TOLL BROTHERS INC
Form 10-Q
March 07, 2013

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 January 31, 2013
or

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

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

Delaware (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 þ No o

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

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

Large accelerated filer þ	Accelerated filer o	Non-accelerated filer o (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 March 4, 2013, there were approximately 169,162,000 shares of Common Stock, $.01 par value, outstanding.

TOLL BROTHERS, INC.
TABLE OF CONTENTS

STATEMENT ON FORWARD-LOOKING INFORMATION

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

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

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

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

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

1

PART I — FINANCIAL INFORMATION

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

	January 31, 2013 (unaudited)	October 31, 2012
ASSETS		
Cash and cash equivalents	$368,756	$778,824
Marketable securities	424,819	439,068
Restricted cash	33,757	47,276
Inventory	4,155,047	3,761,187
Property, construction and office equipment, net	112,877	109,971
Receivables, prepaid expenses and other assets	152,881	144,558
Mortgage loans held for sale	49,400	86,386
Customer deposits held in escrow	31,301	29,579
Investments in and advances to unconsolidated entities	321,851	330,617
Investments in distressed loans	42,832	37,169
Investments in foreclosed real estate	68,764	58,353
Deferred tax assets, net of valuation allowances	355,966	358,056
	$6,118,251	$6,181,044
LIABILITIES AND EQUITY		
Liabilities		
Loans payable	$93,314	$99,817
Senior notes	2,021,897	2,080,463
Mortgage company warehouse loan	43,464	72,664
Customer deposits	156,758	142,977
Accounts payable	110,791	99,911
Accrued expenses	467,652	476,350
Income taxes payable	83,265	80,991
Total liabilities	2,977,141	3,053,173
Equity		
Stockholders' equity		
Preferred stock, none issued		
Common stock, 169,159 and 168,690 shares issued at January 31, 2013 and October 31, 2012, respectively	1,692	1,687
Additional paid-in capital	412,242	404,418
Retained earnings	2,725,829	2,721,397
Treasury stock, at cost — 1 and 53 shares at January 31, 2013 and October 31, 2012, respectively	(38)	(983)
Accumulated other comprehensive loss	(4,803)	(4,819)
Total stockholders' equity	3,134,922	3,121,700
Noncontrolling interest	6,188	6,171
Total equity	3,141,110	3,127,871
	$6,118,251	$6,181,044

See accompanying notes

2

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

	Three months ended January 31,	
	2013	2012
Revenues	$424,601	$321,955
Cost of revenues	345,937	271,608
Selling, general and administrative	78,047	69,637
	423,984	341,245
Income (loss) from operations	617	(19,290)
Other:		
Income from unconsolidated entities	3,083	6,687
Other income - net	4,626	6,195
Income (loss) before income taxes	8,326	(6,408)
Income tax provision (benefit)	3,894	(3,622)
Net income (loss)	$4,432	$(2,786)
Income (loss) per share:		
Basic	$0.03	$(0.02)
Diluted	$0.03	$(0.02)
Weighted average number of shares:		
Basic	169,064	166,311
Diluted	171,903	166,311

See accompanying notes

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

	Three months ended January 31,	
	2013	2012
Net income (loss)	$4,432	$(2,786)
Other comprehensive income (loss), net of tax:		
Change in pension liability	(173)	(109)
Change in fair value of available-for-sale securities	96	243
Unrealized income (loss) on derivative held by equity investee	93	(795)
Other comprehensive income (loss)	16	(661)
Total comprehensive income (loss)	$4,448	$(3,447)

See accompanying notes

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

	Three months ended January 31, 2013	2012
Cash flow used in operating activities:		
Net income (loss)	$4,432	$(2,786)
Adjustments to reconcile net income to net cash used in operating activities:		
Depreciation and amortization	6,525	5,229
Stock-based compensation	5,684	5,626
Income from unconsolidated entities	(3,083)	(6,687)
Distributions of earnings from unconsolidated entities	2,413	872
Income from distressed loans and foreclosed real estate	(3,011)	(4,138)
Deferred tax provision (benefit)	2,306	(1,246)
Deferred tax valuation allowances	(216)	1,246
Inventory impairments and write-offs	709	8,120
Change in fair value of mortgage loans receivable and derivative instruments	554	346
Gain on marketable securities		(39)
Changes in operating assets and liabilities		
Increase in inventory	(378,715)	(108,468)
Origination of mortgage loans	(141,148)	(120,662)
Sale of mortgage loans	176,830	146,895
Decrease (increase) in restricted cash	13,519	(28,481)
(Increase) decrease in receivables, prepaid expenses and other assets	(8,256)	11,781
Increase in customer deposits	12,059	3,230
Increase (decrease) in accounts payable and accrued expenses	1,302	(67,127)
Increase (decrease) in income taxes payable	2,274	(5,790)
Net cash used in operating activities	(305,822)	(162,079)
Cash flow provided by (used in) investing activities:		
Purchase of property and equipment — net	(5,391)	(3,392)
Purchase of marketable securities	(26,019)	
Sale and redemption of marketable securities	38,775	88,217
Investments in and advances to unconsolidated entities	(7,614)	(71,784)
Return of investments in unconsolidated entities	17,311	15,333
Investments in distressed loans and foreclosed real estate	(16,252)	(26,410)
Return of investments in distressed loans and foreclosed real estate	3,015	3,702
Acquisition of a business		(144,746)
Net cash provided by (used in) investing activities	3,825	(139,080)
Cash flow used in financing activities:		
Proceeds from loans payable	244,830	199,139
Principal payments of loans payable	(299,862)	(237,896)
Redemption of senior notes	(59,068)	
Proceeds from stock-based benefit plans	6,108	9,334
Purchase of treasury stock	(79)	(64)
Net cash used in financing activities	(108,071)	(29,487)
Net decrease in cash and cash equivalents	(410,068)	(330,646)
Cash and cash equivalents, beginning of period	778,824	906,340

