability to operate in those municipalities. Further, we may experience delays and increased expenses as a result of legal challenges to our proposed communities, whether brought by governmental authorities or private parties.

Our mortgage subsidiary is subject to various state and federal statutes, rules, and regulations, including those that relate to licensing, lending operations, and other areas of mortgage origination and financing. The impact of those statutes, rules, and regulations can increase our home buyers' cost of financing, increase our cost of doing business, and restrict our home buyers' access to some types of loans.

Increases in taxes or government fees could increase our costs, and adverse changes in tax laws could reduce demand for our homes.

Increases in real estate taxes and other local government fees, such as fees imposed on developers to fund schools, open space, and road improvements, and/or provide low- and moderate-income housing, could increase our costs and have an adverse effect on our operations. In addition, increases in local real estate taxes could adversely affect our potential home buyers, who may consider those costs in determining whether to make a new home purchase and decide, as a result, not to purchase one of our homes. In addition, any changes in the income tax laws that would reduce or eliminate tax deductions or incentives to homeowners, such as a change limiting the deductibility of real estate taxes or interest on home mortgages, could make housing less affordable or otherwise reduce the demand for housing, which in turn could reduce our sales and hurt our results of operations. In December 2017, Congress passed a federal tax reform bill. If signed into law by the President, this bill would (i) limit the federal deduction for mortgage interest so that it only applies to the first $750,000 of a new mortgage (as compared to $1 million under previous tax law) and (ii) introduce a $10,000 cap on the federal deduction for state and local taxes. These tax changes, if enacted, may raise the overall cost of home ownership in certain of our communities, and may have the effect of reducing demand for those homes.

Adverse weather conditions, natural disasters, and other conditions could disrupt the development of our communities, which could harm our sales and results of operations.

Adverse weather conditions and natural disasters, such as hurricanes, tornadoes, earthquakes, floods, droughts, and fires, can have serious effects on our ability to develop our residential communities. We also may be affected by unforeseen engineering, environmental, or geological conditions or problems, including conditions or problems which arise on lands of third parties in the vicinity of our communities, but nevertheless negatively impact our communities. Any of these adverse events or circumstances could cause delays in or prevent the completion of, or increase the cost of, developing one or more of our residential communities and, as a result, could harm our sales and results of operations.

If we experience shortages or increased costs of labor and supplies or other circumstances beyond our control, there could be delays or increased costs in developing our communities, which could adversely affect our operating results.

Our ability to develop residential communities may be adversely affected by circumstances beyond our control, including work stoppages, labor disputes, and shortages of qualified trades people, such as carpenters, roofers, masons, electricians, and plumbers; changes in laws relating to union organizing activity; lack of availability of adequate utility infrastructure and services; our need to rely on local subcontractors who may not be adequately capitalized or insured; and shortages, delays in availability, or fluctuations in prices of building materials. Any of these circumstances could give rise to delays in the start or completion of, or could increase the cost of, developing one or more of our residential communities. We may not be able to recover these increased costs by raising our home prices because the price for each home is typically set months prior to its delivery pursuant to the agreement of sale with the home buyer. If that happens, our operating results could be harmed.

We are subject to one collective bargaining agreement that covers less than 2% of our employees. We have not experienced any work stoppages due to strikes by unionized workers, but we cannot make assurances that there will not be any work stoppages due to strikes or other job actions in the future. We use independent contractors, many of whom are nonunionized, to construct our homes. At any given point in time, those subcontractors, who are not yet represented by a union, may be unionized.

Product liability claims and litigation and warranty claims that arise in the ordinary course of business may be costly, which could adversely affect our business.

As a home builder, we are subject to construction defect and home warranty claims arising in the ordinary course of business. These claims are common in the home building industry and can be costly. In addition, the costs of insuring against construction defect and product liability claims are high, and the amount of coverage offered by insurance companies is currently limited. There can be no assurance that this coverage will not be further restricted and become more costly. If the limits or coverages of our current and former insurance programs prove inadequate, or we are not able to obtain adequate, or reasonably priced, insurance against these types of claims in the future, or the amounts currently provided for future warranty or insurance claims are inadequate, we may experience losses that could negatively impact our financial results.

We record expenses and liabilities based on the estimated costs required to cover our self-insured liability under our insurance policies and 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. 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.

Over the past several years, we have had a significant number of water intrusion claims related to homes we built in Pennsylvania and Delaware. See Note 7 – "Accrued Expenses" in Item 15(a)1 of this Form 10-K for additional information regarding these warranty charges.

