TOLL BROTHERS INC
Form 10-Q
June 08, 2010

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

(Mark One)

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

For the quarterly period ended April 30, 2010

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)

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

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

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

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

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

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

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

At June 1, 2010, there were approximately 165,443,000 shares of Common Stock, $.01 par value, outstanding.

TOLL BROTHERS, INC. AND SUBSIDIARIES
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STATEMENT ON FORWARD-LOOKING INFORMATION

Certain information included in this report or in other materials we have filed or will file with the Securities and Exchange Commission (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. You can identify these statements by the fact that they do not relate to matters of strictly historical or factual nature and generally discuss or relate to estimates or other expectations regarding future events. They contain words such as anticipate, estimate, expect, project, intend, plan, believe, may, ca should and other words or phrases of similar meaning in connection with any discussion of future operating or financial performance. Such statements may include, but are not limited to, information related to: anticipated operating results; home deliveries; our 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; anticipated tax refunds; effects of home buyer cancellations; growth and expansion; joint ventures in which we are involved; anticipated income to be realized from our investments in unconsolidated entities; the ability to acquire land; the ability to gain approvals and to open new communities; the ability to sell homes and properties; the ability to deliver homes from backlog; the ability to secure materials and subcontractors; the ability to produce the liquidity and capital necessary to expand and take advantage of opportunities in the future; legal proceedings to which we are a party; potential exposure relating to construction defect, product liability and home warranty issues and the possible impact of any claims relating thereto; industry trends; and stock market valuations.

From time to time, forward-looking statements also are included in our Form 10-K and other periodic reports on Forms 10-Q and 8-K, in press releases, in presentations, on our web site 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. These include risks and uncertainties such as: local, regional, national and international economic conditions; demand for homes; domestic and international political events; uncertainties created by terrorist attacks; effects of governmental legislation and regulation; the competitive environment in which we operate; changes in consumer confidence; changes in interest rates; unemployment rates; changes in sales conditions, including home prices, in the markets where we build homes; the availability and cost of land for future growth; conditions that could result in inventory write-downs or write-downs associated with investments in unconsolidated entities; the ability to recover our deferred tax assets; the availability of capital; uncertainties in the capital and securities markets; liquidity in the credit markets; changes in tax laws and their interpretation; the outcome of various legal proceedings; the availability of adequate insurance at reasonable cost; the impact of construction defect, product liability and home warranty claims, including the adequacy of self-insurance accruals, the applicability and sufficiency of our insurance coverage; the ability of customers to obtain financing for the purchase of homes; the ability of home buyers to sell their existing homes; the ability of the participants in various joint ventures to honor their commitments; the availability and cost of labor and building and construction materials; the cost of raw materials; construction delays; and weather conditions.

The factors mentioned in this report or in other reports or public statements made by us 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. If one or more of the assumptions underlying our forward-looking statements proves incorrect, then our actual results, performance or achievements could differ materially from those expressed in, or implied by the forward-looking statements contained in this report. Therefore, we caution you not to place undue reliance on our forward-looking statements. This statement is provided as permitted by the Private Securities Litigation Reform Act of 1995.

Additional information concerning potential factors that we believe could cause our actual results to differ materially from expected and historical results is included in Item 1A Risk Factors of our Annual Report on Form 10-K for the fiscal year ended October 31, 2009.

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. Reference herein to fiscal 2010, fiscal 2009, and fiscal 2008 refer to our fiscal

year ending October 31, 2010, and our fiscal years ended October 31, 2009, and October 31, 2008, respectively. 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. However, any further disclosures made on related subjects in our subsequent reports on Forms 10-K, 10-Q and 8-K should be consulted. On May 26, 2010, we issued a press release and held a conference call to review the results of operations for the six-month and three-month periods ended April 30, 2010 and to discuss the current state of our business. The information contained in this report is the same information given in the press release and on the conference call on May 26, 2010, and we are not reconfirming or updating that information in this Form 10-Q.

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PART I FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

TOLL BROTHERS, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS
(Amounts in thousands)

	April 30, 2010 (unaudited)	October 31, 2009
ASSETS		
Cash and cash equivalents	$ 1,361,969	$ 1,807,718
Marketable U.S. Treasury securities	186,036	101,176
Inventory	3,320,995	3,183,566
Property, construction and office equipment, net	82,205	70,441
Receivables, prepaid expenses and other assets	91,190	95,774
Mortgage loans receivable	47,107	43,432
Customer deposits held in escrow	28,920	17,653
Investments in and advances to unconsolidated entities	170,463	152,844
Income tax refund recoverable	200,580	161,840
	$ 5,489,465	$ 5,634,444
LIABILITIES AND EQUITY		
Liabilities:		
Loans payable	$ 433,188	$ 472,854
Senior notes	1,588,616	1,587,648
Senior subordinated notes		47,872
Mortgage company warehouse loan	30,006	27,015
Customer deposits	93,485	88,625
Accounts payable	97,214	79,097
Accrued expenses	618,901	640,221
Income taxes payable	179,684	174,630
Total liabilities	3,041,094	3,117,962
Equity:		
Stockholders equity:		
Preferred stock, none issued		
Common stock, 165,428 and 164,732 shares issued at April 30, 2010 and October 31, 2009, respectively	1,654	1,647
Additional paid-in capital	329,662	316,518
Retained earnings	2,116,675	2,197,830
Treasury stock, at cost 2 and 7 shares at April 30, 2010 and October 31, 2009, respectively	(48)	(159)
Accumulated other comprehensive loss	(2,855)	(2,637)
Total stockholders equity	2,445,088	2,513,199

Noncontrolling interest	3,283	3,283
Total equity	2,448,371	2,516,482
	$ 5,489,465	$ 5,634,444

See accompanying notes

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

	Six months ended April 30,		Three months ended April 30,	
	2010	2009	2010	2009
Revenues	$ 637,969	$ 807,350	$ 311,271	$ 398,327
Cost of revenues	623,507	933,740	305,739	447,760
Selling, general and administrative	126,822	161,864	59,549	76,913
Interest expense	13,464	5,245	6,207	4,433
	763,793	1,100,849	371,495	529,106
Loss from operations	(125,824)	(293,499)	(60,224)	(130,779)
Other:				
Income (loss) from unconsolidated entities	1,646	(4,616)	1,280	481
Expenses related to early retirement of debt	(34)	(2,067)		(2,067)
Interest and other	15,669	21,717	7,155	10,461
Loss before income tax benefit	(108,543)	(278,465)	(51,789)	(121,904)
Income tax benefit	(27,388)	(106,405)	(11,388)	(38,739)
Net loss	$ (81,155)	$ (172,060)	$ (40,401)	$ (83,165)
Loss per share:				
Basic	$ (0.49)	$ (1.07)	$ (0.24)	$ (0.52)
Diluted	$ (0.49)	$ (1.07)	$ (0.24)	$ (0.52)
Weighted average number of shares:				
Basic	165,322	160,917	165,407	161,134
Diluted	165,322	160,917	165,407	161,134

See accompanying notes

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

	Six months ended April 30,	
	2010	2009
Cash flow from operating activities:		
Net loss	$ (81,155)	$ (172,060)
Adjustments to reconcile net loss to net cash (used in) provided by operating activities:		
Depreciation and amortization	9,025	12,084
Stock-based compensation	6,330	7,478
Excess tax benefits from stock-based compensation	(2,606)	(3,331)
Impairment of investment in unconsolidated entities		6,000
Income from unconsolidated entities	(1,646)	(1,384)
Distributions of earnings from unconsolidated entities		813
Deferred tax benefit		(24,881)
Inventory impairments	75,712	270,252
Write-off of unamortized debt issuance costs	34	692
Changes in operating assets and liabilities		
(Increase) decrease in inventory	(192,804)	154,402
Origination of mortgage loans	(241,631)	(246,678)
Sale of mortgage loans	238,071	248,741
Decrease in receivables, prepaid expenses and other assets	3,187	18,090
Decrease in customer deposits	(6,407)	(31,008)
Increase (decrease) in accounts payable and accrued expenses	348	(95,057)
Increase in income tax recoverable	(38,740)	
Increase (decrease) in current income taxes payable	8,389	(112,773)
Net cash (used in) provided by operating activities	(223,893)	31,380
Cash flow from investing activities:		
Purchase of property and equipment	(748)	(2,202)
Purchases of marketable securities	(85,450)	
Investments in and advances to unconsolidated entities	(25,931)	(16,446)
Return of investments from unconsolidated entities	4,446	1,443
Net cash used in investing activities	(107,683)	(17,205)
Cash flow from financing activities:		
Net proceeds from issuance of senior notes		389,400
Proceeds from loans payable	346,472	272,151
Principal payments of loans payable	(419,121)	(353,162)
Redemption of senior subordinated notes	(47,872)	
Proceeds from stock-based benefit plans	4,124	4,580
Excess tax benefits from stock-based compensation	2,606	3,331
Purchase of treasury stock	(382)	(970)

Net cash (used in) provided by financing activities	(114,173)	315,330
Net (decrease) increase in cash and cash equivalents	(445,749)	329,505
Cash and cash equivalents, beginning of period	1,807,718	1,633,495
Cash and cash equivalents, end of period	$ 1,361,969	$ 1,963,000

See accompanying notes

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

1. Significant Accounting Policies

Basis of Presentation

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

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with the rules and regulations of the Securities and Exchange Commission (SEC) for interim financial information. The October 31, 2009 balance sheet amounts and disclosures included herein have been derived from the Company s October 31, 2009 audited financial statements. Since the accompanying condensed consolidated financial statements do not include all the information and footnotes required by U.S. generally accepted accounting principles (GAAP) for complete financial statements, the Company suggests that they be read in conjunction with the consolidated financial statements and notes thereto included in its Annual Report on Form 10-K for the fiscal year ended October 31, 2009. In the opinion of management, the accompanying unaudited condensed consolidated financial statements include all adjustments, which are of a normal recurring nature, necessary to present fairly the Company s financial position as of April 30, 2010, the results of its operations for the six-month and three-month periods ended April 30, 2010 and 2009, and its cash flows for the six-month periods ended April 30, 2010 and 2009. The results of operations for such interim periods are not necessarily indicative of the results to be expected for the full year.

