

TOLL BROTHERS INC  
Form 10-Q  
September 07, 2011

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

**(Mark One)**

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

**For the quarterly period ended July 31, 2011**

**or**

☐ **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  
(State or other jurisdiction of  
incorporation or organization)**

**23-2416878  
(I.R.S. Employer  
Identification No.)**

**250 Gibraltar Road, Horsham, Pennsylvania  
(Address of principal executive offices)**

**19044  
(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 ☒ No ☐

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 ☒ No ☐

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," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act. Check one):

Large accelerated filer ☒

Accelerated filer ☐

Non-accelerated filer ☐

Smaller reporting  
company ☐

**(Do not check if a smaller  
reporting company)**

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

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

At August 31, 2011, there were approximately 167,136,000 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 ( SEC ) (as well as information included in oral statements or other written statements made or to be made by us) contains or may contain forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. You can identify these statements by the fact that they do not relate to matters of strictly historical or factual nature and generally discuss or relate to estimates or other expectations regarding future events. They contain words such as anticipate, estimate, expect, project, intend, plan, believe, may, can, could, might, should and words of similar meaning in connection with any discussion of future operating or financial performance. Such statements may include, but are not limited to, information related to: anticipated operating results; home deliveries; financial resources and condition; changes in revenues; changes in profitability; changes in margins; changes in accounting treatment; cost of revenues; selling, general and administrative expenses; interest expense; inventory write-downs; unrecognized tax benefits; anticipated tax refunds; sales paces and prices; effects of home buyer cancellations; growth and expansion; joint ventures in which we are involved; anticipated results from our investments in unconsolidated entities; the ability to acquire land and pursue real estate opportunities; the ability to gain approvals and to open new communities; the ability to sell homes and properties; the ability to deliver homes from backlog; the ability to secure materials and subcontractors; the ability to produce the liquidity and capital necessary to expand and take advantage of opportunities; and legal proceedings and claims.

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

When we use the words we, us, our, and the Company in this report, we refer to Toll Brothers, Inc. and its subsidiaries, unless the context otherwise requires. References herein to fiscal 2011, and to fiscal 2010, fiscal 2009, and fiscal 2008 refer to our fiscal year ending October 31, 2011, and our fiscal years ended October 31, 2010, 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.

**Table of Contents****PART I FINANCIAL INFORMATION****ITEM 1. FINANCIAL STATEMENTS**

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

	July 31, 2011 (unaudited)	October 31, 2010
<b>ASSETS</b>		
Cash and cash equivalents	\$ 890,067	\$ 1,039,060
Marketable securities	294,286	197,867
Restricted cash	24,225	60,906
Inventory	3,423,617	3,241,725
Property, construction and office equipment, net	98,902	79,916
Receivables, prepaid expenses and other assets	96,972	97,039
Mortgage loans held for sale	45,320	93,644
Customer deposits held in escrow	16,304	21,366
Investments in and advances to unconsolidated entities and non-performing loan portfolio	186,917	198,442
Income tax refund recoverable		141,590
	\$ 5,076,610	\$ 5,171,555
<b>LIABILITIES AND EQUITY</b>		
<b>Liabilities</b>		
Loans payable	\$ 104,512	\$ 94,491
Senior notes	1,500,494	1,544,110
Mortgage company warehouse loan	39,905	72,367
Customer deposits	90,184	77,156
Accounts payable	93,622	91,738
Accrued expenses	524,446	570,321
Income taxes payable	105,831	162,359
Total liabilities	2,458,994	2,612,542
<b>Equity</b>		
Stockholders' equity		
Preferred stock, none issued		
Common stock, 168,613 and 166,413 shares issued at July 31, 2011 and October 31, 2010, respectively	1,686	1,664
Additional paid-in capital	390,778	360,006
Retained earnings	2,219,208	2,194,456
Treasury stock, at cost 1 share and 5 shares at July 31, 2011 and October 31, 2010, respectively	(27)	(96)
Accumulated other comprehensive loss	(245)	(577)

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Total stockholders' equity	2,611,400	2,555,453
Noncontrolling interest	6,216	3,560
Total equity	2,617,616	2,559,013
	\$ 5,076,610	\$ 5,171,555

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)

	Nine months ended July 31,		Three months ended July 31,	
	2011	2010	2011	2010
Revenues	\$ 1,048,096	\$ 1,092,171	\$ 394,305	\$ 454,202
Cost of revenues	898,266	1,012,575	339,947	389,505
Selling, general and administrative	192,906	193,987	64,605	67,165
Interest expense	1,504	18,588		5,124
	1,092,676	1,225,150	404,552	461,794
Loss from operations	(44,580)	(132,979)	(10,247)	(7,592)
Other:				
(Loss) income from unconsolidated entities and non-performing loan portfolio	(9,817)	4,817	12,055	3,171
Interest and other	13,168	21,134	5,494	5,902
Expenses related to early retirement of debt	(3,414)	(692)	(3,414)	(658)
(Loss) income before income tax benefit	(44,643)	(107,720)	3,888	823
Income tax benefit	(69,395)	(53,867)	(38,220)	(26,479)
Net income (loss)	\$ 24,752	\$ (53,853)	\$ 42,108	\$ 27,302
Income (loss) per share:				
Basic	\$ 0.15	\$ (0.33)	\$ 0.25	\$ 0.16
Diluted	\$ 0.15	\$ (0.33)	\$ 0.25	\$ 0.16
Weighted average number of shares:				
Basic	167,221	165,465	168,075	165,752
Diluted	168,666	165,465	169,338	167,658
	See accompanying notes			