Our cash flows and results of operations could be adversely affected if legal claims are brought against us and are not resolved in our favor.

Claims have been brought against us in various legal proceedings that have not had, and are not expected to have, a material adverse effect on our business or financial condition. Should such claims be resolved in an unfavorable manner or should additional claims be filed in the future, it is possible that our cash flows and results of operations could be adversely affected.

We could be adversely impacted by the loss of key management personnel or if we fail to attract qualified personnel.

Our future success depends, to a significant degree, on the efforts of our senior management and our ability to attract qualified personnel. Our operations could be adversely affected if key members of our senior management leave our employ or we cannot attract qualified personnel to manage the expected growth in our business.

Changes in tax laws or the interpretation of tax laws may negatively affect our operating results.

We believe that our recorded tax balances are adequate; however, it is not possible to predict the effects of possible changes in the tax laws or changes in their interpretation and whether they could have a material adverse impact on our operating results. We have filed our tax returns in prior years based upon certain filing positions we believe are appropriate. If the Internal Revenue Service or state taxing authorities disagree with these filing positions, we may owe additional taxes. In December 2017, Congress passed a federal tax reform bill. If signed into law by the President, this bill includes changes that we believe will significantly decrease our effective tax rate. For more information regarding tax reform, see “Management’s Discussion and Analysis of Financial Condition and Results of Operations – Overview –Tax Reform” in Item 7 of this Form 10-K.

Our high-rise business is subject to swings in delivery volume due to the extended construction time, levels of pre-sales, and quick delivery of units once the building is complete.

Our quarterly operating results will fluctuate depending on the timing of completion of construction of our high-rise building, levels of pre-sales and the relatively short delivery time of the pre-sold units once the building is completed. Depending on the number of high-rise buildings that are completed in a quarter, our quarterly operating results may be uneven and may be marked by lower revenues and earnings in some quarters than in others.

Our quarterly operating results may fluctuate due to the seasonal nature of our business.

Our quarterly operating results fluctuate with the seasons; normally, a significant portion of our agreements of sale are entered into with customers in the winter and spring months. Construction of one of our traditional homes typically proceeds after signing the agreement of sale with our customer and can require seven months or more to complete. Weather-related problems may occur from time to time, delaying starts or closings or increasing costs and reducing profitability. In addition, delays in opening new communities or new sections of existing communities could have an adverse impact on home sales and revenues. Expenses are not incurred and recognized evenly throughout the year. Because of these factors, our quarterly operating results may be uneven and may be marked by lower revenues and earnings in some quarters than in others.

Future terrorist attacks against the United States or increased domestic or international instability could have an adverse effect on our operations.

Future terrorist attacks against the United States or any foreign country or increased domestic or international instability could significantly reduce the number of new contracts signed, increase the number of cancellations of existing contracts, and/or increase our operating expenses, which could adversely affect our business.

Information technology failures and data security breaches could harm our business.

As part of our normal business activities, we use information technology and other computer resources to carry out important operational activities and to maintain our business records. Our computer systems, including our backup systems, are subject to interruption or damage from power outages, computer and telecommunications failures, computer viruses, security breaches (including through cyber-attack and data theft), usage errors, and catastrophic events, such as fires, floods, tornadoes, and hurricanes. If our computer systems and our backup systems are compromised, degraded, damaged, or breached, or otherwise cease to function properly, we could suffer interruptions in our operations or unintentionally allow misappropriation of proprietary or confidential information (including information about our home buyers and business partners), which could damage our reputation and require us to incur significant costs to remediate or otherwise resolve these issues.

Our acquisition of Shapell Industries, Inc. may expose us to unknown liabilities.

As part of the acquisition of Shapell Industries, Inc. (“Shapell”) in February 2014, we acquired all the outstanding equity interests of Shapell and, as a result, we will generally be subject to all of its liabilities, other than certain excluded liabilities as set forth in the purchase agreement. If previously unknown liabilities or other obligations of Shapell emerge in the future including contingent liabilities, our business could be materially affected. We may learn additional information about Shapell that adversely affects us, such as unknown liabilities, including liabilities under environmental laws, issues that could affect our ability to comply with the Sarbanes-Oxley Act, or issues that could affect our ability to comply with other applicable laws.

ITEM 1B. UNRESOLVED STAFF COMMENTS

None.