Inventory

Inventory is stated at cost unless an impairment exists, in which case it is written down to fair value in accordance with Accounting Standards Codification (ASC) 360, Property, Plant and Equipment (ASC 360). In addition to direct land acquisition costs, land development costs and home construction costs, costs also include interest, real estate taxes and direct overhead related to development and construction, which are capitalized to inventory during the period beginning with the commencement of development and ending with the completion of construction. For those communities that have been temporarily closed, no additional interest is allocated to a community s inventory until it re-opens. While the community remains closed, carrying costs such as real estate taxes are expensed as incurred. Once a parcel of land has been approved for development and the Company opens one of its typical communities, it may take four to five years to fully develop, sell and deliver all the homes in such community. Longer or shorter time periods are possible depending on the number of home sites in a community and the sales and delivery pace of the homes in a community. The Company s master planned communities, consisting of several smaller communities, may take up to ten years or more to complete. Because of the downturn in the Company s business, the aforementioned estimated community lives could be significantly longer. Because the Company s inventory is considered a long-lived asset under GAAP, it is required, under ASC 360, to regularly review the carrying value of each community and write down the value of those communities for which it believes the values are not recoverable.

Current Communities: When the profitability of a current community deteriorates, the sales pace declines significantly or some other factor indicates a possible impairment in the recoverability of the asset, the asset is reviewed for impairment by comparing the estimated future undiscounted cash flow for the community to its carrying value. If the estimated future undiscounted cash flow is less than the community s carrying value, the carrying value is written down to its estimated fair value. Estimated fair value is primarily determined by discounting the estimated future cash flow of each community. The impairment is charged to cost of revenues in the period in which the impairment is determined. In estimating the future undiscounted cash flow of a community, the Company uses various estimates such as: (a) the expected sales pace in a community, based upon general economic conditions that will have a short-term or long-term impact on the market in which the community is located and on competition within the market, including the number of home sites available and pricing and incentives being offered in other communities owned by the Company or by other builders; (b) the expected sales prices and sales incentives to be offered in a

community; (c) costs expended to date and expected to be incurred in the future, including, but not limited to, land and land development costs, home construction costs, interest costs and overhead costs; (d) alternative product offerings that may be offered in a community that will have an impact on sales pace, sales price, building cost or the number of homes that can be built on a particular site; and (e) alternative uses for the property such as the possibility of a sale of the entire community to another builder or the sale of individual home sites.

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

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

Variable Interest Entities: The Company has a significant number of land purchase contracts and several investments in unconsolidated entities which it evaluates in accordance with ASC 810, Consolidation (ASC 810). Pursuant to ASC 810, an enterprise that absorbs a majority of the expected losses or receives a majority of the expected residual returns of a variable interest entity (VIE) is considered to be the primary beneficiary and must consolidate the VIE. A VIE is an entity with insufficient equity investment or in which the equity investors lack some of the characteristics of a controlling financial interest. For land purchase contracts with sellers meeting the definition of a VIE, the Company performs a review to determine which party is the primary beneficiary of the VIE. This review requires substantial judgment and estimation. These judgments and estimates involve assigning probabilities to various estimated cash flow possibilities relative to the entity s expected profits and losses and the cash flows associated with changes in the fair value of the land under contract.

Recent Accounting Pronouncements

In September 2006, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards (SFAS) No. 157, Fair Value Measurements as codified in ASC 820, Fair Value Measurements and Disclosures (ASC 820). ASC 820 provides guidance for using fair value to measure assets and liabilities. ASC 820 also responds to investors requests for expanded information about the extent to which a company measures assets and liabilities at fair value, the information used to measure fair value, and the effect of fair value measurements on earnings. The Company adopted ASC 820 with respect to financial instruments effective for its fiscal year beginning November 1, 2008. See Note 10, Fair Value Disclosures, for information concerning the adoption of ASC 820. In February 2008, the FASB issued FASB Staff Position (FSP) FAS 157-2 (FSP 157-2) (codified in ASC 820) which delayed the effective date of ASC 820 for all nonfinancial assets and nonfinancial liabilities, except those that are recognized or disclosed at fair value in the financial statements on a recurring basis (at least annually). FSP 157-2 applies to, but is not limited to, long-lived assets (asset groups) measured at fair value for an impairment assessment (i.e., inventory impairment assessments). FSP 157-2 deferred the effective date of ASC 820 for nonfinancial assets and nonfinancial liabilities for the Company to November 1, 2009. The adoption of ASC 820 related to nonfinancial assets and nonfinancial liabilities did not have a material impact on the Company s consolidated financial position, results of operations and cash flows.

In December 2007, the FASB issued SFAS No. 160, Noncontrolling Interests in Consolidated Financial Statements, an Amendment to ARB No. 51, as codified in ASC 810, Consolidation (ASC 810). Under the provisions of ASC 810, a noncontrolling interest in a subsidiary, or minority interest, must be classified as equity and the amount of consolidated net income (loss) specifically attributable to the minority interest must be clearly identified in the consolidated statement of operations. ASC 810 also requires consistency in the manner of reporting changes in the parent s ownership interest and requires fair value measurement of any noncontrolling interest retained in a deconsolidation. ASC 810 was effective for the Company s fiscal year beginning November 1, 2009. The adoption of ASC 810 did not have a material impact on the Company s consolidated financial position, results of operations and cash flows.

In June 2008, the FASB issued FSP Emerging Issues Task Force 03-6-1, Determining Whether Instruments Granted in Share-Based Payment Transactions Are Participating Securities, as codified in ASC 260, Earnings per Share (ASC 260). Under ASC 260, unvested share-based payment awards that contain non-forfeitable rights to dividends or dividend equivalents are considered participating securities and, therefore, are included in computing earnings per share pursuant to the two-class method. The two-class method determines earnings per share for each class of common stock and participating securities according to dividends or dividend equivalents and their respective participation rights in undistributed earnings. ASC 260 was effective for the Company s fiscal year beginning November 1, 2009. The adoption of ASC 260 did not have a material impact on the Company s reported earnings per share.

In June 2009, the FASB issued SFAS No. 166, Accounting for Transfers of Financial Assets an amendment of FASB Statement No. 140 (SFAS 166), as codified in ASC 860, Transfers and Serving (ASC 860). SFAS 166 eliminates the concept of a qualifying special-purpose entity, creates more stringent conditions for reporting a transfer of a portion of a financial asset as a sale, clarifies other sale-accounting criteria, and changes the initial measurement of a transferor s interest in transferred financial assets. SFAS 166 is applicable for annual periods beginning after November 15, 2009 and interim periods therein and thereafter. SFAS 166 will be effective for the Company s fiscal year beginning November 1, 2010. The Company is currently assessing the impact, if any, of SFAS 166 on its consolidated financial statements.

In June 2009, the FASB issued SFAS No. 167, Amendments to FASB Interpretation No. 46(R) (SFAS 167) codified in ASC 810. SFAS 167 eliminates FASB Interpretation No. 46(R) s exceptions to consolidating qualifying special-purpose entities, contains new criteria for determining the primary beneficiary of a variable interest entity, and increases the frequency of required reassessments to determine whether a company is the primary beneficiary of a variable interest entity. SFAS 167 is effective for annual reporting periods beginning after November 15, 2009. Earlier application is prohibited. SFAS 167 will be effective for the Company s fiscal year beginning November 1, 2010. The Company is currently assessing the impact, if any, of SFAS 167 on its consolidated financial statements.

In August 2009, the FASB issued Accounting Standards Update (ASU) No. 2009-5, Fair Value Measurements and Disclosures (Topic 820) Measuring Liabilities at Fair Value, (ASU 2009-5), which amends ASC 820 to provide additional guidance to clarify the measurement of liabilities at fair value in the absence of observable market information. The Company adopted ASU 2009-5 as of November 1, 2009. The adoption of ASU 2009-5 did not have a material impact on the Company s consolidated financial position, results of operations and cash flows.

Noncontrolling Interest

The Company has a 67% interest in an entity that is developing land. The financial statements of this entity are consolidated in the Company s consolidated financial statements. All costs incurred by this entity are capitalized to its inventory. The amount shown in the Company s condensed consolidated balance sheet under Noncontrolling interest represents the equity attributable to the 33% minority interest not owned by the Company.

Reclassification

In accordance with ASC 810, the Company has reclassified the minority interest in a consolidated entity to stockholders equity.

Certain other prior period amounts have been reclassified to conform to the fiscal 2010 presentation.

2. Inventory

Inventory at April 30, 2010 and October 31, 2009 consisted of the following (amounts in thousands):

	April 30, 2010	October 31, 2009
Land controlled for future communities	$ 36,090	$ 60,611
Land owned for future communities	919,346	775,083
Operating communities	2,365,559	2,347,872
	$ 3,320,995	$ 3,183,566

Operating communities include communities offering homes for sale, communities that have sold all available home sites but have not completed delivery of the homes, communities that were previously offering homes for sale but are temporarily closed due to business conditions or non-availability of improved home sites and that are expected to reopen within twelve months of the end of the fiscal period being reported on, and communities preparing to open for sale. Communities that were previously offering homes for sale but are temporarily closed due to business conditions that do not have any remaining backlog and are not expected to reopen within twelve months of the end of the fiscal period being reported on have been classified as land owned for future communities. At April 30, 2010 and October 31, 2009, the Company included $42.7 million (10 communities) and $91.5 million (16 communities), respectively, of inventory related to temporarily closed communities in operating communities and $156.0 million (40 communities) and $75.9 million (16 communities), respectively, of inventory related to temporarily closed communities, in land owned for future communities.

The value attributable to operating communities includes the cost of homes under construction, land and land development costs, the carrying cost of home sites in current and future phases of these communities and the carrying cost of model homes.

During the three-month period ended April 30, 2010, the Company reclassified $18.7 million of inventory related to two non-equity golf course facilities to property, construction and office equipment. The $18.7 million was reclassified due to the completion of construction of the facilities and the substantial completion of the master planned communities of which the golf facilities are a part.

The Company provided for inventory impairment charges and the expensing of costs that it believed not to be recoverable in the six-month and three-month periods ended April 30, 2010 and 2009 as shown in the table below (amounts in thousands).