Cash and cash equivalents, end of period	$368,756	$575,694

See accompanying notes

4

TOLL BROTHERS, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)
1. Significant Accounting Policies
Basis of Presentation
The accompanying condensed consolidated financial statements include the accounts of Toll Brothers, Inc. (the “Company”), a Delaware corporation, and those majority-owned subsidiaries it controls. All significant intercompany accounts and transactions have been eliminated. Investments in 50% or less owned partnerships and affiliates are accounted for using the equity method unless it is determined that the Company has effective control of the entity, in which case the entity would be consolidated.
The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with the rules and regulations of the Securities and Exchange Commission (“SEC”) for interim financial information. The October 31, 2012 balance sheet amounts and disclosures included herein have been derived from the Company’s October 31, 2012 audited financial statements. Since the accompanying condensed consolidated financial statements do not include all the information and footnotes required by U.S. generally accepted accounting principles (“GAAP”) for complete financial statements, the Company suggests that they be read in conjunction with the consolidated financial statements and notes thereto included in its Annual Report on Form 10-K for the fiscal year ended October 31, 2012. In the opinion of management, the accompanying unaudited condensed consolidated financial statements include all adjustments, which are of a normal recurring nature, necessary to present fairly the Company’s financial position as of January 31, 2013, the results of its operations for the three-month periods ended January 31, 2013 and 2012, and its cash flows for the three-month periods ended January 31, 2013 and 2012. The results of operations for such interim periods are not necessarily indicative of the results to be expected for the full year.
Recent Accounting Pronouncements
In June 2011, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") No. 2011-05, “Statement of Comprehensive Income” (“ASU 2011-05”), which requires entities to present comprehensive income in either a single continuous statement or in two separate, but consecutive, statements of net income and other comprehensive income. ASU 2011-05 was effective for our fiscal year beginning November 1, 2012. The adoption of this guidance, which related to presentation only, did not have an impact on the Company’s consolidated financial position, results of operations or cash flows but did require a change in the presentation of the Company’s comprehensive income from the notes of the condensed consolidated financial statements to the face of the condensed consolidated financial statements.
In February 2013, the FASB issued ASU No. 2013-02, "Reporting of Amounts Reclassified Out of Accumulated Other Comprehensive Income" ("ASU 2013-02"). ASU 2013-02 requires entities to present information about reclassification adjustments from accumulated other comprehensive income in their financial statements in a single note or on the face of the financial statements. The adoption of this guidance, which relates to presentation only, is not expected to have a material impact on the Company’s consolidated financial position, results of operations or cash flows. ASU 2013-02 will be effective for the Company’s fiscal quarter beginning February 1, 2013.
Reclassification
Certain prior year amounts have been reclassified to conform to the fiscal 2013 presentation.

2. Inventory
Inventory at January 31, 2013 and October 31, 2012 consisted of the following (amounts in thousands):

	January 31, 2013	October 31, 2012
Land controlled for future communities	$54,521	$56,300
Land owned for future communities	1,253,102	1,040,373
Operating communities	2,847,424	2,664,514
	$4,155,047	$3,761,187

5

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

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

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

	January 31, 2013	October 31, 2012
Land owned for future communities:		
Number of communities	24	40
Carrying value (in thousands)	$159,931	$240,307
Operating communities:		
Number of communities	21	5
Carrying value (in thousands)	$108,143	$34,685

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

	Three months ended January 31, 2013	2012
Charge:		
Land controlled for future communities	$9	$777
Land owned for future communities	—	918
Operating communities	700	6,425
	$709	$8,120

See Note 12, "Fair Value Disclosures", for information regarding the number of operating communities that the Company tested for potential impairment, the number of operating communities in which it recognized impairment charges, the amount of impairment charges recognized, and the fair values of those communities, net of impairment charges.

At January 31, 2013, the Company evaluated its land purchase contracts to determine if any of the selling entities were variable interest entities ("VIEs") and, if they were, whether the Company was the primary beneficiary of any of them. Under these land purchase contracts, the Company does not possess legal title to the land and its risk is generally limited to deposits paid to the sellers and the creditors of the sellers generally have no recourse against the Company. At January 31, 2013, the Company determined that 63 land purchase contracts, with an aggregate purchase price of $750.7 million, on which it had made aggregate deposits totaling $33.9 million, were VIEs, and that it was not the primary beneficiary of any VIE related to its land purchase contracts.

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

	Three months ended January 31, 2013	2012
Interest capitalized, beginning of period	$330,581	$298,757
Interest incurred	31,748	28,899
Interest expensed to cost of revenues	(19,974)	(16,321)
Write-off against other income	(88)	
Interest capitalized on investments in unconsolidated entities	(1,363)	
Interest capitalized, end of period	$340,904	$311,335

6

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 January 31, 2013 and 2012 would have been reduced by approximately $46.2 million and $53.9 million, respectively.

3. Investments in and Advances to Unconsolidated Entities

The Company has investments in and advances to various unconsolidated entities. At January 31, 2013, the Company had investments in and advances to various unconsolidated entities of $321.9 million, and was committed to invest or advance $91.9 million to these entities if they require additional funding. At January 31, 2013, the Company had accrued $2.2 million of aggregate exposure with respect to its estimated obligations to unconsolidated entities in which it has an investment. More information regarding its investments in, advances to and future commitments to these entities is provided below.

