TOLL BROTHERS INC
Form 10-Q
September 06, 2017

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 July 31, 2017
or

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

For the transition period from to
Commission file number 001-09186
TOLL BROTHERS, INC.
(Exact name of registrant as specified in its charter)

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

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

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

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

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

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

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

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

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date:
At September 5, 2017, there were approximately 158,255,000 shares of Common Stock, $0.01 par value, outstanding.

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STATEMENT ON FORWARD-LOOKING INFORMATION

Certain information included in this report or in other materials we have filed or will file with the Securities and Exchange Commission (“SEC”) (as well as information included in oral statements or other written statements made or to be made by us) contains or may contain forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. One can identify these statements by the fact that they do not relate to matters of a strictly historical or factual nature and generally discuss or relate to future events. These statements contain words such as “anticipate,” “estimate,” “expect,” “project,” “intend,” “plan,” “believe,” “may,” “can,” “could,” “might,” “should,” and other words or phrases of similar meanin 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 open new communities; the ability to sell homes and properties; the ability to deliver homes from backlog; the ability to secure materials and subcontractors; the ability to produce the liquidity and capital necessary to expand and take advantage of opportunities; and legal proceedings, investigations, and claims.

From time to time, forward-looking statements also are included in other reports on Forms 10-K, 10-Q, and 8-K; in press releases; in presentations; on our website; and in other materials released to the public. Any or all of the forward-looking statements included in this report and in any other reports or public statements made by us are not guarantees of future performance and may turn out to be inaccurate. This can occur as a result of incorrect assumptions or as a consequence of known or unknown risks and uncertainties. Many factors mentioned in this report or in other reports or public statements made by us, such as market conditions, government regulation, and the competitive environment, will be important in determining our future performance. Consequently, actual results may differ materially from those that might be anticipated from our forward-looking statements.

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

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

When this report uses the words “we,” “us,” “our,” and the “Company,” they refer to Toll Brothers, Inc. and its subsidiaries, unless the context otherwise requires. References herein to fiscal year refer to our fiscal years ended or ending October 31.

PART I. FINANCIAL INFORMATION

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

	July 31, 2017 (unaudited)	October 31, 2016
ASSETS		
Cash and cash equivalents	$946,195	$633,715
Restricted cash and investments	781	31,291
Inventory	7,633,568	7,353,967
Property, construction, and office equipment, net	179,476	169,576
Receivables, prepaid expenses, and other assets	536,524	582,758
Mortgage loans held for sale	89,419	248,601
Customer deposits held in escrow	93,851	53,057
Investments in unconsolidated entities	514,265	496,411
Deferred tax assets, net of valuation allowances	134,857	167,413
	$10,128,936	$9,736,789
LIABILITIES AND EQUITY		
Liabilities		
Loans payable	$619,574	$871,079
Senior notes	3,148,905	2,694,372
Mortgage company loan facility	57,921	210,000
Customer deposits	414,145	309,099
Accounts payable	276,766	281,955
Accrued expenses	956,121	1,072,300
Income taxes payable	116,883	62,782
Total liabilities	5,590,315	5,501,587
Equity		
Stockholders' equity		
Preferred stock, none issued	—	—
Common stock, 177,937 shares issued at July 31, 2017 and October 31, 2016	1,779	1,779
Additional paid-in capital	713,624	728,464
Retained earnings	4,294,808	3,977,297
Treasury stock, at cost — 15,884 and 16,154 shares at July 31, 2017 and October 31, 2016, respectively	(474,665)	(474,912)
Accumulated other comprehensive loss	(2,832)	(3,336)
Total stockholders' equity	4,532,714	4,229,292
Noncontrolling interest	5,907	5,910
Total equity	4,538,621	4,235,202
	$10,128,936	$9,736,789

See accompanying notes.

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

	Nine months ended July 31,		Three months ended July 31,	
	2017	2016	2017	2016
Revenues	$3,787,151	$3,314,057	$1,502,909	$1,269,934
Cost of revenues	2,986,471	2,574,298	1,176,028	991,416
Selling, general and administrative	440,183	385,120	155,212	134,984
	3,426,654	2,959,418	1,331,240	1,126,400
Income from operations	360,497	354,639	171,669	143,534
Other:				
Income from unconsolidated entities	112,274	22,754	19,925	4,998
Other income – net	39,793	43,474	11,980	15,121
Income before income taxes	512,564	420,867	203,574	163,653
Income tax provision	168,947	153,150	55,011	58,170
Net income	$343,617	$267,717	$148,563	$105,483
Other comprehensive income, net	504	54	167	155
Total comprehensive income	$344,121	$267,771	$148,730	$105,638
Per share:				
Basic earnings	$2.11	$1.58	$0.91	$0.64
Diluted earnings	$2.01	$1.52	$0.87	$0.61
Cash dividends declared	$0.16		$0.08	
Weighted-average number of shares:				
Basic	163,186	169,692	163,478	165,919
Diluted	171,127	177,403	171,562	173,405

See accompanying notes.