	Six months ended April 30,		Three months ended April 30,	
	2010	2009	2010	2009
Land controlled for future communities	$ 2,192	$ 10,092	$ 561	$ 2,775
Land owned for future communities	35,750	84,450	26,750	49,450
Operating communities	37,770	175,710	15,020	67,410
	$ 75,712	$ 270,252	$ 42,331	$ 119,635

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The Company reviews the profitability of each of its operating communities during each fiscal quarter. For those communities operating below certain profitability thresholds, or where other negative factors, such as a decline in market or economic conditions in the market where the community is located, high cancellation rates or a significant increase in speculative inventory in the community or in the market in general, exist, and the undiscounted cash flow is less than the carrying value, the Company determines the estimated fair value of those communities and adjusts the carrying value of the communities to their estimated fair values in accordance with ASC 360. The table below provides, for the periods indicated, the number of operating communities that the Company tested for potential impairment, the number of operating communities for which the Company recognized impairment charges and 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 millions).

		Impaired Operating Communities		
Three months ended:	Number of Operating Communities Tested	Number of Communities	Fair Value of Communities Net of Impairment Charges	Impairment Charges
Fiscal 2010:				
January 31	260	14	$ 60.5	$ 22.8
April 30	161	7	$ 53.6	15.0
				$ 37.8
Fiscal 2009:				
January 31	289	41	$ 216.2	$ 108.3
April 30	288	36	$ 181.8	67.4
July 31	288	14	$ 67.7	46.8
October 31	254	21	$ 116.4	44.9
				$ 267.4

At April 30, 2010, the Company evaluated its land purchase contracts to determine if any of the selling entities were variable interest entities (VIEs) and, if they were, whether the Company was the primary beneficiary of any of them. Under these land purchase contracts, the Company does not possess legal title to the land and its risk is generally limited to deposits paid to the sellers; the creditors of the sellers generally have no recourse against the Company. At April 30, 2010, the Company determined that it was the primary beneficiary of one VIE related to a land purchase contract and recorded $11.7 million of inventory and $6.1 million of accrued expenses. In addition, as of April 30, 2010, the Company determined that it was not the primary beneficiary of 18 VIEs related to land purchase contracts with an aggregate purchase price of $193.3 million, on which it had made aggregate deposits totaling $10.1 million.
The Company capitalizes certain interest costs to qualified inventory during the communities development and construction periods in accordance with ASC 835-20, Capitalization of Interest Costs (ASC 835-20). Capitalized interest is charged to cost of revenues when the related inventory is delivered. Interest incurred on homebuilding indebtedness in excess of qualified inventory, as defined in ASC 835-20, is charged directly to the statement of operations in the period incurred. In the six-month and three-month periods ended April 30, 2010, the Company expensed interest of $13.5 million and $6.2 million, respectively, directly to the statement of operations. In the six-month and three-month periods ended April 30, 2009, the Company expensed interest of $5.2 million and $4.4 million, respectively, directly to the statement of operations. During the three-month period ended July 31, 2009, the Company reviewed the methodology it applied in identifying qualified inventory used in the calculation of capitalized interest, and determined that the amount of qualified inventory was higher than the Company had

previously identified and that the interest previously expensed directly to the statement of operations in the six-month and three-month period ended April 30, 2009 should have been capitalized. As a result of that review, the Company reversed and capitalized previously expensed interest in the three-month period ended July 31, 2009. Interest incurred, capitalized and expensed for the six-month and three-month periods ended April 30, 2010 and 2009, was as follows (amounts in thousands):

	Six months ended April 30,		Three months ended April 30,	
	2010	2009	2010	2009
Interest capitalized, beginning of period	$ 259,818	$ 238,832	$ 264,893	$ 250,969
Interest incurred	58,861	56,291	29,172	28,006
Interest expensed to cost of revenues	(32,378)	(31,735)	(15,125)	(16,511)
Interest directly expensed to statement of operations	(13,464)	(5,245)	(6,207)	(4,433)
Write-off against other income	(809)	(112)	(705)	
Interest reclassified to property, construction and office equipment	(519)		(519)	
Interest capitalized, end of period	$ 271,509	$ 258,031	$ 271,509	$ 258,031

Inventory impairment charges are recognized against all inventory costs of a community, such as land, land improvements, cost of home construction and capitalized interest. The amounts included in the table directly above reflect the gross amount of capitalized interest without allocation of any impairment charges recognized. The Company estimates that, had inventory impairment charges been allocated on a pro rata basis to the individual components of inventory, capitalized interest at April 30, 2010 and 2009 would have been reduced by approximately $61.3 million and $53.2 million, respectively.

3. Investments in and Advances to Unconsolidated Entities

Development Joint Ventures

The Company has investments in, and advances to, a number of joint ventures with unrelated parties to develop land (Development Joint Ventures). Some of these Development Joint Ventures develop land for the sole use of the venture participants, including the Company, and others develop land for sale to the joint venture participants and to unrelated builders. The Company recognizes its share of earnings from the sale of home sites by Development Joint Ventures to other builders. With regard to home sites the Company purchases from the Development Joint Ventures, the Company reduces its cost basis in those home sites by its share of the earnings on the home sites. At April 30, 2010, the Company had approximately $61.8 million, net of impairment charges, invested in or advanced to Development Joint Ventures. In addition, the Company has a funding commitment of $3.5 million to one Development Joint Venture, should an additional investment in that venture be required.

As of April 30, 2010, the Company had recognized cumulative impairment charges in connection with its current Development Joint Ventures of $178.9 million. These impairment charges are attributable to investments in certain Development Joint Ventures that the Company did not believe were fully recoverable. The Company did not recognize any impairment charges in connection with its Development Joint Ventures during the six-month and three-month periods ended April 30, 2010 and 2009.

At April 30, 2010, the Development Joint Ventures had aggregate loan commitments of $1.07 billion and had approximately $1.07 billion borrowed against these commitments. These loans are non-recourse to the Company; however, with respect to loans obtained by some of the Development Joint Ventures, the Company executed completion guarantees and conditional repayment guarantees. The obligations under such completion guarantees and conditional repayment guarantees are several and not joint, and are limited to the Company s pro-rata share of the loan obligations of each such respective Development Joint Venture. The Company estimates that, at April 30, 2010, the maximum liability, if any, under such completion guarantees and conditional repayment guarantees, including such completion guarantees and conditional repayment guarantees that are the subject of the litigation matters described below (net of amounts that the Company has accrued), is approximately $50.3 million.

In October 2008, the lending syndicate for one of the Development Joint Ventures completed a foreclosure on the land owned by that Development Joint Venture and filed a lawsuit against its members, including the parent companies of the members, seeking to recover damages under the completion guarantees. Each of the completion guarantees delivered by the members of that Development Joint Venture is several and not joint, therefore, the liability of the Company is limited to the Company s pro-rata share of any damages awarded under such completion guarantees. In December 2008, the lending syndicate for another Development Joint Venture filed separate lawsuits against the members of the Development Joint Venture and their parent companies, seeking to recover damages under the completion guarantees and damages allegedly caused by the venture s failure to repay the lenders. The Company does not believe that these alleged Development Joint Venture defaults and related lawsuits will have a material impact on the Company s results of operations, cash flows and financial condition.

Planned Community Joint Ventures

The Company is a participant in a joint venture with an unrelated party to develop a single master planned community (the Planned Community Joint Venture). At April 30, 2010, the Company had an investment of $49.9 million in this Planned Community Joint Venture. At April 30, 2010, each participant had agreed to contribute additional funds up to $10.5 million if required. If a participant fails to make a required capital contribution, the other participant may make the additional contribution and diminish the non-contributing participant s ownership interest.

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Condominium Joint Ventures

At April 30, 2010, the Company had an aggregate of $45.5 million of investments in four joint ventures with unrelated parties to develop luxury condominium projects, including for-sale residential units and commercial space (Condominium Joint Ventures). At April 30, 2010, the Condominium Joint Ventures had aggregate loan commitments of $283.1 million, against which approximately $247.6 million had been borrowed. At April 30, 2010, the Company had guaranteed $10.0 million of the loans and other liabilities of these Condominium Joint Ventures.

As of April 30, 2010, the Company had recognized cumulative impairment charges against its investments in the Condominium Joint Ventures and its pro-rata share of impairment charges recognized by these Condominium Joint Ventures in the amount of $63.9 million. The Company did not recognize any impairment charges in connection with its Condominium Joint Ventures during the six-month and three-month periods ended April 30, 2010 or the three-month period ended April 30, 2009. The Company recognized a $6.0 million impairment charge in connection with one of its Condominium Joint Ventures during the six-month period ended April 30, 2009. At April 30, 2010, the Company did not have any commitments to make contributions to any Condominium Joint Venture in excess of those that the Company already has accrued.

Trust and Trust II

In fiscal 2005, the Company, together with the Pennsylvania State Employees Retirement System (PASERS), formed Toll Brothers Realty Trust II (Trust II) to be in a position to take advantage of commercial real estate opportunities. Trust II is owned 50% by the Company and 50% by an affiliate of PASERS. At April 30, 2010, the Company had an investment of $12.0 million in Trust II. Prior to the formation of Trust II, the Company used Toll Brothers Realty Trust (the Trust) to invest in commercial real estate opportunities. The Trust is effectively owned one-third by the Company; one-third by Robert I. Toll, Bruce E. Toll (and members of his family), Zvi Barzilay (and members of his family), Joel H. Rassman, Douglas C. Yearley, Jr. and a former member of the Company s senior management; and one-third by an affiliate of PASERS (collectively, the Shareholders). At April 30, 2010, the Company s investment in the Trust was $1.2 million. The Company provides development, finance and management services to the Trust and recognized fees under the terms of various agreements in the amount of $1.1 million in each of the six-month periods ended April 30, 2010 and 2009 and $0.5 million in each of the three-month periods ended April 30, 2010 and 2009. The Company believes that the transactions agreed upon between itself and the Trust were on terms no less favorable than it would have agreed to with unrelated parties.

General

At April 30, 2010, the Company had $100.2 million accrued for its aggregate exposure with respect to Development Joint Ventures, the Planned Community Joint Venture, Condominium Joint Ventures, the Trust and Trust II. The Company s investments in these entities are accounted for using the equity method. The Company recognized $6.0 million of impairment charges related to its investments in and advances to unconsolidated entities in the six-month period ended April 30, 2009. The Company did not recognize any impairment charges related to its investments in and advances to unconsolidated entities in the six-month and three-month periods ended April 30, 2010 or the three-month period ended April 30, 2009. Impairment charges related to these entities are included in Income (loss) from unconsolidated entities in the Company s Consolidated Statements of Operations.