ITEM 2. PROPERTIES

Headquarters

Our corporate office, which we lease from an unrelated party, contains approximately 200,000 square feet and is located in Horsham, Pennsylvania.

Manufacturing/Distribution Facilities

We own a manufacturing facility of approximately 225,000 square feet located in Morrisville, Pennsylvania; manufacturing facilities totaling approximately 150,000 square feet located in Emporia, Virginia; and a manufacturing facility of approximately 134,000 square feet located in Knox, Indiana. We lease, from an unrelated party, a facility of approximately 56,000 square feet located in Fairless Hills, Pennsylvania. In addition, we own a 34,000-square foot manufacturing, warehouse, and office facility in Culpepper, Virginia. At these facilities, we manufacture open wall panels, roof and floor trusses, and certain interior and exterior millwork to supply a portion of our construction needs. These facilities supply components used in our North, Mid-Atlantic, and portions of our South geographic segments. These operations also permit us to purchase wholesale lumber, sheathing, windows, doors, certain other interior and exterior millwork, and other building materials to supply to our communities. We believe that increased efficiencies, cost savings, and productivity result from the operation of these plants and from the wholesale purchase of materials.

Office and Other Facilities

We own or lease from unrelated parties office and warehouse space and golf course facilities in various locations, none of which are material to our business.

ITEM 3. 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 and 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.

In April 2017, the SEC informed the Company that it was conducting an investigation and requested that we voluntarily produce documents and information relating to our estimated repair costs for stucco and other water intrusion claims in fiscal 2016. The Company has produced detailed information and documents in response to this request. Management cannot at this time predict the eventual scope or outcome of this matter. See Note 7 – “Accrued Expenses” in Item 15(a)1 of this Form 10-K for additional information regarding these warranty charges.

ITEM 4. MINE SAFETY DISCLOSURES

Not applicable.

PART II

ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

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
2017				
High	$46.04	$40.95	$37.09	$32.98
Low	$37.00	$36.03	$31.17	$27.06
2016				
High	$32.25	$29.96	$30.17	$38.15
Low	$27.00	$25.30	$23.75	$26.57

The closing price of our common stock on the NYSE on the last trading day of our fiscal years ended October 31, 2017, 2016, and 2015 was $46.04, $27.44, and $35.97, respectively. At December 15, 2017, there were approximately 610 record holders of our common stock.

Issuer Purchases of Equity Securities

During the three months ended October 31, 2017, we repurchased the following shares of our common stock:

Period	Total number of shares purchased (a)	Average price paid per share	Total number of shares purchased as part of a publicly announced plan or program (b)	Maximum number of shares that may yet be purchased under the plan or program (b)
	(in thousands)		(in thousands)	(in thousands)
August 1 to August 31, 2017	2,931	$ 38.12	2,931	10,416
September 1 to September 30, 2017	2,269	$ 38.95	2,269	8,147
October 1 to October 31, 2017	2	$ 42.35	2	8,145
Total	5,202	$ 38.48	5,202	

(a) Our stock incentive plans permit us to withhold from the total number of shares that otherwise would be issued to a performance based restricted stock unit recipient or 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 recipient. During the three months ended October 31, 2017, we withheld 539 of the shares subject to performance based restricted stock units and restricted stock units to cover approximately $24,000 of income tax withholdings and we issued the remaining 1,078 shares to the recipients. The shares withheld are not included in the total number of shares purchased in the table above.

Our stock incentive plans also permit participants to exercise non-qualified stock options using a "net exercise" method. In a net exercise, we generally withhold from the total number of shares that otherwise would be issued to the participant upon exercise of the stock option that number of shares having a fair market value at the time of exercise equal to the option exercise price and applicable income tax withholdings, and remit the remaining shares to the participant. During the three-month period ended October 31, 2017, no participant employed the net exercise method to exercise options.

(b) On May 23, 2016, our Board of Directors authorized 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. Our Board of Directors terminated, effective December 13, 2017, our May 2016 share repurchase program and authorized a new repurchase program described below.

Effective December 13, 2017, our Board of Directors authorized 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.

Subsequent to October 31, 2017, we repurchased approximately 4.2 million shares of our common stock at an average price of $47.47 per share, of which approximately 1.1 million shares were purchased under the repurchase program authorized by our Board of Directors on December 13, 2017.

Except as set forth above, we did not repurchase any of our equity securities during the three-month period ended October 31, 2017.