At January 31, 2013, the Company determined that two of its joint ventures were VIEs under the guidance within FASB Accounting Standards Codification ("ASC") 810, "Consolidation". However, the Company concluded that it was not the primary beneficiary of the VIEs because the power to direct the activities of these VIEs that most significantly impact their performance was shared by the Company and the VIEs' other members. Business plans, budgets and other major decisions are required to be unanimously approved by all members. Management and other fees earned by the Company are nominal and believed to be at market rates and there is no significant economic disproportionality between the Company and other members.

The Company’s investments in these entities are accounted for using the equity method of accounting.

Development Joint Ventures

The Company has investments in and advances to a number of joint ventures with unrelated parties to develop land (“Development Joint Ventures”). Some of these Development Joint Ventures develop land for the sole use of the venture participants, including the Company, and others develop land for sale to the joint venture participants and to unrelated builders. The Company recognizes its share of earnings from the sale of home sites by the Development Joint Ventures to other builders. With regard to home sites the Company purchases from the Development Joint Ventures, the Company reduces its cost basis in those home sites by its share of the earnings on the home sites it purchases. At January 31, 2013, the Company had approximately $106.4 million invested in or advanced to the Development Joint Ventures. In addition, at January 31, 2013, the Company had a funding commitment of $13.5 million to two Development Joint Ventures which would be funded if additional investment in the ventures is required.

The Company has a 50% interest in a joint venture that is developing over 2,000 home sites in Orange County, California on land that it owns. Under the terms of the operating agreement, the Company will acquire 266 home sites in the first phase of the property from the joint venture. The Company intends to acquire approximately 545 additional home sites from the joint venture. The Company has a commitment to provide up to $10 million of additional funds to this joint venture, if needed. The joint venture has an $80 million credit facility from a bank to fund the development of the property; at January 31, 2013, the venture had $50.7 million borrowed under the facility. The Company executed a limited completion and a limited repayment guarantee under the loan agreement. The obligations under the guarantees are joint and several and contain a right of contribution agreement of each partner.

Planned Community Joint Venture

The Company entered into a joint venture in October 2008 for the development and sale of homes in a master planned community. At January 31, 2013, the Company had an investment of $31.6 million in this joint venture. At January 31, 2013, the participants agreed to contribute additional funds of up to $8.3 million each, if required.

Other Joint Ventures

At January 31, 2013, the Company had an aggregate of $143.4 million of investments in and advances to various joint ventures with unrelated parties to develop luxury for-sale and rental residential units, commercial space and a hotel. At At January 31, 2013, the Company had $70.1 million of funding commitments to three of these joint ventures. Several of the joint ventures expect to finance future construction with external financing. In addition, the Company has guaranteed approximately $11.9 million of joint venture liabilities, including approximately $9.8 million of payments related to a ground lease.

Toll Brothers Realty Trust and Trust II

In fiscal 2005, the Company, together with the Pennsylvania State Employees Retirement System (“PASERS”), formed Toll Brothers Realty Trust II (“Trust II”) to be in a position to invest in commercial real estate opportunities. Trust II is owned 50%

by the Company and 50% by an affiliate of PASERS. At January 31, 2013, the Company had an investment of $3.0 million in Trust II. Prior to the formation of Trust II, the Company formed Toll Brothers Realty Trust (“Trust”) in 1998 to invest in commercial real estate opportunities. The Trust is effectively owned one-third by the Company; one-third by Robert I. Toll, Bruce E. Toll (and members of his family), Douglas C. Yearley, Jr. and former members of the Company’s senior management; and one-third by an affiliate of PASERS (collectively, the “Shareholders”). As of January 31, 2013, the Company had a net investment in the Trust of $20 thousand. The Company provides development, finance and management services to the Trust and recognized fees under the terms of various agreements in the amounts of $0.6 million and $0.5 million in the three-month periods ended January 31, 2013 and 2012, respectively.

Structured Asset Joint Venture

The Company, through Gibraltar Capital and Asset Management LLC (“Gibraltar”), is a 20% participant with two unrelated parties that purchased a 40% interest in an entity that owns and controls a portfolio of loans and real estate (“Structured Asset Joint Venture”). At January 31, 2013, the Company had an investment of $37.5 million in this Structured Asset Joint Venture. At January 31, 2013, the Company did not have any commitments to make additional contributions to this Structured Asset Joint Venture and has not guaranteed any of the joint venture’s liabilities.

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

Condensed Balance Sheets:

	January 31, 2013				
	Develop-ment Joint Ventures	Home Building Joint Ventures	Trust and Trust II	Structured Asset Joint Venture	Total
Cash and cash equivalents	$21,573	$33,450	$10,166	$63,753	$128,942
Inventory	263,743	310,002	5,676		579,421
Non-performing loan portfolio				185,142	185,142
Rental properties			170,406		170,406
Real estate owned (“REO”)			1,036	261,237	262,273
Other assets (1)	10,389	71,319	9,030	277,305	368,043
Total assets	$295,705	$414,771	$196,314	$787,437	$1,694,227
Debt (1)	$121,435	$33,859	$194,439	$311,801	$661,534
Other liabilities	14,174	8,225	5,348	501	28,248
Members’ equity (deficit)	160,096	372,687	(3,473)	190,054	719,364
Noncontrolling interest				285,081	285,081
Total liabilities and equity	$295,705	$414,771	$196,314	$787,437	$1,694,227
Company’s net investment in unconsolidated entities (2)	$106,368	$174,967	$2,982	$37,534	$321,851