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

	Nine months ended July 31,	
	2011	2010
Cash flow provided by (used in) operating activities:		
Net income (loss)	\$ 24,752	\$ (53,853)
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:		
Depreciation and amortization	17,123	13,955
Stock-based compensation	10,419	9,366
Excess tax benefits from stock-based compensation		(3,595)
Impairments of investments in unconsolidated entities	39,600	
Income from unconsolidated entities and non-performing loan portfolio	(29,783)	(4,817)
Distributions of earnings from unconsolidated entities	7,417	7,211
Deferred tax benefit	4,329	(14,687)
Deferred tax valuation allowances	(4,329)	14,687
Inventory impairments	34,861	88,220
Change in fair value of mortgage loans receivable and derivative instruments	628	(537)
Expenses related to early retirement of debt	3,414	692
Changes in operating assets and liabilities		
Increase in inventory	(208,204)	(142,109)
Origination of mortgage loans	(457,383)	(417,985)
Sale of mortgage loans	504,724	395,191
Decrease in restricted cash	36,681	
(Increase) decrease in receivables, prepaid expenses and other assets	(2,955)	8,143
Increase (decrease) in customer deposits	18,090	(9,735)
Decrease in accounts payable and accrued expenses	(38,045)	(48,404)
Decrease in income tax refund recoverable	141,590	112,141
Decrease in income taxes payable	(56,461)	(16,410)
Net cash provided by (used in) operating activities	46,468	(62,526)
Cash flow used in investing activities:		
Purchase of property and equipment net	(6,927)	(1,452)
Purchase of marketable securities	(420,087)	(105,450)
Sale and redemption of marketable securities	318,372	
Investment in and advances to unconsolidated entities and non-performing loan portfolio	(42,141)	(55,628)
Return of investments in unconsolidated entities	26,285	7,246
Net cash used in investing activities	(124,498)	(155,284)
Cash flow used in financing activities:		
Proceeds from loans payable	666,659	610,071
Principal payments of loans payable	(715,131)	(691,776)
Redemption of senior subordinated notes		(47,872)

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Redemption of senior notes	(48,437)	(36,064)
Proceeds from stock-based benefit plans	23,731	7,273
Excess tax benefits from stock-based compensation		3,595
Receipts related to noncontrolling interest	2,678	
Purchase of treasury stock	(463)	(500)
Net cash used in financing activities	(70,963)	(155,273)
Net decrease in cash and cash equivalents	(148,993)	(373,083)
Cash and cash equivalents, beginning of period	1,039,060	1,807,718
Cash and cash equivalents, end of period	\$ 890,067	\$ 1,434,635

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

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with the rules and regulations of the Securities and Exchange Commission (SEC) for interim financial information. The October 31, 2010 balance sheet amounts and disclosures included herein have been derived from the Company's October 31, 2010 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, 2010. 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 July 31, 2011, the results of its operations for the nine-month and three-month periods ended July 31, 2011 and 2010, and its cash flows for the nine-month periods ended July 31, 2011 and 2010. 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 capitalized 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.

The Company capitalizes certain interest costs to qualified inventory during the development and construction period of its communities in accordance with ASC 835-20, Capitalization of Interest (ASC 835-20). Capitalized interest is charged to cost of revenues when the related inventory is delivered. Interest incurred on homebuilding indebtedness in excess of qualified inventory, as defined in ASC 835-20, is charged to the statement of operations in the period 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 the Company's inventory is considered a long-lived asset under GAAP, the Company 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 have been impaired.

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*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, home construction, interest 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 applicable to the land and the estimated probability of obtaining the necessary approvals, the estimated time and cost it will take to obtain the approvals and the possible concessions that will be required to be given in order to obtain them. Concessions may include cash payments to fund improvements to public places such as parks and streets, dedication of a portion of the property for use by the public or as open space or a reduction in the density or size of the homes to be built. Based upon this review, 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). The Company analyzes its land purchase contracts and the unconsolidated entities in which it has an investment to determine whether the land sellers and unconsolidated entities are variable interest entities (VIEs) and, if so, whether the Company is the primary beneficiary. If the Company is determined to be the primary beneficiary of a VIE, it 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. In determining whether it is the primary beneficiary, the Company considers, among other things, whether it has the power to direct the activities of the VIE that most significantly impact the entity's economic performance, including, but not limited to, determining or limiting the scope or purpose of the VIE, selling or transferring property owned or controlled by the VIE, or arranging financing for the VIE. The Company also considers whether it has the obligation to absorb losses of or the right to receive benefits from the VIE.