Dividends

In February 2017, our Board of Directors approved the initiation of quarterly cash dividends to shareholders. During fiscal 2017, we paid a quarterly cash dividend of $0.08 per share on each April 28, 2017, July 28, 2017, and October 27, 2017. Subsequent to October 31, 2017, we declared a quarterly cash dividend of $0.08 which will be paid on January 26, 2018 to shareholders of record on the close of business on January 12, 2018. 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, 2017, under the most restrictive provisions of our bank credit agreement, we could have paid up to approximately $1.86 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, 2012, and that dividends, if any, were reinvested) from October 31, 2012 to October 31, 2017, 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:	2012	2013	2014	2015	2016	2017
Toll Brothers, Inc.	100.00	99.61	96.79	108.79	83.13	140.32
S&P 500®	100.00	127.18	149.14	156.89	163.97	202.72
S&P Homebuilding	100.00	96.32	113.09	130.92	123.52	184.95

ITEM 6. SELECTED FINANCIAL DATA

The following tables set forth selected consolidated financial and housing data at and for each of the five fiscal years in the period ended October 31, 2017. They should be read in conjunction with the Consolidated Financial Statements and Notes thereto listed in Item 15(a)1 of this Form 10-K beginning at page F-1 and Management's Discussion and Analysis of Financial Condition and Results of Operations included in Item 7 of this Form 10-K.

Summary Consolidated Statements of Operations and Balance Sheets (amounts in thousands, except per share data):

Year ended October 31:	2017	2016	2015	2014	2013
Revenues	$5,815,058	$5,169,508	$4,171,248	$3,911,602	$2,674,299
Income before income taxes	$814,311	$589,027	$535,562	$504,582	$267,697
Net income	$535,495	$382,095	$363,167	$340,032	$170,606
Earnings per share:					
Basic	$3.30	$2.27	$2.06	$1.91	$1.01
Diluted	$3.17	$2.18	$1.97	$1.84	$0.97
Weighted average number of shares outstanding:					
Basic	162,222	168,261	176,425	177,578	169,288
Diluted	169,487	175,973	184,703	185,875	177,963
Cash dividends declared per share	$0.24	$—	$—	$—	$—

At October 31:	2017	2016	2015	2014	2013
Cash, cash equivalents, and marketable securities	$712,829	$633,715	$928,994	$598,341	$825,480
Inventory	$7,281,453	$7,353,967	$6,997,516	$6,490,321	$4,650,412
Total assets	$9,445,225	$9,736,789	$9,206,515	$8,398,457	$6,811,782
Debt:					
Loans payable	$637,416	$871,079	$1,000,439	$652,619	$107,222
Senior debt	2,462,463	2,694,372	2,689,801	2,638,241	2,305,765
Mortgage company loan facility	120,145	210,000	100,000	90,281	75,000
Total debt	$3,220,024	$3,775,451	$3,790,240	$3,381,141	$2,487,987
Equity	$4,537,090	$4,235,202	$4,228,079	$3,860,697	$3,339,164

Housing Data

Year ended October 31:	2017	2016	2015	2014	2013
Closings:					
Number of homes	7,151	6,098	5,525	5,397	4,184
Value (in thousands)	$5,815,058	$5,169,508	$4,171,248	$3,911,602	$2,674,299
Net contracts signed:					
Number of homes	8,175	6,719	5,910	5,271	5,294
Value (in thousands)	$6,828,277	$5,649,570	$4,955,579	$3,896,490	$3,633,908

At October 31:	2017	2016	2015	2014	2013
Backlog:					
Number of homes	5,851	4,685	4,064	3,679	3,679
Value (in thousands)	$5,061,517	$3,984,065	$3,504,004	$2,719,673	$2,629,466
Number of selling communities	305	310	288	263	232
Home sites:					
Owned	31,341	34,137	35,872	36,243	33,967
Controlled	16,970	14,700	8,381	10,924	14,661
Total	48,311	48,837	44,253	47,167	48,628

ITEM 7. 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 in Item 15(a)1 of this Form 10-K, beginning at page F-1. It also should be read in conjunction with the disclosure under "Forward-Looking Statements" in Part I of this Form 10-K.

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, 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, 2017, we were operating in 20 states. In the five years ended October 31, 2017, we delivered 28,355 homes from 676 communities, including 7,151 homes from 407 communities in fiscal 2017.

In November 2016, we acquired substantially all of the assets and operations of Coleman Real Estate Holdings, LLC ("Coleman"). See "Acquisition" 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 and land banking for residential builders and developers for the acquisition and development of land and home sites ("Gibraltar Joint Ventures").