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

	Nine months ended July 31,	
	2017	2016
Cash flow provided by (used in) operating activities:		
Net income	$343,617	$267,717
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Depreciation and amortization	18,423	16,838
Stock-based compensation	22,088	21,006
Excess tax benefits from stock-based compensation	(1,172)	(1,131)
Income from unconsolidated entities	(112,274)	(22,754)
Distributions of earnings from unconsolidated entities	125,138	14,615
Income from foreclosed real estate and distressed loans	(4,287)	(1,593)
Deferred tax provision (benefit)	59,266	(9,807)
Change in deferred tax valuation allowances	(32,154)	506
Inventory impairments and write-offs	11,314	11,353
Other	2,299	(669)
Changes in operating assets and liabilities		
Increase in inventory	(228,887)	(667,539)
Origination of mortgage loans	(821,265)	(826,058)
Sale of mortgage loans	979,625	780,508
Decrease (increase) in restricted cash and investments	30,510	(26,388)
Decrease (increase) in receivables, prepaid expenses, and other assets	46,941	(11,108)
Increase in customer deposits	64,252	43,407
(Decrease) increase in accounts payable and accrued expenses	(133,845)	38,073
Increase in income taxes payable	55,273	47,771
Net cash provided by (used in) operating activities	424,862	(325,253)
Cash flow (used in) provided by investing activities:		
Purchase of property and equipment — net	(22,401)	(23,280)
Sale and redemption of marketable securities		10,000
Investments in unconsolidated entities	(119,714)	(40,627)
Return of investments in unconsolidated entities	139,346	34,769
Investment in foreclosed real estate and distressed loans	(688)	(964)
Return of investments in foreclosed real estate and distressed loans	12,429	34,601
Acquisition of a business	(85,183)	
Net cash (used in) provided by investing activities	(76,211)	14,499
Cash flow used in financing activities:		
Proceeds from issuance of senior notes	455,483	
Debt issuance costs for senior notes	(4,446)	(35)
Proceeds from loans payable	1,083,472	1,756,528
Debt issuance costs for loans payable		(3,936)
Principal payments of loans payable	(1,513,078)	(1,688,087)
Proceeds from stock-based benefit plans	57,958	5,336
Excess tax benefits from stock-based compensation	1,172	1,131
Purchase of treasury stock	(90,716)	(327,612)
Dividends paid	(26,016)	

Receipts related to noncontrolling interest, net		290
Net cash used in financing activities	(36,171)	(256,385)
Net increase (decrease) in cash and cash equivalents	312,480	(567,139)
Cash and cash equivalents, beginning of period	633,715	918,993
Cash and cash equivalents, end of period	$946,195	$351,854

See accompanying notes.

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TOLL BROTHERS, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)
1. Significant Accounting Policies
Basis of Presentation
The accompanying condensed consolidated financial statements include the accounts of Toll Brothers, Inc. (the “Company,” “we,” “us,” or “our”), a Delaware corporation, and its majority-owned subsidiaries. All significant intercompany accounts and transactions have been eliminated. Investments in 50% or less owned partnerships and affiliates are accounted for using the equity method unless it is determined that we have effective control of the entity, in which case we would consolidate the entity.
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, 2016 balance sheet amounts and disclosures included herein have been derived from our October 31, 2016 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, we suggest that they be read in conjunction with the consolidated financial statements and notes thereto included in our Annual Report on Form 10-K for the fiscal year ended October 31, 2016 (“2016 Form 10-K”). 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 our financial position as of July 31, 2017; the results of our operations for the nine-month and three-month periods ended July 31, 2017 and 2016; and our cash flows for the nine-month periods ended July 31, 2017 and 2016. The results of operations for such interim periods are not necessarily indicative of the results to be expected for the full year.
Acquisition
In November 2016, we acquired substantially all of the assets and operations of Coleman Real Estate Holdings, LLC (“Coleman”) for $85.2 million in cash. The assets acquired were primarily inventory, including approximately 1,750 home sites owned or controlled through land purchase agreements. As part of the acquisition, we assumed contracts to deliver 128 homes with an aggregate value of $38.8 million. The average price of the undelivered homes at the date of acquisition was approximately $303,000. Our selling community count increased by 15 communities at the acquisition date. The acquisition of Coleman’s assets and operations was not material to our results of operations or financial condition.
Recent Accounting Pronouncements
In April 2015, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update (“ASU”) No. 2015-05, “Intangibles - Goodwill and Other - Internal-Use Software (Subtopic 350-40): Customers’ Accounting for Fees Paid in a Cloud Computing Arrangement” (“ASU 2015-05”). ASU 2015-05 provides guidance for a customer to determine whether a cloud computing arrangement contains a software license or should be accounted for as a service contract. We adopted ASU 2015-05 on November 1, 2016, and we elected to adopt the standard prospectively. The adoption did not have a material effect on our consolidated financial statements or disclosures.
In February 2015, the FASB issued ASU No. 2015-02, “Consolidation (Topic 810): Amendments to the Consolidation Analysis” (“ASU 2015-02”), which eliminates the deferral granted to investment companies from applying the variable interest entities (“VIEs”) guidance and makes targeted amendments to the current consolidation guidance. The new guidance applies to all entities involved with limited partnerships or similar entities and requires re-evaluation of these entities under the revised guidance which may change previous consolidation conclusions. We adopted ASU 2015-02 on November 1, 2016, and the adoption did not have a material effect on our consolidated financial statements or disclosures.
In March 2017, the FASB issued ASU No. 2017-07, “Compensation - Retirement Benefits (Topic 715): Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost” (“ASU 2017-07”). ASU 2017-07 requires an employer to report the service cost component of pension and other postretirement benefit costs in the same line item as other compensation costs arising from services rendered by the pertinent employees while the other components of net benefit cost are required to be presented in the income statement separately from the service

cost component and outside a subtotal of income from operations. ASU 2017-07 is effective for our fiscal year beginning November 1, 2018; however, early adoption is permitted. We expect to adopt ASU 2017-07 on November 1, 2017 and do not expect the adoption to have a material effect on our consolidated financial statements and disclosures.