4. Accrued Expenses

Accrued expenses at April 30, 2010 and October 31, 2009 consisted of the following (amounts in thousands):

	April 30, 2010	October 31, 2009
Land, land development and construction	$ 125,278	$ 132,890
Compensation and employee benefits	94,050	90,828
Insurance and litigation	151,950	165,343
Commitments to unconsolidated entities	100,189	107,490
Warranty	52,769	53,937
Interest	29,944	27,445
Other	64,721	62,288

	$	618,901	$	640,221

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The Company accrues for expected warranty costs at the time each home is closed and title and possession are transferred to the home buyer. Costs are accrued based upon historical experience. Changes in the warranty accrual for the six-month and three-month periods ended April 30, 2010 and 2009 were as follows (amounts in thousands):

	Six months ended April 30,		Three months ended April 30,	
	2010	2009	2010	2009
Balance, beginning of period	$ 53,937	$ 57,292	$ 53,359	$ 56,760
Additions homes closed during the period	4,005	4,568	1,929	2,462
Additions (reductions) to accruals for homes closed in prior periods	604	289	151	(1,184)
Charges incurred	(5,777)	(7,686)	(2,670)	(3,575)
Balance, end of period	$ 52,769	$ 54,463	$ 52,769	$ 54,463

5. Senior Subordinated Notes

On December 1, 2009, the Company redeemed the remaining $47.9 million outstanding principal amount of its Toll Corp. 8.25% Senior Subordinated Notes due December 2011 at a cash redemption price of 100.0% of the principal amount plus accrued and unpaid interest on December 1, 2009.

6. Income Taxes

A reconciliation of the Company s effective tax rate from the federal statutory rate for the six-month and three-month periods ended April 30, 2010 and 2009 is as follows ($ amounts in thousands):

	Six months ended April 30,				Three months ended April 30,			
	2010		2009		2010		2009	
	$	%	$	%	$	%	$	%
Federal tax benefit at statutory rate	$ (37,991)	(35.0)	$ (97,463)	(35.0)	$ (18,126)	(35.0)	$ (42,666)	(35.0)
State taxes net of federal benefit	(2,553)	(2.4)	(7,421)	(2.7)	(1,358)	(2.6)	(1,112)	(0.9)
Reversal of tax provisions due to expiration of statutes and settlements			(15,000)	(5.4)				
Accrued interest on anticipated tax assessments	2,763	2.6	6,857	2.5	975	1.9	2,589	2.1
Valuation allowance recognized	35,015	32.3	4,282	1.5	20,174	39.0	4,282	3.5
Valuation allowance reversed	(24,051)	(22.2)			(12,644)	(24.4)	(3,002)	(2.5)
Other	(571)	(0.5)	2,340	0.9	(409)	(0.9)	1,170	1.0
Tax benefit	$ (27,388)	(25.2)	$ (106,405)	(38.2)	$ (11,388)	(22.0)	$ (38,739)	(31.8)

The valuation allowances recognized in the fiscal 2010 periods relate to deferred tax assets established in those periods. The deferred tax assets established in the fiscal 2010 periods relate to impairment charges and state tax benefits recognized in those periods. The valuation allowance reversed in the fiscal 2010 periods represent the reversal of prior year valuation allowances recognized on deferred tax assets that were recorded as expenses for book purposes in prior years and which we expect to recoup as tax refunds when the Company files its 2010 tax returns. The valuation allowances recognized in the fiscal 2009 periods relate to state tax benefits recognized in those periods. During the six-month periods ended April 30, 2010 and 2009, the Company recognized in its tax benefit, before reduction for applicable taxes, potential interest and penalties of approximately $4.3 million and $11.0 million, respectively. During the three-month periods ended April 30, 2010 and 2009, the Company recognized in its tax

benefit, before reduction for applicable taxes, potential interest and penalties of approximately $1.5 million and $4.0 million, respectively. At April 30, 2010 and October 31, 2009, the Company had accrued potential interest and penalties, before reduction of applicable taxes, of $44.1 million and $39.8 million, respectively. These amounts, after reduction of applicable taxes, were included in Income taxes payable on the Company s Consolidated Balance Sheets.

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A reconciliation of the change in the gross unrecognized tax benefits for the six-month and three-month periods ended April 30, 2010 and 2009 is as follows (amounts in thousands):

	Six months ended April 30,		Three months ended April 30,	
	2010	2009	2010	2009
Balance, beginning of period	$ 171,366	$ 320,679	$ 175,116	$ 285,750
Increase in benefit as a result of tax positions taken in prior years	4,250	11,000	1,500	4,000
Increase in benefit as a result of tax positions taken in current year	1,500	4,000	500	2,000
Decrease in benefit as a result of settlements		(19,898)		(969)
Refund of previous settlement payments		6,435		6,435
Decrease in benefit as a result of lapse of statute of limitation		(25,000)		
Balance, end of period	$ 177,116	$ 297,216	$ 177,116	$ 297,216

The Company s unrecognized tax benefits are included in Income taxes payable on the Company s Condensed Consolidated Balance Sheets. If these unrecognized tax benefits reverse in the future, they would have a beneficial impact on the Company s effective tax rate at that time. During the next twelve months, it is reasonably possible that the amount of unrecognized tax benefits will change. The anticipated changes will be principally due to the expiration of tax statutes, settlements with taxing jurisdictions, increases due to new tax positions taken and the accrual of estimated interest and penalties.

During the six-month period ended April 30, 2009, the Company reached final settlement of its Internal Revenue Service (IRS) tax audits for fiscal years 2003 through 2005, State of California tax audits for fiscal years 2002 through 2006, and certain other amended filings. The state impact of any amended federal returns remains subject to examination by various states for a period of up to one year after formal notification of such amendments to the states. The Company and its subsidiaries have various state and other income tax returns in the process of examination or administrative appeal. The Company does not anticipate any material adjustments to its financial statements resulting from tax examinations currently in progress.

The Company recorded significant deferred tax assets in fiscal 2007, fiscal 2008 and fiscal 2009. These deferred tax assets were generated primarily by inventory impairments and impairments of investments in and advances to unconsolidated entities. The Company has assessed whether a valuation allowance should be established based on its determination of whether it is more likely than not that some portion or all of the deferred tax assets will not be realized. The Company believes that the continued downturn in the housing market, the uncertainty as to its length and magnitude and the Company s continued recognition of impairment charges are significant evidence of the need for a valuation allowance against its net deferred tax assets. At April 30, 2010 and October 31, 2009, we had recorded valuation allowances against our entire net deferred tax assets of $493.3 million and $482.3 million, respectively.

For federal income tax purposes, the Company expects to carry back tax losses incurred in fiscal 2009 against $462 million of taxable income it reported in fiscal 2007 and receive a tax refund related to such carry back of $161.8 million in fiscal 2010. The tax losses generated in fiscal 2009 will be primarily from the recognition for tax purposes of previously recognized book impairments and the recognition of stock option expenses not recognized for book purposes. This expected refund is included in Income tax refund recoverable on the Company s Condensed Consolidated Balance Sheets.

The Company can carry back its fiscal 2010 tax losses against taxable income it reported for federal income tax purposes in its fiscal 2005 and 2006 tax years and recover up to a maximum of approximately $530 million of federal income taxes paid in those years. The Company has reflected $38.7 million of potential benefit in its April 30, 2010 consolidated balance sheet. This expected refund is included in Income tax refund recoverable on the Company s Condensed Consolidated Balance Sheets.

The Company is allowed to carry forward tax losses for 20 years and apply such tax losses to future taxable income to realize federal deferred tax assets. As of April 30, 2010, the Company estimated that it did not have any federal tax losses to carry forward. In addition, the Company will be able to reverse its previously recognized valuation allowances during any future period for which it reports book income before income taxes. The Company will continue to review its deferred tax assets in accordance with GAAP.

For state tax purposes, due to past and projected losses in certain jurisdictions where the Company does not have carryback potential and/or cannot sufficiently forecast future taxable income, the Company has recognized cumulative valuation allowances of $50.8 million as of April 30, 2010 against its net state deferred tax assets. In the six-month periods ended April 30, 2010 and 2009, the Company recognized valuation allowances against its state deferred tax assets of $5.4 million ($3.5 million, net of federal benefit) and $6.6 million ($4.3 million, net of federal benefit), respectively. In the three-month periods ended April 30, 2010 and 2009, the Company recognized valuation allowances against its state deferred tax assets of $2.6 million ($1.7 million, net of federal benefit) and $2.0 million ($1.3 million, net of federal benefit), respectively. Future valuation allowances in these jurisdictions may continue to be recognized if the Company believes it will not generate sufficient future taxable income to utilize any future state deferred tax assets.

7. Accumulated Other Comprehensive Loss and Total Comprehensive Loss

Accumulated other comprehensive loss at April 30, 2010 and October 31, 2009 was $2.9 million and $2.6 million, respectively, and was primarily related to employee retirement plans.

The components of other comprehensive loss in the six-month and three-month periods ended April 30, 2010 and 2009 were as follows (amounts in thousands):

	Six months ended April 30,		Three months ended April 30,	
	2010	2009	2010	2009
Net loss as reported	$ (81,155)	$ (172,060)	$ (40,401)	$ (83,165)
Changes in pension liability, net of tax provision	(283)	(59)	(184)	(29)
Change in fair value of available-for-sale securities, net of tax provision	63		(78)	
Comprehensive loss	$ (81,375)	$ (172,119)	$ (40,663)	$ (83,194)
Tax benefit recognized in total comprehensive loss	$ 146	$ 40	$ 175	$ 19

8. Employee Retirement Plan

The Company has two unfunded supplemental retirement plans for certain employees. During the six-month period ended April 30, 2010, two additional employees were added to the plans and one eligible employee s benefits were increased. As a result of these changes, the projected benefit obligations and unamortized past service costs of the plans each increased by $1.1 million.