Financial Highlights

In fiscal 2017, we recognized $5.82 billion of revenues and net income of $535.5 million, as compared to $5.17 billion of revenues and net income of $382.1 million in fiscal 2016.

In fiscal 2017 and 2016, the value of net contracts signed was $6.83 billion (8,175 homes) and $5.65 billion (6,719 homes), respectively. The value of our backlog at October 31, 2017 was $5.06 billion (5,851 homes), as compared to our backlog at October 31, 2016 of $3.98 billion (4,685 homes).

At October 31, 2017, we had $712.8 million of cash and cash equivalents on hand and approximately $1.15 billion available for borrowing under our $1.295 billion revolving credit facility (the "Credit Facility") that matures in May 2021. At October 31, 2017, we had no outstanding borrowings under the Credit Facility and had outstanding letters of credit of approximately $140.1 million.

In February 2017, our Board of Directors approved the initiation of quarterly cash dividends to shareholders. During fiscal 2017, we paid a quarterly cash dividend of $0.08 per share on each of April 28, 2017, July 28, 2017 and October 27, 2017. In

December 2016, we declared a quarterly cash dividend of $0.08 which will be paid on January 26, 2018 to shareholders of record on the close of business on January 12, 2018.

At October 31, 2017, our total equity and our debt to total capitalization ratio were $4.54 billion and 0.42 to 1:00, respectively.

Acquisition

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 $83.1 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.

Our Business Environment and Current Outlook

The current housing market continues to strengthen and grow. We believe that solid and improving demand for homes, low interest rates, the limited supply of resale and new homes, and the financial strength of the affluent buyers that we target are driving our growth. Our buyers are further benefiting from a solid employment picture, strong consumer confidence, a robust stock market, and increasing equity in their existing homes. In fiscal 2017, the value and number of signed contracts increased 20.9% and 21.7%, respectively, as compared to fiscal 2016; and increased 37.8% and 38.3%, respectively, as compared to fiscal 2015.

In fiscal 2017, we signed 8,175 contracts with an aggregate value of $6.83 billion, compared to 6,719 contracts with an aggregate value of $5.65 billion in fiscal 2016, and 5,910 contracts with an aggregate value of $4.96 billion in fiscal 2015. 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.

We believe we are also benefiting from the appeal and national recognition of our brand and a lack of large scale competition in the affordable end of the luxury new home market. Our home designs and our customization program differentiate us within our segment of the luxury home market. The breadth of products we offer enables us to appeal to a wide range of demographic groups, including affluent move-up, empty-nester and millennial buyers, which we believe is also fueling demand for our homes. We continue to believe that many of our communities are in desirable locations that are difficult to replace and that many of these communities have substantial embedded value that may be realized in the future as the housing recovery strengthens.

The supply of new and existing homes continues to trail the growth in population and households. We believe that in certain markets, the new home market continues to have significant pent-up demand. We are producing strong results even with industry-wide home production levels still well below historical norms. 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. We expect that this increase in demand will drive production of new homes to address the existing deficit in housing supply compared to projected household growth.

According to the U.S. Census Bureau ("Census Bureau"), the number of households earning $100,000 or more (in constant 2016 dollars) at September 2017 stood at 35.0 million, or approximately 27.7% of all U.S. households. This group has grown at three times the rate of increase of all U.S. households since 1980. According to Harvard University's 2017 report, "The State of the Nation's Housing," demographic forces are likely to drive the addition of approximately 1.36 million new households per year from 2015 to 2025.

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 2017 New Residential Sales Report, new home inventory stands at a supply of just 5.0 months, based on current sales paces. If demand and pace increase significantly, the supply of 5.0 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 2016, total housing starts averaged approximately 0.85 million per year according to the Census Bureau. Additionally, the median age of housing stock in the United States has increased from 25 years to 39 years over the last three decades, thus expanding the market for replacement homes. 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.

Tax Reform

In December 2017, Congress passed a federal tax reform bill. If signed into law by the President, this bill will change many longstanding foreign and domestic corporate and individual tax rules, as well as rules pertaining to the taxation of employee compensation and benefits. The legislation includes significant changes impacting domestic corporate taxpayers. We are currently evaluating the impact such changes would have on our consolidated financial statements and disclosures but preliminarily believe, if signed, it will significantly decrease our effective tax rate.