In February 2017, the FASB issued ASU No. 2017-05, “Other Income - Gains and Losses from the Derecognition of Nonfinancial Assets (Subtopic 610-20): Clarifying the Scope of Asset Derecognition Guidance and Accounting for Partial Sales of Nonfinancial Assets” (“ASU 2017-05”). ASU 2017-05 is meant to clarify the scope of the original guidance within Subtopic

610-20 that was issued in connection with ASU 2014-09, as defined below, which provides guidance for recognizing gains and losses from the transfer of nonfinancial assets in contracts with noncustomers. ASU 2017-05 also added guidance for partial sales of nonfinancial assets. ASU 2017-05 is effective for our fiscal year beginning November 1, 2018 and we are required to adopt ASU 2017-05 concurrent with the adoption of ASU 2014-09. We are currently evaluating the impact that the adoption of ASU 2017-05 may have on our consolidated financial statements and disclosures.

In May 2014, the FASB issued ASU No. 2014-09, "Revenue from Contracts with Customers" ("ASU 2014-09"), which provides guidance for revenue recognition. ASU 2014-09 affects any entity that either enters into contracts with customers to transfer goods or services or enters into contracts for the transfer of nonfinancial assets. ASU 2014-09 supersedes the revenue recognition requirements in Accounting Standards Codification ("ASC") Topic 605, "Revenue Recognition," and most industry-specific guidance. ASU 2014-09 also supersedes some cost guidance included in ASC Subtopic 605-35, "Revenue Recognition—Construction-Type and Production-Type Contracts." The standard's core principle is that a company will recognize revenue when it transfers promised goods or services to customers in an amount that reflects the consideration to which a company expects to be entitled in exchange for those goods or services. In doing so, companies will need to use more judgment and make more estimates than under the current guidance. These judgments and estimates include identifying performance obligations in the contract, estimating the amount of variable consideration to include in the transaction price, and allocating the transaction price to each separate performance obligation. In August 2015, the FASB issued ASU 2015-14 "Revenue from Contracts with Customers" ("ASU 2015-14"), which delays the effective date of ASU 2014-09 by one year. ASU 2014-09, as amended by ASU 2015-14, is effective for our fiscal year beginning November 1, 2018, and, at that time, we expect to adopt the new standard under the modified retrospective approach. We do not believe the adoption of ASU 2014-09 will have a material impact on the amount or timing of our home building revenues. We are continuing to evaluate the impact the adoption of ASU 2014-09 may have on other aspects of our business and on our consolidated financial statements and disclosures.

In January 2017, the FASB issued ASU No. 2017-01, "Business Combinations (Topic 805): Clarifying the Definition of a Business" ("ASU 2017-01"), which provides a more robust framework for determining whether transactions should be accounted for as acquisitions (or disposals) of assets or businesses. ASU 2017-01 is effective for our fiscal year beginning November 1, 2018. We are currently evaluating the impact that the adoption of ASU 2017-01 may have on our consolidated financial statements and disclosures.

In March 2016, the FASB issued ASU No. 2016-09, "Compensation - Stock Compensation (Topic 718): Improvements to Employee Share-Based Payment Accounting" ("ASU 2016-09"). ASU 2016-09 simplifies several aspects related to the accounting for share-based payment transactions, including the accounting for income taxes and forfeitures, statutory tax withholding requirements and classification on the statement of cash flows. ASU 2016-09 is effective for our fiscal year beginning November 1, 2017. We do not expect the adoption of ASU 2016-09 to have a material effect on our consolidated financial statements and disclosures.

In February 2016, the FASB issued ASU No. 2016-02, "Leases" ("ASU 2016-02"), which requires an entity to recognize assets and liabilities on the balance sheet for the rights and obligations created by leased assets and provide additional disclosures. ASU 2016-02 is effective for our fiscal year beginning November 1, 2019, and, at that time, we will adopt the new standard using a modified retrospective approach. We are currently evaluating the impact that the adoption of ASU 2016-02 may have on our consolidated financial statements and disclosures.

2. Inventory

Inventory at July 31, 2017 and October 31, 2016 consisted of the following (amounts in thousands):

	July 31, 2017	October 31, 2016
Land controlled for future communities	$81,512	$71,729
Land owned for future communities	1,153,712	1,884,146
Operating communities	6,398,344	5,398,092
	$7,633,568	$7,353,967

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 12 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, do not have any remaining backlog, and are not expected to reopen within 12 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 dates indicated, is provided in the table below:

	July 31, 2017	October 31, 2016
Land owned for future communities:		
Number of communities	17	18
Carrying value (in thousands)	$136,704	$ 123,936
Operating communities:		
Number of communities	4	3
Carrying value (in thousands)	$11,553	$ 8,523

The amounts we have provided for inventory impairment charges and the expensing of costs that we believed not to be recoverable, for the periods indicated, are shown in the table below (amounts in thousands):

	Nine months ended July 31,		Three months ended July 31,	
	2017	2016	2017	2016
Land controlled for future communities	$1,479	$3,103	$697	$2,469
Land owned for future communities	1,540	300	340	
Operating communities	8,295	7,950	1,360	1,250
	$11,314	$11,353	$2,397	$3,719

See Note 11, "Fair Value Disclosures," for information regarding the number of operating communities that we tested for potential impairment, the number of operating communities in which we recognized impairment charges, the amount of impairment charges recognized, and the fair values of those communities, net of impairment charges.