For the six-month and three-month periods ended April 30, 2010 and 2009, the Company recognized costs and made payments related to its supplemental retirement plans as follows (amounts in thousands):

	Six months ended April 30,		Three months ended April 30,	
	2010	2009	2010	2009
Service cost	$ 121	$ 66	$ 60	$ 33
Interest cost	694	682	347	341
Amortization of prior service obligation	614	538	307	269
Amortization of unrecognized gains		(636)		(318)
Total costs	$ 1,429	$ 650	$ 714	$ 325

Benefits paid	$ 62	$ 62	$ 28	$ 29

9. Stock-Based Benefit Plans

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

The weighted-average assumptions and the fair value used for stock option grants for the six-month and three-month periods ended April 30, 2010 and 2009 were as follows:

	2010	2009
Expected volatility	46.74% 51.41%	46.74% 50.36%
Weighted-average volatility	49.51	48.06%
Risk-free interest rate	2.15% 3.47%	1.24% 1.90%
Expected life (years)	4.44 8.69	4.29 8.52
Dividends	none	none
Weighted-average grant date fair value per share of options granted	7.63	$8.60

In the six-month and three-month periods ended April 30, 2010, the Company recognized $6.3 million and $1.4 million of stock compensation expense, respectively, and $2.5 million and $0.6 million of income tax benefit related to stock option grants, respectively. In the six-month and three-month periods ended April 30, 2009, the Company recognized $7.5 million and $1.8 million of stock compensation expense, respectively and $3.0 million and $0.7 million of income tax benefit related to stock option grants, respectively. The Company expects to recognize approximately $9.1 million of stock compensation expense and $3.6 million of income tax benefit in fiscal 2010 related to stock option grants. The Company recognized $10.6 million of stock compensation expense and $4.2 million of income tax benefit in fiscal 2009 related to stock option grants.

In December 2009, the Company issued restricted stock units (RSUs) relating to 19,663 shares of the Company s common stock to seven employees with an aggregate fair value of $361,000. These RSUs will vest in annual installments over a four-year period. The value of the RSUs were determined to be equal to the number of shares of the Company s common stock to be issued pursuant to the RSUs, multiplied by $18.38, the closing price of the Company s common stock on the New York Stock Exchange (NYSE) on December 21, 2009, the date the RSUs were awarded. In the six-month and three-month periods ended April 30, 2010, the Company recognized $33,000 and $23,000, respectively, of expense related to the RSUs. At April 30, 2010, the Company had $329,000 of unamortized value related to the RSUs.

On December 7, 2009, the Executive Compensation Committee of the Company s Board of Directors approved the award of a performance-based restricted stock unit (Performance-Based RSU) relating to 200,000 shares of the Company s common stock to Robert I. Toll. The Performance-Based RSU will vest and Mr. Toll will be entitled to receive the underlying shares if the average closing price of the Company s common stock on the NYSE, measured over any twenty consecutive trading days ending on or prior to December 19, 2014, increases 30% or more over $18.38, the closing price of the Company s common stock on the NYSE on December 21, 2009; provided Mr. Toll continues to be employed by the Company or serve as a member of its Board of Directors until December 19, 2012. The Performance-Based RSU will also vest if Mr. Toll dies, becomes disabled or the Company experiences a change of control prior to satisfaction of the aforementioned performance criteria. Using a lattice based option pricing model and assuming an expected volatility of 49.92%, a risk-free interest rate of 2.43%, and an expected life of 3.0 years, the Company determined the aggregate value of the Performance-Based RSU to be $3.16 million.

In the six-month and three-month periods ended April 30, 2010, the Company recognized $987,000 and $567,000, respectively, of stock-based compensation expense related to performance-based restricted stock units issued in fiscal 2010 and 2009. In the six-month and three-month periods ended April 30, 2009, the Company recognized $438,000

and $304,000, respectively, of stock-based compensation expense related to performance-based restricted stock units issued in fiscal 2009. At April 30, 2010, the Company had $4.8 million of unamortized value related to performance-based restricted stock units to be amortized during its four fiscal years ending October 31, 2013.

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10. Fair Value Disclosures

Effective November 1, 2008, the Company adopted ASC 820 for its financial instruments measured at fair value on a recurring basis. ASC 820 provides a framework for measuring fair value in accordance with GAAP, expands disclosures about fair value measurements, and establishes a fair value hierarchy which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The fair value hierarchy can be summarized as follows:

Level 1: Fair value determined based on quoted prices in active markets for identical assets or liabilities.

Level 2: Fair value determined using significant observable inputs, generally either quoted prices in active markets for similar assets or liabilities or quoted prices in markets that are not active.

Level 3: Fair value determined using significant unobservable inputs, such as pricing models, discounted cash flows, or similar techniques.

A summary of assets and (liabilities) at April 30, 2010 and October 31, 2009 related to the Company s financial instruments, measured at fair value on a recurring basis, is set forth below (amounts in thousands).

Financial Instrument	**Fair Value** Hierarchy	Fair Value April 30, 2010	Fair Value October 31, 2009
U.S. Treasury Securities	Level 1	$ 186,036	$ 101,176
Residential Mortgage Loans Held for Sale	Level 2	$ 47,107	$ 43,432
Forward Loan Commitments Residential Mortgage Loans Held for Sale	Level 2	$ 3	$ (135)
Interest Rate Lock Commitments (IRLCs)	Level 2	$ (13)	$ (117)
Forward Loan Commitments IRLCs	Level 2	$ 13	$ 117

At April 30, 2010 and October 31, 2009, the carrying value of cash and cash equivalents approximates fair value.

As of April 30, 2010, the unpaid principal balance of mortgage loans held for sale was less than the aggregate fair value by $397,000 and, accordingly, this amount has been recognized as a gain in current earnings and included in interest and other. Interest income on mortgage loans held for sale is calculated based upon the stated interest rate of each loan and is included in interest and other.

As of April 30, 2009, the unpaid principal balance of mortgage loans held for sale was less than the aggregate fair value by $131,000 and, accordingly, this amount has been recognized as a gain in current earnings and is included in interest and other.

Interest income on mortgage loans held for sale is calculated based upon the stated interest rate of each loan and is included in interest and other.

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

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During the three-month periods ended April 30, 2010 and January 31, 2010, the Company recognized inventory impairment charges of $41.8 and $31.8 million, respectively. The fair value of the inventory, whose carrying value was adjusted in the three-month periods ended April 30, 2010 and January 31, 2010 was $65.0 million and $82.5 million, respectively. The fair value of the aforementioned inventory was determined using Level 3 criteria. See Note 1, Significant Accounting Policies, Inventory for additional information regarding the Company s methodology on determining fair value.

As of April 30, 2010, the amortized cost, gross unrealized holding gains, gross unrealized holding losses, and fair value of marketable securities were $185.9 million, $164,000, $12,700 and $186.0 million, respectively. As of October 31, 2009, the amortized cost, gross unrealized holding gains, gross unrealized holding losses, and fair value of marketable securities were $101.1 million, $56,000, $12,000, and $101.2 million, respectively. The remaining contractual maturities of marketable securities as of April 30, 2010 ranged from 4 months to 17 months.

The book value and estimated fair value of the Company s debt at April 30, 2010 and October 31, 2009 was as follows (amounts in thousands):

	April 30, 2010		October 31, 2009	
	Book value	Estimated fair value	Book value	Estimated fair value
Loans payable (a)	$ 433,188	$ 431,990	$ 472,854	$ 471,236
Senior notes (b)	1,600,000	1,657,122	1,600,000	1,624,119
Senior subordinated notes (c)			47,872	48,111
Mortgage company warehouse loan (d)	30,006	30,006	27,015	27,015
	$ 2,063,194	$ 2,119,118	$ 2,147,741	$ 2,170,481

(a) The estimated fair value of loans payable was based upon the interest rates that the Company believed were available to it for loans with similar terms and remaining maturities as of the applicable valuation date.

(b) The estimated fair value of the Company s senior notes is based upon their indicated market prices.

(c) The estimated fair value of the Company s senior subordinated notes is based upon their indicated market prices.

(d) The Company believes that the carrying value of its mortgage company loan borrowings approximates their fair value.

11. Loss per Share Information

Information pertaining to the calculation of loss per share, common stock equivalents, weighted average number of anti-dilutive option and shares issued for the six-month and three-month periods ended April 30, 2010 and 2009 is as follows (amounts in thousands):

	Six months ended April 30,		Three months ended April 30,	
	2010	2009	2010	2009
Basic weighted-average shares	165,322	160,917	165,407	161,134
Common stock equivalents (a)				
Diluted weighted-average shares	165,322	160,917	165,407	161,134
Common stock equivalents excluded from diluted weighted-average shares due to anti-dilutive effect (a)	2,229	4,173	2,297	3,919
Weighted average number of anti-dilutive options (b)	7,417	8,363	6,316	8,907
Shares issued under stock incentive and employee stock purchase plans	720	762	118	61

(a) Common stock equivalents represent the dilutive effect of outstanding in-the-money stock options using the treasury stock method. For

fiscal 2010 and 2009, there were no incremental shares attributed to outstanding options to purchase common stock because the Company had a net loss in each of the fiscal 2010 and 2009 periods and any incremental shares would be anti-dilutive.

(b) Based upon the average closing price of the Company s common stock on the NYSE for the period.

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12. Stock Repurchase Program

In March 2003, the Company s Board of Directors authorized the repurchase of up to 20 million shares of its common stock, par value $.01, from time to time, in open market transactions or otherwise, for the purpose of providing shares for its various employee benefit plans. In the six-month and three-month periods ended April 30, 2010, the Company purchased 19,000 shares at an average price of $19.67 per share and 12,000 shares at an average purchase price of $20.02 per share, respectively. In the six-month and three-month periods ended April 30, 2009, the Company purchased 53,000 shares at an average price of $18.42 per share and 34,000 shares at an average purchase price of $17.98 per share, respectively. At April 30, 2010, the Company was authorized to repurchase approximately 11.8 million shares.

13. Amendment to the Second Restated Certificate of Incorporation and Increase in Authorized Share Capital

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

The Certificate of Amendment also includes an amendment, authorized by the Company s stockholders at the Company s 2005 Annual Meeting of Stockholders, held on March 17, 2005, increasing the Company s authorized shares from 201,000,000 shares to 415,000,000 shares consisting of two classes of stock. The Certificate of Amendment provides for 400,000,000 authorized shares of common stock, $.01 par value, an increase from the 200,000,000 shares previously authorized, and 15,000,000 authorized shares of preferred stock, $.01 par value, an increase from the 1,000,000 preferred shares previously authorized.