	October 31, 2012				
	Develop-ment Joint Ventures	Home Building Joint Ventures	Trust and Trust II	Structured Asset Joint Venture	Total
Cash and cash equivalents	$17,189	$40,126	$11,005	$44,176	$112,496
Inventory	255,561	294,724	5,643		555,928
Non-performing loan portfolio				226,315	226,315
Rental properties			173,767		173,767
Real estate owned (“REO”)				254,250	254,250
Other assets (1)	12,427	72,301	9,182	237,476	331,386
Total assets	$285,177	$407,151	$199,597	$762,217	$1,654,142
Debt (1)	$96,862	$34,184	$195,359	$311,801	$638,206
Other liabilities	13,890	5,707	5,202	561	25,360
Members’ equity (deficit)	174,425	367,260	(964)	179,942	720,663
Noncontrolling interest				269,913	269,913
Total liabilities and equity	$285,177	$407,151	$199,597	$762,217	$1,654,142
Company’s net investment in unconsolidated entities (2)	$116,452	$173,465	$3,357	$37,343	$330,617

(1) Included in other assets of the Structured Asset Joint Venture at January 31, 2013 and October 31, 2012 is $277.3 million and $237.5 million, respectively, of restricted cash held in a defeasance account which will be used to repay debt of the Structured Asset Joint Venture.

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

Condensed Statements of Operations and Comprehensive Income (Loss):

	For the three months ended January 31, 2013				
	Develop-ment Joint Ventures	Home Building Joint Ventures	Trust and Trust II	Structured Asset Joint Venture	Total
Revenues	$1,627	$8,970	$9,682	$9,705	$29,984
Cost of revenues	1,219	7,105	4,293	10,338	22,955
Other expenses	191	193	5,766	1,058	7,208
Total expenses—net	1,410	7,298	10,059	11,396	30,163
Gain on disposition of loans and REO				26,892	26,892
Income (loss) from operations	217	1,672	(377)	25,201	26,713
Other income	3	19		79	101
Net income (loss) before noncontrolling interest	220	1,691	(377)	25,280	26,814
Less: Net income attributable to noncontrolling interest				(15,168)	(15,168)
Net income (loss)	220	1,691	(377)	10,112	11,646
Other comprehensive income			302		302
Total comprehensive income (loss)	$220	$1,691	$(75)	$10,112	$11,948
Company’s equity in earnings (losses) of unconsolidated entities (3)	$(98)	$843	$425	$1,913	$3,083

	For the three months ended January 31, 2012				
	Develop-ment Joint Ventures	Home Building Joint Ventures	Trust and Trust II	Structured Asset Joint Venture	Total
Revenues	$33,584	$23,430	$9,476	$8,133	$74,623
Cost of revenues	31,771	17,794	3,343	11,067	63,975
Other expenses	225	945	6,785	2,631	10,586
Total expenses—net	31,996	18,739	10,128	13,698	74,561
Loss on disposition of loans and REO				(44)	(44)
Income (loss) from operations	1,588	4,691	(652)	(5,609)	18
Other income	2,653	5		137	2,795
Net income (loss) before noncontrolling interest	4,241	4,696	(652)	(5,472)	2,813
Less: Net loss attributable to noncontrolling interest				3,283	3,283
Net income (loss)	4,241	4,696	(652)	(2,189)	6,096
Other comprehensive loss			(447)		(447)
Total comprehensive income (loss)	$4,241	$4,696	$(1,099)	$(2,189)	$5,649
Company’s equity in earnings (losses) of unconsolidated entities (3)	$1,996	$4,520	$623	$(452)	$6,687

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

4. Investments in Distressed Loans and Foreclosed Real Estate

Investments in Distressed Loans

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

	January 31, 2013	October 31, 2012
Unpaid principal balance	$91,339	$99,693
Discount on acquired loans	(48,507)	(62,524)
Carrying value	$42,832	$37,169

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

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

The Company may acquire distressed loans where it has determined that (1) it is possible to collect all contractual amounts due under the terms of the loan, (2) it expects to utilize the real estate secured by the loans in its operations, or (3) forecasted cash flows cannot be reasonably estimated. For non-performing loans acquired meeting these conditions, in accordance with ASC 310-10, "Receivable," the loans are classified as nonaccrual and interest income is not recognized. When a loan is classified as nonaccrual, any subsequent cash receipt is accounted for using the cost recovery method. For performing loans, payments are applied to principal and interest in accordance with the terms of the loan when received. As of January 31, 2013, the Company had investments in performing and non-performing loans, accounted for in accordance with ASC 310-10, of $14.0 million and $6.0 million, respectively. At October 31, 2012, the Company had investments in non-performing loans of $9.2 million. The Company had no investments in performing loans at October 31, 2012.

In the three months ended January 31, 2013, Gibraltar purchased distressed loans for approximately $16.1 million. The purchases included performing and non-performing loans secured by retail shopping centers, residential land and golf courses located in seven states.

The following table summarizes, for the distressed loans acquired in the three months ended January 31, 2012 that were accounted for in accordance with ASC 310-30, the accretable yield and the nonaccretable difference of the Company's investment in these loans as of their acquisition date (amounts in thousands).