At July 31, 2017, we evaluated our land purchase contracts, including those to acquire land for apartment developments, to determine whether any of the selling entities were VIEs and, if they were, whether we were the primary beneficiary of any of them. Under these land purchase contracts, we do not possess legal title to the land; our risk is generally limited to deposits paid to the sellers and predevelopment costs incurred; and the creditors of the sellers generally have no recourse against us. At July 31, 2017, we determined that 96 land purchase contracts, with an aggregate purchase price of $1.26 billion, on which we had made aggregate deposits totaling $58.3 million, were VIEs, and that we were not the primary beneficiary of any VIE related to our land purchase contracts. At October 31, 2016, we determined that 78 land purchase contracts, with an aggregate purchase price of $987.3 million, on which we had made aggregate deposits totaling $44.1 million, were VIEs and that we were not the primary beneficiary of any VIE related to our land purchase contracts.

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

	Nine months ended July 31,		Three months ended July 31,	
	2017	2016	2017	2016
Interest capitalized, beginning of period	$369,419	$373,128	$376,213	$383,482
Interest incurred	130,887	122,079	45,577	41,667
Interest expensed to cost of revenues	(114,365)	(107,176)	(45,879)	(39,431)
Interest expensed in other income	(2,097)	(606)	(102)	(297)
Interest capitalized on investments in unconsolidated entities	(6,485)	(3,947)	(2,271)	(1,704)
Previously capitalized interest transferred to investments in unconsolidated entities	(4,030)			
Previously capitalized interest on investments in unconsolidated entities transferred to inventory	979	687	770	448

Interest capitalized, end of period	$374,308	$384,165	$374,308	$384,165

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3. Investments in Unconsolidated Entities

We have investments in various unconsolidated entities. These entities, which are structured as joint ventures (i) develop land for the joint venture participants and for sale to outside builders ("Land Development Joint Ventures"); (ii) develop for-sale homes ("Home Building Joint Ventures"); (iii) develop luxury for-rent residential apartments, commercial space, and a hotel ("Rental Property Joint Ventures"), which includes our investment in Toll Brothers Realty Trust (the "Trust"); and (iv) invest in distressed loans and real estate and provide financing and land banking to residential builders and developers for the acquisition and development of land and home sites ("Gibraltar Joint Ventures").

The table below provides information as of July 31, 2017, regarding active joint ventures that we are invested in, by joint venture category ($ amounts in thousands):

	Land Development Joint Ventures	Home Building Joint Ventures	Rental Property Joint Ventures	Gibraltar Joint Ventures	Total
Number of unconsolidated entities	7	4	13	5	29
Investment in unconsolidated entities	$ 283,248	$ 89,437	$ 124,951	$ 16,629	$ 514,265
Number of unconsolidated entities with funding commitments by the Company	5	1	1	1	8
Company's remaining funding commitment to unconsolidated entities	$ 33,950	$ 8,300	$ 1,000	$ 9,621	$ 52,871

Certain joint ventures in which we have investments obtained debt financing to finance a portion of their activities. The table below provides information at July 31, 2017, regarding the debt financing obtained by category ($ amounts in thousands):

	Land Development Joint Ventures	Home Building Joint Ventures	Rental Property Joint Ventures	Total
Number of joint ventures with debt financing	3	1	11	15
Aggregate loan commitments	$ 275,000	$ 236,500	$ 1,021,406	$ 1,532,906
Amounts borrowed under loan commitments	$ 262,175	$ 100,989	$ 780,157	$ 1,143,321

More specific and/or recent information regarding our investments in, advances to, and future commitments to these entities is provided below.

Land Development Joint Ventures

During the nine months ended July 31, 2017, our Land Development Joint Ventures sold 871 lots and recognized revenues of $215.9 million. We acquired 288 of these lots for $122.5 million. Our share of the joint venture income from the lots we acquired of $12.9 million was deferred by reducing our basis in those lots acquired. The Company recognized impairment charges in connection with one Land Development Joint Venture of $2.0 million in the nine months ended July 31, 2017. During the nine months ended July 31, 2016, our Land Development Joint Ventures sold approximately 634 lots and recognized revenues of $126.5 million. We acquired 178 of these lots for $61.2 million. Our share of the income from the lots we acquired of $8.9 million was deferred by reducing our basis in those lots acquired. There were no impairment charges recognized for the nine months ending July 31, 2016.

During the three months ended July 31, 2017, our Land Development Joint Ventures sold 362 lots and recognized revenues of $115.0 million. We acquired 126 of these lots for $76.3 million. Our share of the joint venture income of $5.9 million from the lots we acquired was deferred by reducing our basis in those acquired lots. During the three months ended July 31, 2016, our Land Development Joint Ventures sold approximately 95 lots and recognized revenues of $27.8 million. We acquired 66 of these lots for $25.9 million. Our share of the income of $3.7 million from the lots we acquired was deferred by reducing our basis in those acquired lots. There were no impairment charges recognized for the three months ended July 31, 2017 or 2016.