14. Shareholder Rights Plans

Shares of the Company s outstanding common stock are subject to two series of stock purchase rights. The rights, which are exercisable only under certain conditions, entitle the holder, other than an acquiring person (and certain related parties of an acquiring person), as defined in the plan, to purchase common shares at prices specified in the rights agreements.

In June 2009, the Company adopted a shareholder rights plan (the 2009 Rights Plan) to help preserve the value of the Company s deferred tax assets, by reducing the risk of limitation of net operating loss carryforwards and certain other tax benefits under Section 382 of the Internal Revenue Code. The rights will expire on July 16, 2019 or earlier if (i) the Company s Board of Directors determines the 2009 Rights Plan is no longer needed to preserve the deferred tax assets due to the implementation of legislative changes, (ii) the Board of Directors determines, at the beginning of a specified period, that no tax benefits may be carried forward, (iii) the 2009 Rights Plan is not approved by the Company s stockholders by June 17, 2010, or (iv) certain other events occur as described in the 2009 Rights Plan. The 2009 Rights Plan was submitted to the Company s stockholders for approval at the 2010 Annual Meeting of Stockholders, held on March 17, 2010. The Company s stockholders did not approve the 2009 Rights Plan, therefore, it will expire in accordance with its terms on June 17, 2010.

In June 2007, the Company adopted a shareholder rights plan (2007 Rights Plan). The rights issued pursuant to the 2007 Rights Plan will become exercisable upon the earlier of (i) ten days following a public announcement that a person or group of affiliated or associated persons has acquired, or obtained the right to acquire, beneficial ownership of 15% or more of the outstanding shares of the Company s Common Stock or (ii) ten business days following the commencement of a tender offer or exchange offer that would result in a person or group beneficially owning 15% or more of the outstanding shares of Common Stock. No rights were exercisable at April 30, 2010.

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15. Legal Proceedings

The Company is involved in various claims and litigation arising principally in the ordinary course of business.

In January 2006, the Company received a request for information pursuant to Section 308 of the Clean Water Act from Region 3 of the U.S. Environmental Protection Agency (EPA) concerning storm water discharge practices in connection with its homebuilding projects in the states that comprise EPA Region 3. The Company provided information to the EPA pursuant to the request. The U.S. Department of Justice (DOJ) has now assumed responsibility for the oversight of this matter and has alleged that the Company has violated regulatory requirements applicable to storm water discharges and that it may seek injunctive relief and/or civil penalties. The Company is now engaged in settlement discussions with representatives from the DOJ and the EPA.

In April 2007, a securities class action suit was filed against Toll Brothers, Inc. and Robert I. Toll and Bruce E. Toll in the U.S. District Court for the Eastern District of Pennsylvania on behalf of a purported class of purchasers of the Company s common stock between December 9, 2004 and November 8, 2005. In August 2007, an amended complaint was filed adding additional directors and officers as defendants. The amended complaint filed on behalf of the purported class alleges that the defendants violated federal securities laws by issuing various materially false and misleading statements that had the effect of artificially inflating the market price of the Company s stock. It further alleges that the individual defendants sold shares for substantial gains during the class period. The purported class is seeking compensatory damages, counsel fees, and expert costs.

In November 2008, a shareholder derivative action was filed in the Chancery Court of Delaware by Milton Pfeiffer against Robert I. Toll, Zvi Barzilay, Joel H. Rassman, Bruce E. Toll, Paul E. Shapiro, Robert S. Blank, Carl B. Marbach, and Richard J. Braemer. The plaintiff purports to bring his claims on behalf of Toll Brothers, Inc. and alleges that the director and officer defendants breached their fiduciary duties to the Company and its stockholders with respect to the stock sales alleged in the securities class action discussed above, by selling while in possession of material inside information about the Company. The plaintiff seeks contribution and indemnification from the individual director and officer defendants for any liability found against the Company in the securities class action suit. In addition, again purportedly on the Company s behalf, the plaintiff seeks disgorgement of the defendants profits from their stock sales.

On March 4, 2009, a second shareholder derivative action was brought by Olivero Martinez in the U.S. District Court for the Eastern District of Pennsylvania. This case was brought against the eleven then-current members of the Company s board of directors and the Company s Chief Accounting Officer. The complaint alleges breaches of fiduciary duty, waste of corporate assets, and unjust enrichment during the period from February 2005 to November 2006. The complaint further alleges that certain of the defendants sold Company stock during this period while in possession of the allegedly non-public, material information about the role of speculative investors in the Company s sales and plaintiff seeks disgorgement of profits from these sales. The complaint also asserts a claim for equitable indemnity for costs and expenses incurred by the Company in connection with defending the securities class action discussed above.

On April 1, 2009, a third shareholder derivative action was filed by William Hall, also in the U.S. District Court for the Eastern District of Pennsylvania, against the eleven then-current members of the Company s board of directors and the Company s Chief Accounting Officer. This Complaint is identical to the previous shareholder complaint filed in Philadelphia, PA and, on July 14, 2009, the two cases were consolidated. On April 30, 2010, the plaintiffs filed an amended consolidated complaint.

The Company s Certificate of Incorporation and Bylaws provide for indemnification of its directors and officers. The Company has also entered into individual indemnification agreements with each of its directors.

On December 9, 2009 and February 10, 2010, the Company was named as a defendant in three purported class action suits filed by homeowners relating to allegedly defective drywall manufactured in China. These suits are all pending in the United States District Court for the Eastern District of Louisiana as part of *In re: Chinese-Manufactured Drywall Products Liability Litigation*, MDL No. 2047. The complaints also name as defendants other home builders, as well as other parties claimed to be involved in the manufacture, sale, importation, brokerage, distribution, and installation of the drywall. The plaintiffs claim that the drywall, which was installed by independent subcontractors in certain homes built by the Company, caused damage to certain items and building materials in the homes, as well as

personal injuries. The complaints seek damages for, among other things, the costs of repairing the homes, diminution in value to the homes, replacement of certain personal property, and personal injuries. The Company has not yet responded to these suits. See Note 15, Commitments and Contingencies, for additional information regarding Chinese-made drywall in our homes.

Due to the high degree of judgment required in determining the amount of potential loss related to the various claims and litigation in which the Company is involved in, including those noted above, and the inherent variability in predicting future settlements and judicial decisions, the Company cannot estimate a range of reasonably possible losses in excess of its accruals for these matters. The Company believes that adequate provision for resolution of all claims and pending litigation has been made for probable losses and the disposition of these matters is not expected to have a material adverse effect on the Company s results of operations and liquidity or on its financial condition.

16. Commitments and Contingencies

Generally, the Company s option and purchase agreements to acquire land parcels do not require the Company to purchase those land parcels, although the Company may, in some cases, forfeit any deposit balance outstanding if and when it terminates an option and purchase agreement. If market conditions are weak, approvals needed to develop the land are uncertain or other factors exist that make the purchase undesirable, the Company may not expect to acquire the land. Whether an option and purchase agreement is legally terminated or not, the Company reviews the amount recorded for the land parcel subject to the option and purchase agreement to determine if the amount is recoverable. While the Company may not have formally terminated the option and purchase agreements for those land parcels that it does not expect to acquire, it has written off any non-refundable deposits and costs previously capitalized to such land parcels in the periods that it determined such costs were not recoverable. At April 30, 2010, the aggregate purchase price of land parcels under option and purchase agreements, excluding parcels under option that the Company does not expect to acquire, was approximately $586.4 million (including $138.0 million of land to be acquired from unconsolidated entities in which the Company has investments). Of the $586.4 million aggregate purchase price of land parcels subject to option and purchase agreements that the Company expects to acquire, at April 30, 2010, it had deposited $76.8 million on such parcels, was entitled to receive a credit for prior investments in unconsolidated entities of approximately $37.0 million and, if the Company acquired all of these land parcels, would be required to pay an additional $472.5 million. Of the additional $472.5 million the Company would be required to pay, it had recorded $104.5 million of this amount in accrued expenses at April 30, 2010. The Company has additional land parcels under option that have been excluded from the aforementioned aggregate purchase amounts since it does not believe that it will complete the purchase of these land parcels and no additional funds will be required from the Company to terminate these contracts.

At April 30, 2010, the Company had investments in and advances to a number of unconsolidated entities, was committed to invest or advance additional funds and had guaranteed a portion of the indebtedness and/or loan commitments of these entities. See Note 3, Investments in and Advances to Unconsolidated Entities, for more information regarding the Company s commitments to these entities.

At April 30, 2010, the Company had outstanding surety bonds amounting to $382.9 million, primarily related to its obligations to various governmental entities to construct improvements in the Company s various communities. The Company estimates that $143.2 million of work remains on these improvements. The Company has an additional $91.8 million of surety bonds outstanding that guarantee other obligations of the Company. The Company does not believe it is probable that any outstanding bonds will be drawn upon.

At April 30, 2010, the Company had agreements of sale outstanding to deliver 1,738 homes with an aggregate sales value of $993.5 million.

The Company s mortgage subsidiary provides mortgage financing for a portion of the Company s home closings. For those home buyers to whom the Company s mortgage subsidiary provides mortgages, it determines whether the home buyer qualifies for the mortgage he or she is seeking based upon information provided by the home buyer and other sources. For those home buyers that qualify, the Company s mortgage subsidiary provides the home buyer with a mortgage commitment that specifies the terms and conditions of a proposed mortgage loan based upon then-current market conditions. Prior to the actual closing of the home and funding of the mortgage, the home buyer will lock in an interest rate based upon the terms of the commitment. At the time of rate lock, the Company s mortgage subsidiary agrees to sell the proposed mortgage loan to one of several outside recognized mortgage financing institutions (investors), which is willing to honor the terms and conditions, including interest rate, committed to the home buyer. The Company believes that these investors have adequate financial resources to honor their commitments to its mortgage subsidiary. At April 30, 2010, the Company s mortgage subsidiary was committed to fund $486.4 million of

mortgage loans. Of these commitments, $187.4 million are IRLCs. The Company s mortgage subsidiary has commitments from investors to acquire all $187.4 million of these IRLCs and $46.1 million of its mortgage loans receivable. The Company s home buyers have not locked-in the interest rate on the remaining $299.1 million.