**Fair Value Disclosures**

The Company uses ASC 820, Fair Value Measurements and Disclosures (ASC 820), to measure the fair value of certain assets and liabilities. ASC 820 provides a framework for measuring fair value in accordance with GAAP,

establishes a fair value hierarchy which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value, and requires certain disclosures about fair value measurements. In January 2010, the Financial Accounting Standards Board ( FASB ) issued ASU No. 2010-6, Improving Disclosure about Fair Value Measurements ( ASU 2010-6 ), which amended ASC 820 to add disclosure requirements regarding recurring and non-recurring fair value measurements. The Company adopted ASU 2010-6 as of February 1, 2010, except for the disclosures about Level 3 fair value disclosures which will be effective for the Company on November 1, 2011. The adoption of ASU 2010-6 did not have a material impact on the Company's consolidated financial position, results of operations or cash flows.

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The fair value hierarchy is summarized below:

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

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

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

***Recent Accounting Pronouncements***

In June 2009, the FASB revised its authoritative guidance in ASC 860, *Transfers and Servicing* (ASC 860). The amendment eliminated the concept of a qualifying special-purpose entity, created more stringent conditions for reporting a transfer of a portion of a financial asset as a sale, clarified other sale-accounting criteria, and changed the initial measurement of a transferor's interest in transferred financial assets. The amendment was adopted by the Company for its fiscal year beginning November 1, 2010. The adoption has not had a material impact on the Company's consolidated financial position, results of operations or cash flows.

In June 2009, the FASB revised its authoritative guidance for determining the primary beneficiary of a VIE. In December 2009, the FASB issued Accounting Standards Update No. 2009-17, *Improvements to Financial Reporting by Enterprises Involved with Variable Interest Entities* (ASU 2009-17), which amended provisions of ASC 810 to reflect the revised guidance for consolidation purposes. The amendments to ASC 810 replace the quantitative-based risk and rewards calculation for determining which reporting entity, if any, has a controlling interest in a VIE with an approach focused on identifying which reporting entity has the power to direct the activities of a VIE that most significantly impact the entity's economic performance and has either the obligation to absorb losses of or the right to receive benefits from the entity. The Company adopted the amended provisions for its fiscal year beginning November 1, 2010. The adoption of the amended provisions of ASC 810 has not had a material effect on the Company's consolidated financial position, results of operations or cash flows.

In May 2011, the FASB issued Accounting Standards Update 2011-04, *Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRS*, (ASU 2011-04) which amends ASC 820 to clarify existing guidance and minimize differences between GAAP and International Financial Reporting Standards (IFRS). ASU 2011-04 requires entities to provide information about valuation techniques and unobservable inputs used in Level 3 fair value measurements and provide a narrative description of the sensitivity of Level 3 measurements to changes in unobservable inputs. ASU 2011-04 will be effective for the Company's fiscal quarter beginning February 1, 2012 and is not expected to have a material impact on the Company's consolidated financial position, results of operations or cash flows.

In June 2011, the FASB issued Accounting Standards Update No. 2011-05, *Statement of Comprehensive Income* (ASU 2011-05), which requires entities to present net income and other comprehensive income in either a single continuous statement or in two separate, but consecutive, statements of net income and other comprehensive income. The adoption of this guidance, which relates to presentation only, is not expected to have a material impact on the Company's consolidated financial position, results of operations or cash flows. ASU 2011-05 will be effective for the Company's fiscal year beginning November 1, 2012.

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In order to provide attractive mortgage financing to its home buyers, the Company's homebuilding operations subsidize the Company's mortgage subsidiary. In the quarter ended January 31, 2011, the Company determined that the amount of subsidies in fiscal 2010 were in excess of the mortgage company's costs and reclassified the excess from interest and other income to cost of revenues.

The table below provides information for each fiscal quarter of fiscal 2010 (\$ amounts in thousands).

	Cost of revenues			Interest and other income		
	As reported	Reclassified	\$ change (decrease)	As reported	Reclassified	\$ change (decrease)
Three months ended:	\$	\$		\$	\$	
January 31	317,768	317,487	(281)	8,514	8,233	(281)
April 30	305,739	305,583	(156)	7,155	6,999	(156)
July 31	392,416	389,505	(2,911)	8,813	5,902	(2,911)
October 31	367,152	363,983	(3,169)	10,348	7,179	(3,169)

The above reclassifications of cost of revenues resulted in a decrease in the Company's loss from operations. Certain other prior period amounts have been reclassified to conform to the fiscal 2011 presentation.

**2. Inventory**

Inventory at July 31, 2011 and October 31, 2010 consisted of the following (amounts in thousands):

	July 31, 2011	October 31, 2010
Land controlled for future communities	\$ 43,554	\$ 31,899
Land owned for future communities	1,031,144	923,972
Operating communities	2,348,919	2,285,854
	<b>\$ 3,423,617</b>	<b>\$ 3,241,725</b>

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

Information regarding the classification, number and carrying value of these temporarily closed communities at July 31, 2011 and October 31, 2010 is provided in the table below.

	July 31, 2011	October 31, 2010
Land owned for future communities:		
Number of communities	40	36
Carrying value (in thousands)	\$ 245,287	\$ 212,882
Operating communities:		
Number of communities	4	13
Carrying value (in thousands)	\$ 20,958	\$ 78,100



During the three-month period ended January 31, 2011, the Company reclassified \$20.0 million of inventory related to commercial retail space located in one of its high-rise projects to property, construction and office equipment. The \$20.0 million was reclassified due to the completion of construction of the facilities and the substantial completion of the high-rise project of which the facilities are a part.