	Three months ended January 31, 2012
Contractually required payments, including interest	$52,524
Nonaccretable difference	(5,125)
Cash flows expected to be collected	47,399
Accretable yield	(20,514)
Non-performing loans carrying amount	$26,885

There were no distressed loans purchased during the three months ended January 31, 2013 that met the requirements of ASC 310-30.

The accretable yield activity for the Company's investment in distressed loans accounted for under ASC 310-30 for the three-month periods ended January 31, 2013 and 2012 was as follows (amounts in thousands):

	Three months ended January 31,	
	2013	2012
Balance, beginning of period	$17,196	$42,326
Loans acquired	—	20,514
Deletions	(2,387)	(1,768)
Accretion	(1,403)	(3,228)
Balance, end of period	$13,406	$57,844

Deletions primarily represent loan dispositions, which includes foreclosure of the underlying collateral and resulting removal of the loans from the accretable yield portfolios, and reclassifications from accretable yield to nonaccretable yield. The additions to nonaccretable yield and the accretion of interest income are based on various estimates regarding loan performance and the value of the underlying real estate securing the loans. As the Company continues to gather additional information regarding the loans and the underlying collateral, the accretable yield may change. Therefore, the amount of accretable income recorded in the three-month periods ended January 31, 2013 and 2012 is not necessarily indicative of expected future results.

Real Estate Owned (REO)

The following table presents the activity in REO for the three-month periods ended January 31, 2013 and 2012 (amounts in thousands):

	Three months ended January 31,	
	2013	2012
Balance, beginning of period	$58,353	$5,939
Additions	11,040	1,164
Sales	(439)	(615)
Impairments	(15)	
Depreciation	(175)	
Balance, end of period	$68,764	$6,488

As of January 31, 2013, approximately $5.9 million and $62.8 million of REO was classified as held-for-sale and held-and-used, respectively. As of January 31, 2012, approximately $1.3 million and $5.2 million of REO was classified as held-for-sale and held-and-used, respectively. For the three-month period ended January 31, 2013, the Company recorded gains of $0.6 million from acquisitions of REO through foreclosure. There were no gains or losses recorded in the three-month period ended January 31, 2012 from REO conversions.

General

The Company's earnings from Gibraltar's operations, excluding its investment in the Structured Asset Joint Venture, are included in other income - net in its Condensed Consolidated Statements of Operations. In the three-month periods ended January 31, 2013 and 2012, the Company recognized $0.2 million and $2.1 million of earnings, respectively, from Gibraltar's operations.

5. Senior Notes and Mortgage Company Loan Facilities

Senior Notes

At January 31, 2013, the Company had 7 issues of its Senior Notes outstanding with an aggregate principal amount of $2.03 billion.

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

Mortgage Company Loan Facilities

In July 2012, TBI Mortgage Company ("TBI Mortgage"), the Company's wholly-owned mortgage subsidiary, amended its Master Repurchase Agreement (the "Repurchase Agreement") with Comerica Bank. The purpose of the Repurchase Agreement is to finance the origination of mortgage loans by TBI Mortgage and it is accounted for as a secured borrowing under ASC 860, "Transfers and Servicing." The Repurchase Agreement, as amended, provides for loan purchases of up to $50 million, subject

to certain sublimits. In addition, the Repurchase Agreement provides for an accordion feature under which TBI Mortgage may request that the aggregate commitments under the Repurchase Agreement be increased to an amount up to $75 million for a short period of time. The Repurchase Agreement, as amended, expires on July 23, 2013 and bears interest at LIBOR plus 2.00% per annum, with a minimum rate of 3.00%.

6. Accrued Expenses

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

	January 31, 2013	October 31, 2012
Land, land development and construction	$119,804	$124,731
Compensation and employee benefit	94,627	111,093
Insurance and litigation	102,135	101,908
Commitments to unconsolidated entities	2,164	2,135
Warranty	41,241	41,706
Interest	38,366	28,204
Other	69,315	66,573
	$467,652	$476,350

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

	Three months ended January 31, 2013	2012
Balance, beginning of period	$41,706	$42,474
Additions – homes closed during the period	2,289	1,871
Addition – liabilities acquired		731
(Decrease) increase in accruals for homes closed in prior periods	(267)	1,783
Charges incurred	(2,487)	(3,750)
Balance, end of period	$41,241	$43,109

7. Income Taxes

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

	Three months ended January 31, 2013		2012	
	$	%*	$	%*
Federal tax provision (benefit) at statutory rate	2,914	35.0	(2,243)	35.0
State tax provision (benefit), net of federal provision (benefit)	346	4.2	(271)	4.2
Increase in unrecognized tax benefits			1,500	(23.4)
Reversal of accrual for uncertain tax positions			(5,279)	82.4
Increase in deferred tax assets – net			(525)	8.2
Valuation allowance – recognized			4,089	(63.8)
Valuation allowance – reversed	(216)	(2.6)	(2,843)	44.3
Accrued interest on anticipated tax assessments	1,166	14.0	1,950	(30.4)
Other	(316)	(3.8)		
Income tax provision (benefit)	3,894	46.8	(3,622)	56.5

* Due to rounding, amounts may not add.

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

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

For state tax purposes, due to past and projected losses in certain jurisdictions where the Company does not have carryback potential and/or cannot sufficiently forecast future taxable income, the Company has recognized net cumulative valuation allowances against its state deferred tax assets of $56.8 million and $57.0 million as of January 31, 2013 and October 31, 2012, respectively.