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As of April 30, 2010, the Company has confirmed the presence of defective Chinese-made drywall in a small number of its West Florida homes, which were delivered between May 2006 and January 2008. The anticipated cost of the remediation of these homes is included in the amounts that the Company previously accrued. The Company is inspecting homes, gathering information from its drywall subcontractors and suppliers, and continuing to investigate this issue. The Company believes that adequate provision for costs associated with the remediation of homes containing Chinese-made drywall has been made and that such costs are not expected to have a material adverse effect on the Company s results of operations and liquidity or on its financial condition.

17. Business Segments

Revenue and loss before income taxes for each of the Company s geographic segments for the six-month and three-month periods ended April 30, 2010 and 2009 were as follows (amounts in millions):

	Six months ended April 30,		Three months ended April 30,	
	2010	2009	2010	2009
Revenue:				
North	$ 174.5	$ 283.0	$ 83.1	$ 139.8
Mid-Atlantic	204.0	234.8	103.0	104.3
South	119.0	128.9	63.7	73.7
West	140.5	160.7	61.5	80.5
Total	$ 638.0	$ 807.4	$ 311.3	$ 398.3
(Loss) income before income taxes:				
North	$ (4.3)	$ (26.3)	$ (2.4)	$ 0.9
Mid-Atlantic	2.5	(17.6)	7.6	(13.3)
South	(27.6)	(32.1)	(18.4)	(5.7)
West	(26.8)	(146.4)	(15.5)	(73.8)
Corporate and other	(52.3)	(56.1)	(23.1)	(30.0)
Total	$ (108.5)	$ (278.5)	$ (51.8)	$ (121.9)

Corporate and other is comprised principally of general corporate expenses such as the Offices of the Chief Executive Officer and President, and the corporate finance, accounting, audit, tax, human resources, risk management, marketing and legal groups, offset in part by interest income and income from the Company s ancillary businesses.

Total assets for each of the Company s geographic segments at April 30, 2010 and October 31, 2009 are shown in the table below (amounts in millions).

	April 30, 2010	October 31, 2009
North	$ 1,011.5	$ 1,009.0
Mid-Atlantic	1,156.2	1,081.9
South	684.4	573.1
West	766.3	759.3
Corporate and other	1,871.1	2,211.1
Total	$ 5,489.5	$ 5,634.4

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

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The Company provided for inventory impairment charges and the expensing of costs that it believed not to be recoverable and write-downs of investments in unconsolidated entities that it does not believe it will be able to recover (including the Company s pro-rata share of impairment charges recognized by the unconsolidated entities in which it has an investment) for the six-month and three-month periods ended April 30, 2010 and 2009 as shown in the table below; the carrying value of inventory and investments in and advances to unconsolidated entities for each of the Company s geographic segments at April 30, 2010 and October 31, 2009 are also shown (amounts in millions).

	Net Carrying Value of Inventory or Investment		Impairment Charges Recognized			
			Six months ended April 30,		Three months ended April 30,	
	April 30, 2010	October 31, 2009	2010	2009	2010	2009
Inventory:						
Land controlled for future communities:						
North	$ 12.4	$ 30.2	$ 1.8	$ 4.4	$ 0.2	$ 1.1
Mid-Atlantic	14.4	16.9	0.2	4.0	0.2	0.3
South	6.6	8.4	(0.2)	0.3		0.2
West	2.7	5.1	0.4	1.4	0.2	1.2
	36.1	60.6	2.2	10.1	0.6	2.8
Land owned for future communities:						
North	184.3	224.6	5.3	25.6	5.3	5.6
Mid-Atlantic	459.5	390.9	9.0	10.3		5.2
South	129.5	66.6	8.1		8.1	
West	146.0	93.0	13.3	48.6	13.3	38.6
	919.3	775.1	35.7	84.5	26.7	49.4
Operating communities:						
North	751.9	685.6	4.8	21.5	0.1	8.0
Mid-Atlantic	651.4	646.2	1.6	22.1		14.4
South	418.1	436.7	17.3	32.9	11.2	8.3
West	544.2	579.4	14.1	99.2	3.7	36.7
	2,365.6	2,347.9	37.8	175.7	15.0	67.4
Total inventory	$ 3,321.0	$ 3,183.6	$ 75.7	$ 270.3	$ 42.3	$ 119.6
Investments in unconsolidated entities:						
North	$ 45.5	$ 25.5		$ 6.0		
South	49.9	50.0				
West	61.8	64.2				
Corporate	13.3	13.1				

Total	$	170.5	$	152.8		$	6.0

18. Supplemental Disclosure to Statements of Cash Flows

The following are supplemental disclosures to the statements of cash flows for the six months ended April 30, 2010 and 2009 (amounts in thousands):

	2010	2009
Cash flow information:		
Interest paid, net of amount capitalized	$ 16,030	$ 9,238
Income taxes paid	$ 2,964	$ 75,155
Income tax refunds		$ 43,939
Non-cash activity:		
Cost of inventory acquired through seller financing or recorded due to VIE criteria	$ 37,672	$ 3,752
Cost of other inventory	$ 1,395	
Reclassification of inventory to property, construction and office equipment	$ 18,711	
Income tax benefit related to exercise of employee stock options	$ 3,189	$ 4,487
Reclassification of accrued liabilities to loan payable		$ 7,800
Reduction of investments in unconsolidated entities due to reduction in letters of credit	$ 6,865	$ 6,343
Defined benefit retirement plan amendment	$ 1,085	
Contribution of inventory to a consolidated joint venture		$ 5,283
Miscellaneous increases to investments in unconsolidated entities	$ 1,353	$ 578
Stock awards	$ 22	$ 27

19. Supplemental Guarantor Information

A 100% owned subsidiary of the Company, Toll Brothers Finance Corp. (the Subsidiary Issuer), issued $300 million of 6.875% Senior Notes due 2012 on November 22, 2002; $250 million of 5.95% Senior Notes due 2013 on September 3, 2003; $300 million of 4.95% Senior Notes due 2014 on March 16, 2004; $300 million of 5.15% Senior Notes due 2015 on June 2, 2005; $400 million of 8.91% Senior Notes due 2017 on April 13, 2009; and $250 million of 6.75% Senior Notes due 2019 on September 22, 2009. In fiscal 2009, the Subsidiary Issuer redeemed $105.1 million of its 6.875% Senior Notes due 2012 and $94.9 million of its 5.95% Senior Notes due 2013. The obligations of the Subsidiary Issuer to pay principal, premiums, if any, and interest is guaranteed jointly and severally on a senior basis by the Company and substantially all of the Company s 100%-owned home building subsidiaries (the Guarantor Subsidiaries). The guarantees are full and unconditional. The Company s non-home building subsidiaries and several of its home building subsidiaries (the Non-Guarantor Subsidiaries) do not guarantee the debt. Separate financial statements and other disclosures concerning the Guarantor Subsidiaries are not presented because management has determined that such disclosures would not be material to financial investors. Prior to the senior debt issuances, the Subsidiary Issuer did not have any operations.

Supplemental consolidating financial information of Toll Brothers, Inc., the Subsidiary Issuer, the Guarantor Subsidiaries, the Non-Guarantor Subsidiaries and the eliminations to arrive at Toll Brothers, Inc. on a consolidated basis is presented below (amounts in thousands $).

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Condensed Consolidating Balance Sheet at April 30, 2010 ($ in thousands):

	Toll Brothers, Inc.	Subsidiary Issuer	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Consolidated
ASSETS						
Cash and cash equivalents			1,252,469	109,500		1,361,969
Marketable U.S. Treasury securities			186,036			186,036
Inventory			3,101,272	219,723		3,320,995
Property, construction and office equipment, net			81,492	713		82,205
Receivables, prepaid expenses and other assets	41	8,861	57,743	27,136	(2,591)	91,190
Mortgage loans receivable				47,107		47,107
Customer deposits held in escrow			20,363	8,557		28,920
Investments in and advances to unconsolidated entities			129,821	40,642		170,463
Income tax refund recoverable	200,580					200,580
Investments in and advances to consolidated entities	2,426,151	1,607,992	(969,537)	(213,101)	(2,851,505)	
	2,626,772	1,616,853	3,859,659	240,277	(2,854,096)	5,489,465
LIABILITIES AND EQUITY						
Liabilities:						
Loans payable			431,080	2,108		433,188
Senior notes		1,588,616				1,588,616
Senior subordinated notes						
Mortgage company warehouse loan				30,006		30,006
Customer deposits			91,182	2,303		93,485
Accounts payable			97,008	206		97,214
Accrued expenses		28,237	276,608	316,630	(2,574)	618,901
Income taxes payable	181,684			(2,000)		179,684
Total liabilities	181,684	1,616,853	895,878	349,253	(2,574)	3,041,094
Equity:						
Stockholders equity:						
Common stock	1,654			2,003	(2,003)	1,654
Additional paid-in capital	329,662		4,420	2,734	(7,154)	329,662
Retained earnings	2,116,675		2,962,216	(116,996)	(2,845,220)	2,116,675
Treasury stock, at cost	(48)					(48)
	(2,855)		(2,855)		2,855	(2,855)

Accumulated other comprehensive loss						
Total stockholders equity	2,445,088		2,963,781	(112,259)	(2,851,522)	2,445,088
Noncontrolling interest				3,283		3,283
Total equity	2,445,088		2,963,781	(108,976)	(2,851,522)	2,448,371
	2,626,772	1,616,853	3,859,659	240,277	(2,854,096)	5,489,465

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Condensed Consolidating Balance Sheet at October 31, 2009 ($ in thousands):