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The Company provided for inventory impairment charges and the expensing of costs that it believed not to be recoverable in the nine-month and three-month periods ended July 31, 2011 and 2010 as shown in the table below (amounts in thousands).

	Nine months ended July 31,		Three months ended July 31,	
	2011	2010	2011	2010
Land controlled for future communities	\$ 2,486	\$ 2,250	\$ 637	\$ 58
Land owned for future communities	16,000	41,600	16,000	5,850
Operating communities	16,375	44,370	175	6,600
	\$ 34,861	\$ 88,220	\$ 16,812	\$ 12,508

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 in which 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 thousands).

	Number of operating communities tested	Number of communities	Impaired operating communities	
			Fair value of communities, net of impairment charges	Impairment charges
Three months ended:				
Fiscal 2011:				
January 31	143	6	\$ 56,105	\$ 5,475
April 30	142	9	\$ 40,765	10,725
July 31	129	2	\$ 867	175
				\$ 16,375
Fiscal 2010:				
January 31	260	14	\$ 60,519	\$ 22,750
April 30	161	7	\$ 53,594	15,020
July 31	155	7	\$ 21,457	6,600
October 31	144	12	\$ 39,209	9,120
				\$ 53,490

At July 31, 2011, the Company evaluated its land purchase contracts to determine if any of the selling entities were VIEs and, if they were, whether the Company was the primary beneficiary of any of them. Under these land purchase contracts, the Company does not possess legal title to the land and its risk is generally limited to deposits paid to the sellers and the creditors of the sellers generally have no recourse against the Company. At July 31, 2011, the

Company determined that 38 land purchase contracts, with an aggregate purchase price of \$309.6 million, on which it had made aggregate deposits totaling \$15.5 million, were VIEs, and that it was not the primary beneficiary of any VIE related to its land purchase contracts.

The Company capitalizes certain interest costs to qualified inventory during the communities' development and construction periods in accordance with 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 statements of operations in the period incurred.

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Interest incurred, capitalized and expensed for the nine-month and three-month periods ended July 31, 2011 and 2010 was as follows (amounts in thousands):

	Nine months ended July 31,		Three months ended July 31,	
	2011	2010	2011	2010
Interest capitalized, beginning of period	\$ 267,278	\$ 259,818	\$ 288,508	\$ 271,509
Interest incurred	86,820	87,740	28,387	28,879
Interest expensed to cost of revenues	(56,327)	(55,411)	(20,946)	(23,033)
Interest directly expensed to statement of operations	(1,504)	(18,588)		(5,124)
Write-off against other income	(861)	(1,786)	(543)	(977)
Interest reclassified to property, construction and office equipment		(519)		
Interest capitalized, end of period	\$ 295,406	\$ 271,254	\$ 295,406	\$ 271,254

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 July 31, 2011 and 2010 would have been reduced by approximately \$55.3 million and \$58.9 million, respectively.

**3. Investments in and Advances to Unconsolidated Entities and Non-Performing Loan Portfolio**

The Company has investments in and advances to various unconsolidated entities, including Toll Brothers Realty Trust and Toll Brothers Realty Trust II. In fiscal 2010, the Company formed Gibraltar Capital and Asset Management LLC ( Gibraltar ) to invest in distressed real estate opportunities. Through Gibraltar, the Company has invested in a structured asset joint venture and has made an investment in a non-performing loan portfolio.

**Development Joint Ventures**

The Company has investments in and advances to, a number of joint ventures with unrelated parties to develop land ( Development Joint Ventures ). Some of these Development Joint Ventures develop land for the sole use of the venture participants, including the Company, and others develop land for sale to the joint venture participants and to unrelated builders. The Company recognizes its share of earnings from the sale of home sites by the Development Joint Ventures to other builders. With regard to home sites the Company purchases from the Development Joint Ventures, the Company reduces its cost basis in those home sites by its share of the earnings on the home sites. At July 31, 2011, the Company had approximately \$17.0 million, net of impairment charges, invested in or advanced to the 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 July 31, 2011, the Company had recognized cumulative impairment charges in connection with its current Development Joint Ventures of \$101.4 million. These impairment charges are attributable to investments in certain Development Joint Ventures where the Company determined there was a loss in value in the investment that was other than temporary. In the nine-month period ended July 31, 2011, the Company recognized impairment charges in connection with one of its Development Joint Ventures of \$29.6 million. The Company did not recognize any impairment charges in connection with the Development Joint Ventures in the nine-month period ended July 31, 2010 and the three-month periods ended July 31, 2011 and 2010.

At July 31, 2011, one of the Development Joint Ventures had a loan with a principal balance of \$327.9 million subject to litigation discussed below. This loan is non-recourse to the Company; however, the Company executed certain completion guarantees and conditional repayment guarantees against this loan. 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 obligation of this Development Joint Venture.