8. Stock-Based Benefit Plans

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

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

	Three months ended January 31,	
	2013	2012
Total stock-based compensation expense recognized	$5,684	$5,626
Income tax benefit recognized	$2,079	$2,061

At January 31, 2013 and October 31, 2012, the aggregate unamortized value of outstanding stock-based compensation awards was approximately $32.6 million and $14.2 million, respectively.

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

Stock Options

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

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

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

14

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

	2013	2012
Three months ended January 31,	$3,475	$3,522

Performance-Based Restricted Stock Units

In the first quarter of fiscal 2013, the Executive Compensation Committee of the Company's Board of Directors ("Executive Compensation Committee") approved awards of Performance-Based RSUs relating to shares of the Company's common stock to certain of its senior management. The Performance-Based RSUs are based on the attainment of certain performance metrics of the Company in fiscal 2013. The number of shares underlying the Performance-Based RSUs that will be issued to the recipients may range from 90% to 110% of the base award depending on actual performance as compared to the target performance goals. The Performance-Based RSUs vest over a four-year period provided the recipients continue to be employed by the Company or serve on the board of directors of the Company (as applicable) as specified in the award document.

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

	2013	2012
Estimated number of shares underlying Performance-Based RSUs to be issued	289,490	350,000
Closing price of the Company's common stock on date performance goals were approved	$37.78	$20.50
Estimated aggregate fair value of Performance-Based RSUs to be issued (in thousands)	$10,937	$7,185
Performance-Based RSU expense recognized in the three months ended January 31, (in thousands):	$514	$936
Unamortized value of Performance-Based RSUs at January 31, (in thousands):	$14,059	$6,249

Stock Price-Based Restricted Stock Units

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

	2013	2012
Three months ended January 31,	$562	$848

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

	January 31, 2013	October 31, 2012
Aggregate outstanding Stock Price-Based RSUs	306,000	506,000
Cumulative unamortized value of Stock Price-Based RSUs (in thousands)	$1,480	$2,042

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

Non-Performance Based Restricted Stock Units

The Company issued RSUs to various officers, employees and non-employee directors. The value of the RSUs was determined to be equal to the number of shares of the Company's common stock to be issued pursuant to the RSUs, multiplied by the closing price of the Company's common stock on the NYSE on the date the RSUs were awarded. Information regarding these RSUs issued in the three months ended January 31, 2013 and 2012 is as follows:

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

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

	2013	2012
Three months ended January 31,	$1,112	$314

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

	January 31, 2013	October 31, 2012
Aggregate outstanding RSUs	230,214	137,764
Cumulative unamortized value of RSUs (in thousands)	$3,209	$1,326

9. Employee Retirement Plans

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

	Three months ended January 31,	
	2013	2012
Service cost	$118	$97
Interest cost	261	303
Amortization of prior service obligation	210	184
Amortization of unrecognized losses	36	17
Total costs	$625	$601
Benefits paid	$233	$115

10. 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. The table below provides, for the periods indicated, information about the Company’s share repurchase program.

	Three months ended January 31,	
	2013	2012
Number of shares purchased	3,000	3,000
Average price per share	$32.59	$20.61
Remaining authorization at January 31 (in thousands):	8,764	8,783

11. Income (Loss) per Share Information

The table below provides, for the periods indicated, information pertaining to the calculation of income (loss) per share, common stock equivalents, weighted-average number of anti-dilutive options and shares issued (amounts in thousands):

	Three months ended January 31,	
	2013	2012
Basic weighted-average shares (a)	169,064	166,311
Common stock equivalents (b)	2,839	
Diluted weighted-average shares	171,903	166,311
Other information:		
Common stock equivalents excluded from diluted weighted-average shares due to anti-dilutive effect (b)		796
Weighted-average number of anti-dilutive options (c)	980	6,727
Shares issued under stock incentive and employee stock purchase plans	523	942

(a) Basic weighted-average shares included the weighted-average number of shares outstanding for the period and vested shares issuable under restricted stock unit awards.

(b) Common stock equivalents represent the dilutive effect of outstanding in-the-money stock options and unvested shares issuable under restricted stock unit awards whose performance criteria, if any, have been met and are expected to be issued, using the treasury stock method. 5.9 million shares issuable upon the conversion of the Company's 0.5% Exchangeable Senior Notes are excluded from the calculation of diluted earnings per share because they are anti-dilutive.

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

12. Fair Value Disclosures

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. 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.

Financial Instruments

The table below provides, as of the date indicated, a summary of assets (liabilities) related to the Company's financial instruments, measured at fair value on a recurring basis (amounts in thousands):

Financial Instrument	Fair value hierarchy	Fair value January 31, 2013	October 31, 2012
Corporate Securities	Level 2	$246,487	$260,772
Certificates of Deposit	Level 2	$148,105	$148,112
Short-Term Tax-Exempt Bond Fund	Level 1	$30,227	$30,184
Residential Mortgage Loans Held for Sale	Level 2	$49,400	$86,386
Forward Loan Commitments—Residential Mortgage Loans Held for Sale	Level 2	$649	$(102)
Interest Rate Lock Commitments ("IRLCs")	Level 2	$(1,345)	$(202)
Forward Loan Commitments—IRLCs	Level 2	$1,345	$202

At January 31, 2013 and October 31, 2012, the carrying value of cash and cash equivalents and restricted cash approximated fair value.