	Toll Brothers, Inc.	Subsidiary Issuer	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Consolidated
ASSETS						
Cash and cash equivalents			1,700,351	107,367		1,807,718
Marketable U.S. Treasury securities			101,176			101,176
Inventory			2,951,387	232,179		3,183,566
Property, construction and office equipment, net			69,328	1,113		70,441
Receivables, prepaid expenses and other assets	51	9,436	66,240	22,201	(2,154)	95,774
Mortgage loans receivable				43,432		43,432
Customer deposits held in escrow			16,779	874		17,653
Investments in and advances to unconsolidated entities			112,201	40,643		152,844
Income tax refund recoverable	161,840					161,840
Investments in and advances to consolidated entities	2,527,938	1,598,537	(945,308)	(237,029)	(2,944,138)	
	2,689,829	1,607,973	4,072,154	210,780	(2,946,292)	5,634,444
LIABILITIES AND EQUITY						
Liabilities:						
Loans payable			409,264	63,590		472,854
Senior notes		1,587,648				1,587,648
Senior subordinated notes			47,872			47,872
Mortgage company warehouse loan				27,015		27,015
Customer deposits			85,521	3,104		88,625
Accounts payable			78,685	412		79,097
Accrued expenses		20,325	399,807	222,217	(2,128)	640,221
Income taxes payable	176,630			(2,000)		174,630
Total liabilities	176,630	1,607,973	1,021,149	314,338	(2,128)	3,117,962
Equity:						
Stockholders equity:						
Common stock	1,647			2,003	(2,003)	1,647
Additional paid-in capital	316,518		4,420	2,734	(7,154)	316,518
Retained earnings	2,197,830		3,049,222	(111,578)	(2,937,644)	2,197,830
Treasury stock, at cost	(159)					(159)
	(2,637)		(2,637)		2,637	(2,637)

Accumulated other comprehensive loss						
Total stockholders equity	2,513,199		3,051,005	(106,841)	(2,944,164)	2,513,199
Noncontrolling interest				3,283		3,283
Total equity	2,513,199		3,051,005	(103,558)	(2,944,164)	2,516,482
	2,689,829	1,607,973	4,072,154	210,780	(2,946,292)	5,634,444

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Condensed Consolidating Statement of Operations for the six months ended April 30, 2010 ($ in thousands):

	Toll Brothers, Inc.	Subsidiary Issuer	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Consolidated
Revenues			614,819	23,150		637,969
Cost of revenues		484	588,752	34,295	(24)	623,507
Selling, general and administrative	49	694	126,332	10,013	(10,266)	126,822
Interest expense		53,158	13,464		(53,158)	13,464
	49	54,336	728,548	44,308	(63,448)	763,793
Loss from operations	(49)	(54,336)	(113,729)	(21,158)	63,448	(125,824)
Other:						
Income from unconsolidated entities			1,646			1,646
Interest and other		54,336	3,623	13,728	(56,018)	15,669
Expenses related to retirement of debt			(34)			(34)
Loss from subsidiaries	(108,494)				108,494	
Loss before income tax benefit	(108,543)		(108,494)	(7,430)	115,924	(108,543)
Income tax benefit	(27,388)		(21,663)	(1,837)	23,500	(27,388)
Net loss	(81,155)		(86,831)	(5,593)	92,424	(81,155)

Condensed Consolidating Statement of Operations for the six months ended April 30, 2009 ($ in thousands):

	Toll Brothers, Inc.	Subsidiary Issuer	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Consolidated
Revenues			709,838	97,512		807,350
Cost of revenues			825,068	108,282	390	933,740
Selling, general and administrative	22	372	160,702	11,165	(10,397)	161,864
Interest expense		34,983	5,245		(34,983)	5,245
	22	35,355	991,015	119,447	(44,990)	1,100,849
Loss from operations	(22)	(35,355)	(281,177)	(21,935)	44,990	(293,499)
Other:						
			(4,616)			(4,616)

Loss from unconsolidated entities						
Interest and other		35,355	9,417	12,661	(35,716)	21,717
Expenses related to retirement of debt			(2,067)			(2,067)
Loss from subsidiaries	(278,443)				278,443	
Loss before income tax benefit	(278,465)		(278,443)	(9,274)	287,717	(278,465)
Income tax benefit	(106,405)		(120,447)	(3,522)	123,969	(106,405)
Net loss	(172,060)		(157,996)	(5,752)	163,748	(172,060)

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Condensed Consolidating Statement of Operations for the three months ended April 30, 2010 ($ in thousands):

	Toll Brothers, Inc.	Subsidiary Issuer	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Consolidated
Revenues			301,754	9,517		311,271
Cost of revenues		484	285,167	20,402	(314)	305,739
Selling, general and administrative	27	346	59,252	4,883	(4,959)	59,549
Interest expense		26,313	6,207		(26,313)	6,207
	27	27,143	350,626	25,285	(31,586)	371,495
Loss from operations	(27)	(27,143)	(48,872)	(15,768)	31,586	(60,224)
Other:						
Earnings from unconsolidated entities			1,280			1,280
Interest and other		27,143	(4,170)	6,525	(22,343)	7,155
Loss from subsidiaries	(51,762)				51,762	
Loss before income tax benefit	(51,789)		(51,762)	(9,243)	61,005	(51,789)
Income tax benefit	(11,388)		(9,376)	(2,391)	11,767	(11,388)
Net loss	(40,401)		(42,386)	(6,852)	49,238	(40,401)

Condensed Consolidating Statement of Operations for the three months ended April 30, 2009 ($ in thousands):

	Toll Brothers, Inc.	Subsidiary Issuer	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Consolidated
Revenues			359,601	38,726		398,327
Cost of revenues			408,095	39,477	188	447,760
Selling, general and administrative	16	199	75,670	5,602	(4,574)	76,913
Interest expense		18,248	5,031		(18,646)	4,433
	16	18,447	488,796	45,079	(23,232)	529,106
Loss from operations	(16)	(18,447)	(129,195)	(6,353)	23,232	(130,779)
Other:						
Earnings from unconsolidated entities			481			481
Interest and other		18,447	8,893	8,385	(25,264)	10,461

Expenses related to retirement of debt		(2,067)			(2,067)
Loss from subsidiaries	(121,888)			121,888	
(Loss) income before income tax benefit	(121,904)	(121,888)	2,032	119,856	(121,904)
Income tax (benefit) provision	(38,739)	(32,493)	1,345	31,148	(38,739)
Net (loss) income	(83,165)	(89,395)	687	88,708	(83,165)

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Condensed Consolidating Statement of Cash Flows for the six months ended April 30, 2010 ($ in thousands):

	Toll Brothers, Inc.	Subsidiary Issuer	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Consolidated
Cash flow from operating activities:						
Net loss	(81,155)		(86,831)	(5,593)	92,424	(81,155)
Adjustments to reconcile net loss to net cash (used in) provided by operating activities:						
Depreciation and amortization		1,641	6,981	403		9,025
Stock-based compensation	6,330					6,330
Excess tax benefits from stock-based compensation	(2,606)					(2,606)
Income from unconsolidated entities			(1,646)			(1,646)
Inventory impairments			67,962	7,750		75,712
Write-off of unamortized debt issuance costs			34			34
Changes in operating assets and liabilities						
(Increase) decrease in inventory			(197,510)	4,706		(192,804)
Origination of mortgage loans				(241,631)		(241,631)
Sale of mortgage loans				238,071		238,071
Decrease (increase) in receivables, prepaid expenses and other assets	101,906	(9,553)	32,503	(29,364)	(92,305)	3,187
(Decrease) increase in customer deposits			2,077	(8,484)		(6,407)
(Decrease) increase in accounts payable and accrued expenses	(472)	7,912	(101,741)	94,768	(119)	348
Increase in income tax refund recoverable	(38,740)					(38,740)
Decrease in current income taxes payable	8,389					8,389
Net cash (used in) provided by operating activities	(6,348)		(278,171)	60,626		(223,893)
Cash flow from investing activities:						
Purchase of property and equipment			(745)	(3)		(748)
Purchase of marketable securities			(85,450)			(85,450)
Investments in and advances to unconsolidated entities			(25,931)			(25,931)
Return of investments from unconsolidated entities			4,446			4,446

Net cash used in investing activities		(107,680)	(3)	(107,683)
Cash flow from financing activities:				
Redemption of senior subordinated notes		(47,872)		(47,872)
Proceeds from loans payable			346,472	346,472
Principal payments of loans payable		(14,159)	(404,962)	(419,121)
Proceeds from stock-based benefit plans	4,124			4,124
Excess tax benefits from stock-based compensation	2,606			2,606
Purchase of treasury stock	(382)			(382)
Net cash (used in) provided by financing activities	6,348	(62,031)	(58,490)	(114,173)
Net (decrease) increase in cash and cash equivalents		(447,882)	2,133	(445,749)
Cash and cash equivalents, beginning of period		1,700,351	107,367	1,807,718
Cash and cash equivalents, end of period		1,252,469	109,500	1,361,969

Condensed Consolidating Statement of Cash Flows for the six months ended April 30, 2009 ($ in thousands):

	Toll Brothers, Inc.	Subsidiary Issuer	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Consolidated
Cash flow from operating activities:						
Net loss	(172,060)		(157,996)	(5,070)	163,066	(172,060)
Adjustments to reconcile net loss to net cash provided by (used in) operating activities:						
Depreciation and amortization		970	10,660	454		12,084
Stock-based compensation	7,478					7,478
Excess tax benefits from stock-based compensation	(3,331)					(3,331)
Impairment of investment in unconsolidated entities			6,000			6,000
Income from unconsolidated entities			(1,384)			(1,384)
Distributions of earnings from unconsolidated entities			813			813
Deferred tax benefit	(24,881)					(24,881)
Inventory impairments			245,252	25,000		270,252
Write-off of unamortized debt issuance costs			692			692
Changes in operating assets and liabilities						
Decrease in inventory			73,760	80,642		154,402
Origination of mortgage loans				(246,678)		(246,678)
Sale of mortgage loans				248,741		248,741
Decrease (increase) in receivables, prepaid expenses and other assets	298,721	(391,855)	277,911	(3,245)	(163,442)	18,090
Decrease in customer deposits			(15,637)	(15,371)		(31,008)
(Decrease) increase in accounts payable and accrued expenses	(95)	1,485	(69,910)	(26,913)	376	(95,057)
Decrease in current income taxes payable	(112,773)					(112,773)
Net cash provided by (used in) operating activities	(6,941)	(389,400)	370,161	57,560		31,380
Cash flow from investing activities:						
Purchase of property and equipment			(2,008)	(194)		(2,202)
Investments in and advances to unconsolidated entities			(16,446)			(16,446)

Return of investments from unconsolidated entities