On June 10, 2011, the Company, together with a majority of the members of one of the Development Joint Ventures, entered into an agreement to resolve disputes regarding a loan made by a syndicate of lenders to the Development Joint Venture. As of July 31, 2011, the principal balance of that loan was \$327.9 million. The Company executed certain completion and conditional repayment guaranties in connection with this loan which were limited to the Company's pro rata share of the loan obligation. In December 2008, the lending syndicate for the 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. In December 2010, three of the lenders in this syndicate filed an involuntary bankruptcy petition against this joint venture entity. In February 2011, the bankruptcy court upheld the involuntary petition and entered an order appointing a bankruptcy trustee. The joint venture appealed the bankruptcy court's order, but this appeal was denied by the U.S. District Court. The June 10, 2011 agreement, which is subject to bankruptcy court approval, includes a cash settlement to the lenders, the acquisition of land by the Company and the other members of the joint venture which are parties to the agreement, and the resolution of all claims between members of the lending syndicate representing 92.8% of the outstanding amounts due under the loan, the bankruptcy trustee and the members of the joint venture which are parties to the agreement. The bankruptcy order affirming the involuntary petition has been further appealed to the United States Circuit Court, but the appeal is stayed until December 2011, after the date the bankruptcy court is expected to rule on the settlement agreement. This appeal will be rendered moot by the approval of the settlement agreement. The Company believes it had made adequate provision in prior reporting periods, including accruing for its share of the cash payments required under the agreement, any remaining exposure to lenders which are not parties to the agreement and recording impairments to reflect the estimated fair value of land to be acquired. The disposition of the above matter is not expected to have a material adverse effect on the Company's results of operations and liquidity or on its financial condition.

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***Planned Community Joint Venture***

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 July 31, 2011, the Company had an investment of \$39.8 million in this Planned Community Joint Venture. At July 31, 2011, each participant had agreed to contribute additional funds up to \$8.3 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. At July 31, 2011, this joint venture did not have any indebtedness. The Company recognized an impairment charge in connection with the Planned Community Joint Venture of \$10.0 million in the nine-month period ended July 31, 2011. The Company did not recognize any impairment charges in connection with the Planned Community Joint Venture in the nine-month period ended July 31, 2010 and the three-month periods ended July 31, 2011 and 2010.

***Condominium Joint Ventures***

At July 31, 2011, the Company had an aggregate of \$40.5 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 July 31, 2011, the Condominium Joint Ventures had aggregate loan commitments of \$69.9 million, against which approximately \$65.8 million had been borrowed. Included in the aggregate loan commitments and amount borrowed, was \$18.4 million due to the Company.

As of July 31, 2011, 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 in the nine-month and three-month periods ended July 31, 2011 and 2010. At July 31, 2011, the Company did not have any commitments to make contributions to any Condominium Joint Venture.

***Structured Asset Joint Venture***

In July 2010, the Company, through Gibraltar, invested \$29.1 million in a joint venture in which it is a 20% participant with two unrelated parties to purchase a 40% interest in an entity that owns and controls a portfolio of loans and real estate (Structured Asset Joint Venture). At July 31, 2011, the Company had an investment of \$33.9 million in this Structured Asset Joint Venture. At July 31, 2011, the Company did not have any commitments to make additional contributions to the joint venture and has not guaranteed any of the joint venture's liabilities. If the joint venture needs additional capital and a participant fails to make a requested capital contribution, the other participant may make a contribution in consideration for a preferred return or may make the additional capital contribution and diminish the non-contributing participant's ownership interest. In the nine-month and three-month periods ended July 31, 2011, the Company recognized \$4.7 million and \$3.5 million, respectively, of earnings from the Structured Asset Joint Venture.

***Loan Participation***

In March 2011, the Company, through Gibraltar, acquired a 60% participation in a portfolio of non-performing loans. The portfolio consisted primarily of residential acquisition, development and construction loans secured by properties at various stages of completion. The Company purchased its participation for \$42.1 million. At July 31, 2011, the Company's investment and pro rata share of the portfolio's earnings amounted to \$44.0 million. In the nine-month and three-month periods ended July 31, 2011, the Company recognized \$1.2 million and \$0.7 million, respectively, of earnings from the portfolio.

**Table of Contents*****Toll Brothers Realty Trust and Trust II***

In fiscal 2005, the Company, together with the Pennsylvania State Employees Retirement System ( PASERS ), formed Toll Brothers Realty Trust II ( Trust II ) to be in a position to take advantage of commercial real estate opportunities. Trust II is owned 50% by the Company and 50% by an affiliate of PASERS. At July 31, 2011, the Company had an investment of \$11.1 million in Trust II. Prior to the formation of Trust II, the Company formed Toll Brothers Realty Trust (the Trust ) in 1998 to take advantage of 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), Douglas C. Yearley, Jr. and former members of the Company's senior management; and one-third by an affiliate of PASERS (collectively, the Shareholders ). As of July 31, 2011, the Company had a net investment in the Trust of \$0.5 million. The Company provides development, finance and management services to the Trust and recognized fees under the terms of various agreements in the amounts of \$1.6 million in each of the nine-month periods ended July 31, 2011 and 2010, and \$0.5 million and \$0.6 million in the three-month periods ended July 31, 2011 and 2010, respectively. The Company believes that the transactions between itself and the Trust were on terms no less favorable than it would have agreed to with unrelated parties.

***General***

At July 31, 2011, the Company had accrued \$62.5 million of aggregate exposure with respect to its estimated obligations to unconsolidated entities in which it has an investment. The Company's investments in these entities are accounted for using the equity method. The Company recognized \$39.6 million of impairment charges related to its investments in and advances to unconsolidated entities in the nine-month period ended July 31, 2011. The Company did not recognize any impairment charges related to its investments in and advances to unconsolidated entities in the nine-month period ended July 31, 2010 or in the three-month periods ended July 31, 2011 and 2010. Impairment charges related to these entities are included in (Loss) income from unconsolidated entities and non-performing loan portfolio in the Company's Condensed Consolidated Statements of Operations.