In the fourth quarter of fiscal 2015, we entered into a joint venture with an unrelated party to purchase and develop a parcel of land located in Irvine, California. The joint venture expects to develop approximately 840 home sites on this land in multiple phases. We have a 50% interest in this joint venture. The joint venture intends to develop the property and sell approximately 50% of the value of the home sites to each of the members of the joint venture. In the third quarter of fiscal 2017, we purchased the first 48 lots from this joint venture for $43.3 million. At July 31, 2017, we had an investment of $180.7 million in this joint venture and were committed to make additional contributions to this joint venture of up to $3.6 million. To finance a portion of the land purchase, the joint venture entered into a $320.0 million purchase money mortgage with the seller. In December 2016, the joint venture entered into a $200.0 million loan agreement and each member made a capital contribution of $80.0 million. A portion of the proceeds from the loan in addition to the capital contributions made by the members were used to repay the purchase money mortgage. At July 31, 2017, this joint venture had $198.0 million of outstanding borrowings under the loan.

Home Building Joint Ventures

Our Home Building Joint Ventures are delivering homes in New York City and Jupiter, Florida. During the nine months ended July 31, 2017 and 2016, our Home Building Joint Ventures delivered 176 homes with a sales value of $451.6 million, and 61 homes with a sales value of $55.4 million, respectively. During the three months ended July 31, 2017 and 2016, our Home Building Joint Ventures delivered 33 homes with a sales value of $81.0 million, and 21 homes with a sales value of $17.9 million, respectively.

In December 2016, we entered into a joint venture with an unrelated party to complete the development of a high-rise luxury condominium project in New York City. Before the formation of this joint venture, we acquired the property and incurred approximately $176.0 million of land and land development costs. The joint venture, in which we have a 20% interest, purchased the property from us at our cost, a portion of which was financed by a $236.5 million construction loan obtained by the joint venture. From the sale and financing, we received proceeds of $148.0 million, of which $106.1 million was held in escrow by our captive title company at October 31, 2016 and was included in “Receivables, prepaid expenses, and other assets” on our Condensed Consolidated Balance Sheet at October 31, 2016. The amount held in escrow was released to us in December 2016. At July 31, 2017, we had an investment of $30.1 million in this joint venture and the joint venture had $101.0 million of outstanding borrowings under the construction loan.

Rental Property Joint Ventures

As of July 31, 2017, our Rental Property Joint Ventures owned 12 for-rent apartment projects and a hotel, which are located in the metro Boston to metro Washington, D.C. corridor. At July 31, 2017, our joint ventures had approximately 2,950 units that were occupied or ready for occupancy, 1,000 units in the lease-up stage, and 1,650 units under active development. In addition, we either own, have under contract, or under a letter of intent approximately 7,000 units. We intend to develop these units in joint ventures with unrelated parties in the future.

In the third quarter of fiscal 2017, one of our Rental Property Joint Ventures amended its existing $70.0 million construction loan agreement to finance construction of multifamily residential apartments in northern New Jersey. The terms of the amendment extended the maturity date and revised certain guarantees provided for under the loan, including the repayment guaranty for which our obligation increased from 25% to 100%. At July 31, 2017, this joint venture had $56.8 million of borrowings under the facility.

In the second quarter of fiscal 2017, we sold a 25% interest in one of our Rental Property Joint Ventures to an unrelated party. In connection with the sale, we, along with our partner, recapitalized the joint venture and refinanced the existing $112.2 million construction loan with a $133.0 million, 10-year fixed rate loan. As a result of these transactions, we received cash of $42.9 million and recognized a gain of $20.5 million in the three months ended April 30, 2017 and in the nine months ended July 31, 2017, which is included in “Income from unconsolidated entities” in our Condensed Consolidated Statements of Operations and Comprehensive Income. At July 31, 2017, we had a 25% interest and an $8.0 million investment in this joint venture.

In the first quarter of fiscal 2017, we sold a 25% interest in another one of our Rental Property Joint Ventures to an unrelated party. In connection with the sale, we, along with our partner, recapitalized the joint venture and refinanced the existing $54.1 million construction loan with a $56.0 million, 10-year fixed rate loan. As a result of these transactions, we received cash of $12.0 million and recognized a gain of $6.2 million in the three months ended January 31, 2017 and the nine months ended July 31, 2017, which is included in “Income from unconsolidated entities” in our Condensed Consolidated Statements of Operations and Comprehensive Income. At July 31, 2017, we had a 25% interest and a $3.2 million investment in this joint venture.

In the second quarter of fiscal 2016, we entered into a joint venture with an unrelated party to develop a 525-unit luxury for-rent residential apartment building near Union Station in Washington, D.C. Prior to the formation of this joint venture, we acquired the land, through a 100%-owned entity, and incurred $35.1 million of land and land development costs. Our partner acquired a 50% interest in this entity for $20.2 million and we subsequently received cash of $18.7 million to align the capital accounts of each of the partners of the joint venture. In the third quarter of fiscal 2016, as a result of the sale of 50% of our interest to our partner, we recognized a gain of $3.0 million. Due to our continued involvement in the joint venture through our ownership interest, we deferred an additional $3.0 million of the gain on the sale. At July 31, 2017, we had an investment of $29.8 million in this joint venture. In November 2016, the joint venture entered into a $130.6 million construction loan agreement. At July 31, 2017, there were $11.0 million of outstanding borrowings under the construction loan agreement.