Mortgage Loans Held for Sale

The table below provides, as of the date indicated, the aggregate unpaid principal and fair value of mortgage loans held for sale (amounts in thousands):

	Aggregate unpaid principal balance	Fair value	Excess
At January 31, 2013	$49,304	$49,400	$96
At October 31, 2012	$84,986	$86,386	$1,400

At the end of the reporting period, the Company determines the fair value of its mortgage loans held for sale and the forward loan commitments it has entered into as a hedge against the interest rate risk of its mortgage loans using the market approach to determine fair value. The evaluation is based on the current market pricing of mortgage loans with similar terms and values as of the reporting date and by applying such pricing to the mortgage loan portfolio. The Company recognizes the difference between the fair value and the unpaid principal balance of mortgage loans held for sale as a gain or loss. In addition, the Company recognizes the fair value of its forward loan commitments as a gain or loss. These gains and losses are included in other income - net. Interest income on mortgage loans held for sale is calculated based upon the stated interest rate of each loan and is included in other income - net.

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 rate risk of the IRLCs and residential mortgage loans held for sale. Forward Commitments represent contracts with third-party investors for the future delivery of loans whereby 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 non-performance of investors regarding the Forward Commitments, the Company assesses the credit worthiness of the investors on a periodic basis.

Marketable Securities

The table below provides, as of the date indicated, the amortized cost, gross unrealized holding gains, gross unrealized holding losses and fair value of marketable securities (amounts in thousands):

	January 31, 2013	October 31, 2012
Amortized cost	$424,387	$438,755
Gross unrealized holding gains	552	451
Gross unrealized holding losses	(120)	(138)
Fair value	$424,819	$439,068

The estimated fair values of corporate securities and certificates of deposit are based on quoted prices provided by brokers. The remaining contractual maturities of marketable securities as of January 31, 2013 ranged from 1 month to 23 months.

Inventory

The Company recognizes inventory impairment charges based on the difference in the carrying value of the inventory and its fair value at the time of the evaluation. The fair value of the aforementioned inventory was determined using Level 3 criteria. Estimated fair value is primarily determined by discounting the estimated future cash flow of each community. See Note 1, "Significant Accounting Policies, Inventory" in the Company's Annual Report on Form 10-K for additional information regarding the Company's methodology on determining fair value. As further discussed in Note 1 in the Company's Annual Report on Form 10-K, determining the fair value of a community's inventory involves a number of variables, many of which are interrelated. If the Company used a different input for any of the various unobservable inputs used in its impairment analysis, the results of the analysis may have been different, absent any other changes. The table below summarizes, for the periods indicated, the ranges of certain quantitative unobservable inputs utilized in determining the fair value of impaired communities:

	Selling price per unit (in thousands)	Sales pace per year (in units)	Discount rate
Three months ended January 31, 2013	$303 - $307	15	15.3%
Three months ended October 31, 2012	$501 - $536	11	18.3%
Three months ended July 31, 2012	$175 - $571	4 - 12	14.0% - 17.5%
Three months ended April 30, 2012	$413 - $472	6 - 17	17.5%
Three months ended January 31, 2012	$344 - $2,287	1 - 25	13.0% - 18.8%

The table below provides, for the periods indicated, the fair value of operating communities whose carrying value was adjusted and the amount of impairment charges recognized ($ amounts in thousands):

		Impaired operating communities		
Three months ended:	Number of communities tested	Number of communities	Fair value of communities, net of impairment charges	Impairment charges
Fiscal 2013:				
January 31	60	2	$5,377	$700
				$700
Fiscal 2012:				
January 31	113	8	$49,758	$6,425
April 30	115	2	$22,962	2,560
July 31	115	4	$6,609	2,685
October 31	108	3	$9,319	1,400
				$13,070

Investments in Distressed Loans and REO

Gibraltar's distressed loans were recorded at estimated fair value at inception based on the acquisition price as determined by Level 3 inputs and was based on the estimated future cash flows to be generated by the loans discounted at the rates used to value the loans at the acquisition dates. The table below provides, as of the date indicated, the carrying amount and estimated fair value of distressed loans (amounts in thousands):

	January 31, 2013	October 31, 2012
Carrying amount	$42,832	$37,169
Estimated fair value	$44,065	$38,109

Gibraltar's REO was recorded at estimated fair value at the time it was acquired through foreclosure or deed in lieu actions using Level 3 inputs. The valuation techniques used to estimate fair value are third-party appraisals, broker opinions of value, or internal valuation methodologies (which may include discounted cash flows, capitalization rate analysis or comparable transactional analysis). Unobservable inputs used in estimating the fair value of REO assets are based upon the best information available under the circumstances and take into consideration the financial condition and operating results of the asset, local market conditions, the availability of capital, interest and inflation rates and other factors deemed appropriate by management.

Debt

The table below provides, as of the date indicated, the book value and estimated fair value of the Company's debt (amounts in thousands):

		January 31, 2013		October 31, 2012	
	Fair value hierarchy	Book value	Estimated fair value	Book value	Estimated fair value
Loans payable (a)	Level 2	$93,314	$93,014	$99,817	$99,093
Senior notes (b)	Level 1	2,030,121	2,272,730	2,089,189	2,340,189
Mortgage company warehouse loan (c)	Level 2	43,464	43,464	72,664	72,664
		$2,166,899	$2,409,208	$2,261,670	$2,511,946

(a) The estimated fair value of loans payable was based upon their indicated market prices or 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 Company believes that the carrying value of its mortgage company warehouse loan borrowings approximates their fair value.