**4. Accrued Expenses**

Accrued expenses at July 31, 2011 and October 31, 2010 consisted of the following (amounts in thousands):

	July 31, 2011	October 31, 2010
Land, land development and construction	\$ 106,174	\$ 110,301
Compensation and employee benefits	92,546	95,107
Insurance and litigation	131,878	143,421
Commitments to unconsolidated entities	64,532	88,121
Warranty	44,190	45,835
Interest	29,862	26,998
Other	55,264	60,538
	<b>\$ 524,446</b>	<b>\$ 570,321</b>

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 nine-month and three-month periods ended July 31, 2011 and 2010 were as follows (amounts in thousands):

	Nine months ended July 31,		Three months ended July 31,	
	2011	2010	2011	2010
Balance, beginning of period	\$ 45,835	\$ 53,937	\$ 46,321	\$ 52,769
Additions - homes closed during the period	6,147	6,758	2,248	2,753
Increase (decrease) in accruals for homes closed in prior periods	18	(2,292)	(629)	(2,896)
Charges incurred	(7,810)	(8,862)	(3,750)	(3,085)

Balance, end of period	\$	44,190	\$	49,541	\$	44,190	\$	49,541
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**Table of Contents****5. Employee Retirement Plans**

The Company has two unfunded supplemental retirement plans for certain employees. For the nine-month and three-month periods ended July 31, 2011 and 2010, the Company recognized costs and made payments related to its supplemental retirement plans as follows (amounts in thousands):

	Nine months ended July 31,		Three months ended July 31,	
	2011	2010	2011	2010
Service cost	\$ 229	\$ 182	\$ 76	\$ 60
Interest cost	968	1,041	323	347
Amortization of prior service obligation	520	920	173	307
 Total costs	 \$ 1,717	 \$ 2,143	 \$ 572	 \$ 714
 Benefits paid	 \$ 96	 \$ 96	 \$ 34	 \$ 34

**6. Senior Notes and Senior Subordinated Notes**

The Company has repurchased, and may from time to time in the future repurchase, its senior notes in the open market or otherwise. In the three-month period ended July 31, 2011, the Company repurchased \$45.1 million of its 6.875% Senior Notes due 2012 in the open market at various prices. In the nine-month and three-month periods ended July 31, 2011, the Company expensed \$3.4 million related to the premium paid on, and the write-off of unamortized issuance costs of, these Senior Notes.

In the three-month period ended July 31, 2010, the Company repurchased \$35.5 million of its 5.95% Senior Notes due 2013 and 4.95% Senior Notes due in 2014 in the open market at various prices. In the nine-month and three-month periods ended July 31, 2010, the Company expensed \$0.7 million related to the premium/loss paid on, and other debt redemption costs of, these Senior Notes.

In the three-month period ended January 31, 2010, 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.

**7. Income Taxes**

A reconciliation of the Company's effective tax rate from the federal statutory tax rate for the nine-month and three-month periods ended July 31, 2011 and 2010 is set forth in the tables below (amounts in thousands).

	2011		2010	
Nine-month period ended July 31:	\$	%*	\$	%*
Federal tax benefit at statutory rate	(15,625)	(35.0)	(37,701)	(35.0)
State taxes, net of federal benefit	(1,451)	(3.3)	(3,501)	(3.3)
Reversal of tax provisions due to expiration of statutes and settlements	(19,273)	(43.2)	(40,460)	(37.6)
Reversal of accrual for uncertain tax positions	(30,827)	(69.0)		
Valuation allowance recognized	18,791	42.1	52,423	48.7
Valuation allowance reversed	(23,123)	(51.8)	(37,736)	(35.0)
Accrued interest on anticipated tax assessments	2,799	6.3	966	0.9
Increase in unrecognized tax benefit			13,000	12.1
Other	(686)	(1.5)	(858)	(0.8)
 Tax benefit	 (69,395)	 (155.4)	 (53,867)	 (50.0)

\* Due to rounding, amounts may not add.



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	2011		2010	
Three-month period ended July 31:	\$	%*	\$	%*
Federal tax provision at statutory rate	1,361	35.0	289	35.0
State taxes, net of federal benefit	126	3.2	(948)	(114.9)
Reversal of tax provisions due to expiration of statutes and settlements	(16,933)	(435.5)	(40,460)	(4,904.3)
Reversal of accrual for uncertain tax positions	(12,873)	(331.1)		
Valuation allowance recognized			17,408	2,110.1
Valuation allowance reversed	(10,846)	(279.0)	(13,685)	(1,658.8)
Accrued interest on anticipated tax assessments	1,174	30.2	(1,797)	(217.8)
Increase in unrecognized tax benefit			13,000	1,575.8
Other	(229)	(5.9)	(286)	(34.7)
Tax benefit	(38,220)	(983.0)	(26,479)	(3,209.6)

\* Due to rounding, amounts may not add.