In the fourth quarter of fiscal 2016, we entered into a joint venture with an unrelated party to develop a 390-unit luxury for-rent residential apartment building in a suburb of Boston, Massachusetts, on land that we were under contract to purchase. We have a 25% interest in this joint venture. On October 20, 2016, the joint venture entered into a $91.0 million construction loan agreement with a bank to finance the development of this project. At July 31, 2017, there was $1.0 million of outstanding borrowings under the construction loan agreement. At July 31, 2017, we had an investment of $11.4 million in this joint venture.

We have an investment in a joint venture in which we have a 50% interest to develop a luxury hotel in conjunction with a high-rise luxury condominium project in New York City being developed by a related Home Building Joint Venture. The hotel commenced operations in February 2017. At July 31, 2017, we had an investment of $35.7 million in this joint venture. In December 2016, this joint venture entered into an $80.0 million, three-year term loan agreement. The proceeds from the term loan, along with proceeds from the closing of condominium units at the Home Building Joint Venture, were used to repay an existing construction loan. At July 31, 2017, this joint venture had $80.0 million of outstanding borrowings under the term loan.

In 1998, we formed the Trust to invest in commercial real estate opportunities. The Trust is effectively owned one-third by us; one-third by current and former members of our senior management; and one-third by an unrelated party. As of July 31, 2017, our investment in the Trust was zero as cumulative distributions received from the Trust have been in excess of the carrying amount of our net investment. We provide development, finance, and management services to the Trust and recognized fees under the terms of various agreements in the amount of $1.4 million and $1.2 million in the nine-month periods ended July 31, 2017 and 2016, respectively, of which $0.6 million and $0.4 million were recognized in the three-month periods ended July 31, 2017 and 2016, respectively. In the first quarter of fiscal 2016, we received a $2.0 million distribution from the Trust, which is included in “Income from unconsolidated entities” in our Condensed Consolidated Statements of Operations and Comprehensive Income. No distributions have been received from the Trust in fiscal 2017.

Gibraltar Joint Ventures

In the second quarter of fiscal 2016 and third quarter of fiscal 2017, we, through our wholly owned subsidiary, Gibraltar Capital and Asset Management, LLC (“Gibraltar”), entered into three ventures with an institutional investor to provide builders and developers with land banking and venture capital. We have a 25% interest in these ventures. These ventures will finance builders’ and developers’ acquisition and development of land and home sites and pursue other complementary investment strategies. We may invest up to $100.0 million in these ventures. As of July 31, 2017, we had an investment of $8.8 million in these ventures.

In addition, in the second quarter of fiscal 2016, we entered into a separate venture with the same institutional investor to purchase, from Gibraltar, certain foreclosed real estate owned (“REO”) and distressed loans for $24.1 million. We have a 24% interest in this venture. In the three months ended April 30, 2016, we recognized a gain of $1.3 million from the sale of these assets to the venture. At July 31, 2017, we have a $4.2 million investment in this venture and are committed to invest an additional $9.6 million, if necessary.

Guarantees

The unconsolidated entities in which we have investments generally finance their activities with a combination of partner equity and debt financing. In some instances, we and our partners have guaranteed debt of certain unconsolidated entities. These guarantees may include any or all of the following: (i) project completion guarantees, including any cost overruns; (ii) repayment guarantees, generally covering a percentage of the outstanding loan; (iii) carry cost guarantees, which cover costs such as interest, real estate taxes, and insurance; (iv) an environmental indemnity provided to the lender that holds the lender harmless from and against losses arising from the discharge of hazardous materials from the property and non-compliance with applicable environmental laws; and (v) indemnification of the lender from “bad boy acts” of the unconsolidated entity.

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

We believe that, as of July 31, 2017, in the event we become legally obligated to perform under a guarantee of an obligation of an unconsolidated entity due to a triggering event, the collateral in such entity should be sufficient to repay a significant portion of the obligation. If it is not, we and our partners would need to contribute additional capital to the venture. At July 31, 2017, certain unconsolidated entities have loan commitments aggregating $1.08 billion, of which, if the full amount of the debt obligations were borrowed, we estimate $250.5 million to be our maximum exposure related to repayment and carry cost guarantees. At July 31, 2017, the unconsolidated entities had borrowed an aggregate of $693.5 million, of which we estimate $207.1 million to be our maximum exposure related to repayment and carry cost guarantees. The terms of these guarantees generally range from 1 month to 40 months. These maximum exposure estimates do not take into account any recoveries from the underlying collateral or any reimbursement from our partners.

As of July 31, 2017, the estimated aggregate fair value of the guarantees provided by us related to debt and other obligations of certain unconsolidated entities was approximately $4.7 million. We have not made payments under any of the guarantees, nor have we been called upon to do so.

Variable Interest Entities

At July 31, 2017 and October 31, 2016, we determined that seven and three, respectively, of our joint ventures were VIEs under the guidance of ASC 810, “Consolidation.” However, we have concluded that we were not the primary beneficiary of these VIEs because the power to direct the activities of such VIEs that most significantly impact their performance was either shared by us and such VIEs’ other partners or such activities were controlled by our partner. For VIEs where the power to direct significant activities is shared, business plans, budgets, and other major decisions are required to be unanimously approved by all members. Management and other fees earned by us are nominal and believed to be at market rates, and there is no significant economic disproportionality between us and the other members. The information presented below regarding the investments, commitments, and guarantees in unconsolidated entities deemed to be VIEs is also included in the information provided above.