13. Other Income - Net

The table below provides, for the periods indicated, the components of other income - net (amounts in thousands):

	Three months ended January 31,	
	2013	2012
Interest income	$1,475	$914
Income from ancillary businesses	1,278	1,083
Gibraltar	151	2,138
Management fee income	327	687
Retained customer deposits	678	654
Land sales, net	145	
Other	572	719
Total other income - net	$4,626	$6,195

Income from ancillary businesses includes the activity of the Company’s non-core businesses which include its mortgage, title, landscaping, security monitoring and golf course and country club operations. The table below provides, for the periods indicated, revenues and expenses for the Company’s non-core ancillary businesses (amounts in thousands):

	Three months ended January 31,	
	2013	2012
Revenue	$16,641	$13,813
Expense	$15,363	$12,730

14. Commitments and Contingencies

Legal Proceedings

The Company is involved in various claims and litigation arising principally in the ordinary course of business. The Company believes that adequate provision for resolution of all current claims and pending litigation has been made for probable losses and the disposition of these matters will not have a material adverse effect on the Company’s results of operations and liquidity or on its financial condition.

Investments in and Advances to Unconsolidated Entities

See Note 3, “Investments in and Advances to Unconsolidated Entities,” for more information regarding the Company’s commitments to these entities.

Land Purchase Commitments

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 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 formally terminate the option and purchase agreements for those land parcels that it does not expect to acquire, it writes off any non-refundable deposits and costs previously capitalized to such land parcels in the periods that it determines such costs are not recoverable.

Information regarding the Company’s land purchase commitments, as of the date indicated, is provided in the table below (amounts in thousands):

	January 31, 2013	October 31, 2012
Aggregate purchase commitments:		
Unrelated parties	$973,052	$742,918
Unconsolidated entities that the Company has investments in	65,805	4,067
Total	$1,038,857	$746,985
Deposits against aggregate purchase commitments	$42,428	$42,921
Additional cash required to acquire land	996,429	704,064
Total	$1,038,857	$746,985
Amount of additional cash required to acquire land in accrued expenses	$574	$4,328

In addition, the Company expects to purchase approximately 545 additional lots from a joint venture in which it has a 50% interest. The purchase price of the lots will be determined at a future date.

At January 31, 2013, the Company also had purchase commitments to acquire land for apartment developments of approximately $93.3 million.

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.

Surety Bonds and Letters of Credit

At January 31, 2013, the Company had outstanding surety bonds amounting to $375.2 million, primarily related to its obligations to various governmental entities to construct improvements in the Company's various communities. The Company estimates that $219.4 million of work remains on these improvements. The Company has an additional $61.3 million of surety bonds outstanding that guarantee other obligations of the Company. The Company believes it is not probable that any outstanding bonds will be drawn upon.

At January 31, 2013, the Company had outstanding letters of credit of $78.8 million, including $66.0 million under its credit facility and $12.8 million collateralized by restricted cash. These letters of credit were issued to secure various financial obligations of the Company including insurance policy deductibles and other claims, land deposits and security to complete improvements in communities which it is operating. The Company believes it is not probable that any outstanding letters of credit will be drawn upon.

Backlog

At January 31, 2013, the Company had agreements of sale outstanding to deliver 2,796 homes with an aggregate sales value of $1.86 billion.

Mortgage Commitments

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"), that 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.

Information regarding the Company's mortgage commitments, as of the date indicated, is provided in the table below (amounts in thousands):

	January 31, 2013	October 31, 2012
Aggregate mortgage loan commitments:		
IRLCs	$128,023	$111,173
Non-IRLCs	553,392	456,825
Total	$681,415	$567,998
Investor commitments to purchase:		
IRLCs	$128,023	$111,173
Mortgage loans receivable	45,090	80,697
Total	$173,113	$191,870

15. Geographic Segments

Revenue and income (loss) before income taxes for each of the Company’s geographic segments, for the periods indicated, were as follows (amounts in thousands):

	Three months ended January 31, 2013	2012
Revenue:		
North	$92,670	$75,580
Mid-Atlantic	132,151	100,799
South	87,185	76,466
West	112,595	69,110
Total	$424,601	$321,955
Income (loss) before income taxes:		
North	$7,242	$1,201
Mid-Atlantic	15,095	10,642
South	2,725	(2,077)
West	8,047	5,603
Corporate and other	(24,783)	(21,777)
Total	$8,326	$(6,408)

“Corporate and other” is comprised principally of general corporate expenses such as the offices of the Executive Officers of the Company, and the corporate finance, accounting, audit, tax, human resources, risk management, marketing and legal groups, interest income and income from certain of the Company’s ancillary businesses, Gibraltar and income from a number of the Company's unconsolidated entities.

Total assets for each of the Company’s geographic segments, as of the date indicated, are shown in the table below (amounts in thousands).

	January 31, 2013	October 31, 2012
North	$1,430,831	$1,205,900
Mid-Atlantic	1,349,624	1,304,798
South	869,325	821,001
West	959,673	913,699
Corporate and other	1,508,798	1,935,646
Total	$6,118,251	$6,181,044

Corporate and other is comprised principally of cash and cash equivalents, marketable securities, restricted cash, the assets of the Company’s manufacturing facilities and mortgage subsidiary, and its Gibraltar investments.

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 (including the Company's pro-rata share of impairment charges recognized by the unconsolidated entities in which it has an investment) and recoveries of prior charges for the periods indicated, as shown in the table below; the net carrying value of inventory and investments in and advances to unconsolidated entities for each of the Company’s geographic segments, as of the dates indicated, are also shown in the table below (amounts in thousands):

	Net Carrying Value		Impairments	
	At January 31, 2013	At October 31, 2012	Three months ended January 31, 2013	2012
Inventory:				
Land controlled for future communities:				
North	$14,937	$13,196	$88	