The Company currently operates in 19 states and is subject to taxation in various state jurisdictions. The Company estimates its state tax liabilities based upon the individual taxing authorities' regulations, estimates of income by taxing jurisdiction and the Company's ability to utilize certain tax-saving strategies. Based on the Company's estimate of the allocation of income or loss, as the case may be, among the various taxing jurisdictions and changes in tax regulations and their impact on the Company's tax strategies, the Company's estimated rate for state income taxes is 5.0% for each of fiscal 2011 and fiscal 2010.

The Company recognizes in its tax benefit potential interest and penalties. Information as to the amounts recognized in its tax benefit, before reduction for applicable taxes and reversal of previously accrued interest and penalties, of potential interest and penalties in the nine-month and three-month periods ended July 31, 2011 and 2010, and the amounts accrued for potential interest and penalties at July 31, 2011 and October 31, 2010 is set forth in the table below (amounts in thousands).

Recognized in statements of operations:

Nine-month period ended July 31, 2011	\$ 2,500
Nine-month period ended July 31, 2010	\$ 1,500
Three-month period ended July 31, 2011	\$ 1,806
Three-month period ended July 31, 2010	\$

Accrued at:

July 31, 2011	\$ 28,806
October 31, 2010	\$ 39,209

A reconciliation of the change in the unrecognized tax benefits for the nine-month and three-month periods ended July 31, 2011 and 2010 is set forth in the table below (amounts in thousands).

	Nine months ended July 31,		Three months ended July 31,	
	2011	2010	2011	2010
Balance, beginning of period	\$ 160,446	\$ 171,366	\$ 141,392	\$ 177,116
Increase in benefit as a result of tax positions taken in prior years	5,943	4,250	3,443	
		1,586		86

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Increase in benefit as a result of tax positions taken in current year				
Decrease in benefit as a result of resolution of uncertain tax positions	(17,954)	(8,793)		(8,793)
Decrease in benefit as a result of lapse of statute of limitation	(8,790)	(32,053)	(8,790)	(32,053)
Decrease in benefit as a result of completion of tax audits	(35,370)		(31,770)	
Balance, July 31,	\$ 104,275	\$ 136,356	\$ 104,275	\$ 136,356

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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 expiration of tax statutes, settlements with taxing jurisdictions, increases due to new tax positions taken and the accrual of estimated interest and penalties.

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 July 31, 2011, the Company had approximately \$10.0 million of tax loss carryforwards, resulting from losses that it recognized on its fiscal 2009 tax return, in excess of the amount it could carry back against its fiscal 2007 federal taxable income. 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 ASC 740 Income Taxes. On November 6, 2009, the Worker, Homeownership, and Business Assistance Act of 2009 (the Act) was enacted into law. The Act amended Section 172 of the Internal Revenue Code to allow net operating losses realized in a tax year ending after December 31, 2007 and beginning before January 1, 2010 to be carried back for up to five years (such losses were previously limited to a two-year carryback). This change allowed the Company to carry back its fiscal 2010 taxable losses to prior years and to file for a refund of previously paid federal income taxes. The Company received a tax refund in its second quarter of fiscal 2011 of \$154.3 million.

At July 31, 2011 and October 31, 2010, the Company had recorded cumulative valuation allowances against its entire net deferred federal tax asset of \$359.8 million and \$364.2 million, respectively.

For state tax purposes, due to past and projected losses in certain jurisdictions where the Company does not have carryback potential and/or cannot sufficiently forecast future taxable income, the Company has recognized net cumulative valuation allowances against its state deferred tax assets of \$45.0 million as of July 31, 2011 and October 31, 2010. 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.

**8. Accumulated Other Comprehensive Loss and Total Comprehensive Income (Loss)**

Accumulated other comprehensive loss at July 31, 2011 and October 31, 2010 was primarily related to employee retirement plans.

The components of total comprehensive income (loss) in the nine-month and three-month periods ended July 31, 2011 and 2010 were as follows (amounts in thousands):

	Nine months ended July 31,		Three months ended July 31,	
	2011	2010	2011	2010
Net income (loss) as reported	\$ 24,752	\$ (53,853)	\$ 42,108	\$ 27,302
Changes in pension liability, net of tax provision	520	(811)	173	(528)
Change in fair value of available-for-sale securities	(189)	128	(194)	65
Comprehensive income (loss)	\$ 25,083	\$ (54,536)	\$ 42,087	\$ 26,839
Tax benefit recognized in total comprehensive loss		\$ (19)		\$ 166

**Table of Contents****9. Stock-Based Benefit Plans***Stock Options:*

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

The weighted-average assumptions and the fair value used for stock option grants in fiscal 2011 and 2010 were as follows:

	2011		2010	
Expected volatility	45.38%	49.46%	46.74%	51.41%
Weighted-average volatility	47.73%		49.51%	
Risk-free interest rate	1.64%	3.09%	2.15%	3.47%
Expected life (years)	4.29	8.75	4.44	8.69
Dividends	none		none	
Weighted-average grant date fair value per share of options granted	\$7.94		\$7.63	

Stock compensation expense and related income tax benefits related to stock options recognized for the nine-month and three-month periods ended July 31, 2011 and 2010, for the twelve months ended October 31, 2010 and estimated amounts for the twelve months ended October 31, 2011 are as follows (amounts in thousands):

	2011	2010
<b>Nine months ended July 31:</b>		
Stock-compensation expense recognized	\$ 7,307	\$ 7,683
Income tax benefit related to stock option grants (a)		\$ 2,689
<b>Three months ended July 31:</b>		
Stock-compensation expense recognized	\$ 1,402	\$ 1,399
Income tax benefit related to stock option grants (a)		\$ 496
<b>Twelve months ended October 31:</b>		
Stock-compensation expense recognized	\$ 8,659(b)	\$ 9,332
Income tax benefit related to stock option grants (a)		(b) \$ 3,266

(a) Due to the losses recognized by the Company over the past several years and its inability to forecast future pre-tax profits, the Company has not recognized or estimated a tax benefit on its stock based compensation expense in the fiscal 2011 periods.