Defective Floor Joists

In July 2017, one of our lumber suppliers publicly announced a floor joist recall. We believe that these floor joists were present in approximately 350 homes that had been built or were under construction in our North and West geographic segments. Of the approximately 350 affected homes, eight of them had already been delivered to home buyers at the time the joist recall was announced. After the joist recall was announced, 34 home buyers canceled their contracts and 17 home buyers transferred their contracts to another home site. At October 31, 2017, there were approximately 270 affected homes in backlog. The supplier has committed to us that it will absorb the costs associated with the remediation of the defective floor joists. This work has been completed in most of the affected homes. We expect to deliver the remaining homes in fiscal 2018. We do not believe the resolution of this issue will be material to our results of operations, liquidity, or our financial condition.

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 based on 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 2017 and 2016, we acquired control of approximately 6,600 home sites (net of options terminated and home sites sold) and, approximately 10,700 home sites (net of options terminated and home sites sold), respectively. At October 31, 2017, we controlled approximately 48,300 home sites, as compared to approximately 48,800 home sites at October 31, 2016, and approximately 44,300 home sites at October 31, 2015. In addition, at October 31, 2017, we expect to purchase approximately 3,100 additional home sites from several land development joint ventures in which we have an interest, at prices not yet determined.

Of the approximately 48,300 total home sites that we owned or controlled through options at October 31, 2017, we owned approximately 31,300 and controlled approximately 17,000 through options. Of the 48,300 home sites, approximately 17,200 were substantially improved.

In addition, at October 31, 2017, our Land Development Joint Ventures owned approximately 10,200 home sites (including 347 home sites included in the 17,000 controlled through options), and our Home Building Joint Ventures owned approximately 400 home sites.

At October 31, 2017, we were selling from 305 communities, compared to 310 communities at October 31, 2016, and 288 communities at October 31, 2015.

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, well-positioned 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, 2017, we or joint ventures in which we have an interest controlled 43 land parcels as for-rent apartment projects containing approximately 14,450 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.

At October 31, 2017, we had approximately 3,200 units in for-rent apartment projects that were occupied or ready for occupancy, 750 units in the lease-up stage, 2,000 units under active development, and 8,500 units in the planning stage. Of the 14,450 units at October 31, 2017, 5,200 were owned by joint ventures in which we have an interest; approximately 2,550 were owned by us; 6,500 were under contract to be purchased by us; and 200 were under a letter of intent.

CONTRACTS AND BACKLOG

The aggregate value of net sales contracts signed increased 20.9% in fiscal 2017, as compared to fiscal 2016, and 14.0% in fiscal 2016, as compared to fiscal 2015. The value of net sales contracts signed was $6.83 billion (8,175 homes) in fiscal 2017, $5.65 billion (6,719 homes) in fiscal 2016, and $4.96 billion (5,910 homes) in fiscal 2015. The increase in the aggregate value of net contracts signed in fiscal 2017, as compared to fiscal 2016, and fiscal 2016, as compared to fiscal 2015 was due to increases in the number of net contracts signed in each period. The increase in the number of net contracts signed in each period was primarily due to the continued recovery in the U.S. housing market.

The value of our backlog at October 31, 2017, 2016, and 2015 was $5.06 billion (5,851 homes), $3.98 billion (4,685 homes), and $3.50 billion (4,064 homes), respectively. Approximately 97% of the homes in backlog at October 31, 2017 are expected to be delivered by October 31, 2018. The 27.0% increase in the value of homes in backlog at October 31, 2017, as compared to October 31, 2016, was primarily due to a 20.9% increase in the value of net contracts signed in fiscal 2017, as compared to fiscal 2016, and a 13.7% higher backlog at the beginning of fiscal 2017, as compared to the beginning of fiscal 2016, offset, in part, by a 12.5% increase in the aggregate value of our deliveries in fiscal 2017, as compared to the aggregate value of deliveries in fiscal 2016.

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 a 28.8% 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.

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 may 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, 2017, 2016, and 2015, as shown in the table below (amounts in thousands):

	2017	2016	2015
Land controlled for future communities	$1,949	$3,142	$809
Land owned for future communities	3,050	2,300	12,600
Operating communities	9,795	8,365	22,300
	$14,794	$13,807	$35,709

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 2017:				
January 31	57	2	$ 8,372	$ 4,000
April 30	46	6	$ 25,092	2,935
July 31	53	4	$ 5,965	1,360
October 31	51	1	$ 6,982	1,500
				$ 9,795
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:				