At July 31, 2017 and October 31, 2016, our investments in the unconsolidated entities deemed to be VIEs, which are included in “Investments in unconsolidated entities” in the accompanying Condensed Consolidated Balance Sheets, totaled $25.6 million and $16.4 million, respectively. At July 31, 2017, the maximum exposure of loss to our investments in these entities was limited to our investments in the unconsolidated VIEs, except with regard to $70.0 million of loan guarantees and $10.6 million of additional commitments to the VIEs. Of our potential exposure for these loan guarantees, $70.0 million is related to repayment and carry cost guarantees, of which $56.8 million was borrowed at July 31, 2017. At October 31, 2016, the maximum exposure of loss to our investments in these entities was limited to our investments in the unconsolidated VIEs, except with regard to $70.0 million of loan guarantees and $1.4 million of additional commitments to the VIEs. At October 31, 2016, $14.3 million of our potential exposure for these loan guarantees was related to repayment and carry cost guarantees.

Joint Venture Condensed Financial Information

The Condensed Balance Sheets, as of the dates indicated, and the Condensed Statements of Operations and Comprehensive Income, for the periods indicated, for the unconsolidated entities in which we have an investment are included below (in thousands):

Condensed Balance Sheets:

	July 31, 2017	October 31, 2016
Cash and cash equivalents	$103,517	$130,794
Inventory	1,134,699	1,074,888
Loans receivable, net	23,853	—
Rental properties	952,289	621,615
Rental properties under development	169,631	302,632
Real estate owned ("REO")	55,970	87,226
Other assets	162,055	180,103
Total assets	$2,602,014	$2,397,258
Debt	$1,146,833	$1,164,883
Other liabilities	127,374	152,881
Members' equity	1,298,996	980,354
Noncontrolling interest	28,811	99,140
Total liabilities and equity	$2,602,014	$2,397,258
Company's net investment in unconsolidated entities (1)	$514,265	$496,411

(1) Differences between our net investment in unconsolidated entities and our underlying equity in the net assets of the entities are primarily a result of the acquisition price of an investment in a Land Development Joint Venture in fiscal 2012 that was in excess of our pro rata share of the underlying equity; impairments related to our investments in unconsolidated entities; interest capitalized on our investments; the estimated fair value of the guarantees provided to the joint ventures; gains recognized from the sale of our ownership interests; and distributions from entities in excess of the carrying amount of our net investment.

Condensed Statements of Operations and Comprehensive Income:

	Nine months ended July 31,		Three months ended July 31,	
	2017	2016	2017	2016
Revenues	$690,441	$226,772	$189,714	$60,755
Cost of revenues	389,996	145,401	99,102	42,910
Other expenses	62,193	29,723	22,472	11,347
Total expenses	452,189	175,124	121,574	54,257
Gain on disposition of loans and REO	39,530	38,102	7,891	3,413
Income from operations	277,782	89,750	76,031	9,911
Other income	11,175	4,121	1,678	1,769
Income before income taxes	288,957	93,871	77,709	11,680
Income tax provision	7,453	—	1,138	—
Net income including earnings from noncontrolling interests	281,504	93,871	76,571	11,680
Less: income attributable to noncontrolling interest	(16,417)	(11,204)	(3,328)	3,819
Net income attributable to controlling interest	265,087	82,667	73,243	15,499
Other comprehensive income	—	100	—	—
Total comprehensive income	$265,087	$82,767	$73,243	$15,499
Company's equity in earnings of unconsolidated entities (2)	$112,274	$22,754	$19,925	$4,998

(2) Differences between our equity in earnings of unconsolidated entities and the underlying net income of the entities are primarily a result of a basis difference of an acquired joint venture interest; distributions from entities in excess of the carrying amount of our net investment; recoveries of previously incurred charges; unrealized gains on our retained joint venture interests; and our share of the entities' profits related to home sites purchased by us which reduces our cost basis of the home sites acquired.

4. Receivables, Prepaid Expenses, and Other Assets

Receivables, prepaid expenses, and other assets at July 31, 2017 and October 31, 2016, consisted of the following (amounts in thousands):

	July 31, 2017	October 31, 2016
Expected recoveries from insurance carriers and others	$158,353	$ 165,696
Improvement cost receivable	100,092	85,627
Escrow cash held by our captive title company	46,937	138,633
Properties held for rental apartment development	143,896	81,693
Investment in foreclosed real estate owned	4,098	11,552
Prepaid expenses	18,765	25,659
Other	64,383	73,898
	$536,524	$ 582,758

5. Loans Payable, Senior Notes, and Mortgage Company Loan Facility

Loans Payable

At July 31, 2017 and October 31, 2016, loans payable consisted of the following (amounts in thousands):

	July 31, 2017	October 31, 2016
Senior unsecured term loan	$500,000	$ 500,000
Credit facility borrowings	—	250,000
Loans payable – other	121,371	122,809
Deferred issuance costs	(1,797)	(1,730)
	$619,574	$ 871,079

Senior Unsecured Term Loan

We have a $500.0 million, five-year senior unsecured term loan facility (the “Term Loan Facility”) with a syndicate of banks. The Term Loan Facility, as amended, matures in August 2021. At July 31, 2017, the interest rate on borrowings was 2.64% per annum. We and substantially all of our 100%-owned home building subsidiaries are guarantors under the Term Loan Facility. The Term Loan Facility contains substantially the same financial covenants as our Credit Facility, as described below.