(b) Estimated

*Performance Based Restricted Stock Units:*

In December 2010 and 2009, the Executive Compensation Committee of the Company's Board of Directors approved awards of performance-based restricted stock units ( Performance-Based RSUs ) relating to shares of the Company's common stock. The Performance-Based RSUs will vest and the recipients will be entitled to receive the underlying shares if the average closing price of the Company's common stock on the New York Stock Exchange ( NYSE ), measured over any 20 consecutive trading days ending on or prior to five years from date of issuance of the Performance-Based RSUs increases 30% or more over the closing price of the Company's common stock on the NYSE on the date of issuance ( Target Price ); provided the recipients continue to be employed by the Company or serve on the board of directors of the Company (as applicable) as stipulated in the award document. The Company determined

the aggregate value of the Performance-Based RSUs using a lattice-based option pricing model.

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Information regarding the issuance, valuation assumptions, amortization and unamortized balances of the Company's Performance-Based RSUs in and at the relevant periods and dates in fiscal 2011 and 2010 is as follows:

	2011	2010
<b>Performance-Based RSUs issued:</b>		
Number issued	306,000	200,000
Closing price of the Company's common stock on date of issuance	\$ 19.32	\$ 18.38
Target price	\$ 25.12	\$ 23.89
Volatility	48.22%	49.92%
Risk-free interest rate	1.99%	2.43%
Expected life	3.0 years	3.0 years
Aggregate fair value of Performance-Based RSUs issued (in thousands)	\$ 4,994	\$ 3,160

**Performance-Based RSU expense recognized (in thousands):**

Nine months ended July 31,	\$ 2,718	\$ 1,554
Three months ended July 31,	\$ 983	\$ 567

	2011	2010
<b>At July 31:</b>		
Aggregate outstanding Performance-Based RSUs	706,000	400,000
Cumulative unamortized value of Performance-Based RSUs (in thousands)	\$ 5,912	\$ 4,202

*Non-Performance Based Restricted Stock Units:*

In December 2010 and 2009, the Company issued restricted stock units ( RSUs ) relating to shares of the Company's common stock to several employees. These RSUs generally vest in annual installments over a four-year period. The value of the RSUs was determined to be equal to the number of shares of the Company's common stock to be issued pursuant to the RSUs, multiplied by the closing price of the Company's common stock on the NYSE on the date the RSUs were awarded. Information regarding these RSUs is as follows:

	2011	2010
<b>RSUs issued:</b>		
Number issued	15,497	19,663
Closing price of the Company's common stock on date of issuance	\$ 19.32	\$ 18.38
Aggregate fair value of RSUs issued (in thousands)	\$ 299	\$ 361

**RSU expense recognized (in thousands):**

Nine months ended July 31,	\$ 105	\$ 55
Three months ended July 31,	\$ 39	\$ 23

**At July 31:**

Aggregate outstanding RSUs	30,994	19,663
Cumulative unamortized value of RSUs (in thousands)	\$ 418	\$ 306



**Table of Contents****10. Income (Loss) per Share Information**

Information pertaining to the calculation of income (loss) per share, common stock equivalents, weighted average number of anti-dilutive option and shares issued for the nine-month and three-month periods ended July 31, 2011 and 2010 is as follows (amounts in thousands):

	Nine months ended July 31,		Three months ended July 31,	
	2011	2010	2011	2010
Basic weighted-average shares	167,221	165,465	168,075	165,752
Common stock equivalents (a)	1,445		1,263	1,906
Diluted weighted-average shares	168,666	165,465	169,338	167,658
Common stock equivalents excluded from diluted weighted-average shares due to anti-dilutive effect (a)		2,121		
Weighted average number of anti-dilutive options (b)	7,118	8,026	6,461	9,243
Shares issued under stock incentive and employee stock purchase plans	2,226	1,174	1,713	454

(a) Common stock equivalents represent the dilutive effect of outstanding in-the-money stock options. For the nine-month period ended July 31, 2010, there were no incremental shares attributed to outstanding options to purchase common stock because the Company had a net loss in the period 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.

**11. 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. Information about the Company's share repurchase program for the nine-month and three-month periods ended July 31, 2011 and 2010 is in the table below.

	Nine months ended July 31,		Three months ended July 31,	
	2011	2010	2011	2010
Number of shares purchased	23,000	26,000	4,000	7,000
Average price per share	\$ 20.18	\$ 19.48	\$ 20.44	\$ 18.89
Remaining authorization at July 31(in thousands):	11,807	11,836	11,807	11,836

**12. Fair Value Disclosures**

A summary of assets and (liabilities) at July 31, 2011 and