Credit Facility

We have a $1.295 billion, unsecured, five-year revolving credit facility (the “Credit Facility”) with a syndicate of banks. The Credit Facility is scheduled to expire in May 2021. We and substantially all of our 100%-owned home building subsidiaries are guarantors under the Credit Facility.

Under the terms of the Credit Facility, at July 31, 2017, our maximum leverage ratio (as defined in the credit agreement) may not exceed 1.75 to 1.00, and we are required to maintain a minimum tangible net worth (as defined in the credit agreement) of no less than approximately $2.72 billion. Under the terms of the Credit Facility, at July 31, 2017, our leverage ratio was approximately 0.67 to 1.00, and our tangible net worth was approximately $4.49 billion. Based upon the limitations related to our repurchase of common stock in the Credit Facility, our ability to repurchase our common stock was limited to approximately $2.40 billion as of July 31, 2017.

At July 31, 2017, we had no outstanding borrowings under the Credit Facility and had outstanding letters of credit of approximately $146.5 million under it. At July 31, 2017, the interest rate on borrowings under the Credit Facility would have been 2.74% per annum.

Loans Payable – Other

“Loans payable – other” primarily represent purchase money mortgages on properties we acquired that the seller had financed and various revenue bonds that were issued by government entities on our behalf to finance community infrastructure and our

manufacturing facilities. At July 31, 2017, the weighted-average interest rate on “Loans payable – other” was 4.04% per annum.

Senior Notes

At July 31, 2017, we had nine issues of senior notes outstanding with an aggregate principal amount of $3.16 billion. In March 2017, the Company issued $300.0 million principal amount of 4.875% Senior Notes due 2027 (“4.875% Senior Notes”). The Company received $297.2 million of net proceeds from the issuance of these senior notes. In June 2017, we issued an additional $150.0 million principal amount of the 4.875% Senior Notes. These additional notes were issued at a premium of 103.655% of principal plus accrued interest. We received $156.4 million of net proceeds from the issuance of these additional notes.

Subsequent event

On August 15, 2017, we notified holders of our 0.5% Exchangeable Senior Notes due 2032 (the “0.5% Exchangeable Senior Notes”) that we will redeem all $287.5 million aggregate principal amount of the 0.5% Exchangeable Senior Notes on September 15, 2017 with cash at a redemption price of 100% of their principal amount, plus accrued and unpaid interest.

Mortgage Company Loan Facility

In October 2016, TBI Mortgage® Company (“TBI Mortgage”), our wholly owned mortgage subsidiary, entered into a mortgage warehousing agreement (“Warehousing Agreement”) with a syndicate of banks. The purpose of the Warehousing Agreement is to finance the origination of mortgage loans by TBI Mortgage; the Warehousing Agreement is accounted for as a secured borrowing under ASC 860, “Transfers and Servicing.” The Warehousing Agreement provides for loan purchases up to $150.0 million, subject to certain sublimits. In addition, the Warehousing Agreement provides for an accordion feature under which TBI Mortgage may request that the aggregate commitments under the Warehousing Agreement be increased to an amount up to $210.0 million for a short period of time. The Warehousing Agreement expires on October 27, 2017, and borrowings thereunder bear interest at LIBOR plus 2.00% per annum. At July 31, 2017, the interest rate on the Warehousing Agreement was 3.23% per annum. At July 31, 2017 and October 31, 2016, there was $57.9 million and $210.0 million, respectively, outstanding under the Warehousing Agreement, which are included in liabilities in our Condensed Consolidated Balance Sheets.

6. Accrued Expenses

Accrued expenses at July 31, 2017 and October 31, 2016 consisted of the following (amounts in thousands):

	July 31, 2017	October 31, 2016
Land, land development, and construction	$133,383	$153,264
Compensation and employee benefits	142,081	138,282
Escrow liability	46,302	137,396
Self-insurance	141,270	126,431
Warranty	344,365	370,992
Deferred income	39,798	43,488
Interest	47,307	34,903
Commitments to unconsolidated entities	8,596	5,637
Other	53,019	61,907
	$956,121	$1,072,300

As previously disclosed in Note 6, “Accrued Expenses” in our 2016 Form 10-K, we reviewed communities in Pennsylvania and Delaware (which are in our Mid-Atlantic region) and determined that we needed to make repairs primarily to older homes in certain of these communities relating to stucco and other water intrusion claims. Each quarter, we review and update our assumptions to the estimates used in determining our estimated liability for these claims. This review and update includes an analysis to determine an estimated number of claims likely to be received and the estimated costs to resolve these claims. This analysis involves many factors including: the number of communities involved; the closing dates of the homes in each community; the number of claims received to date; our inspection of homes; an estimate of the number of homes we expect to repair; the type and cost of repairs that have been performed in each community; the estimated costs to remediate pending and future claims in each community;

the expected recovery from our insurance carriers and others; and the amount of warranty and self-insurance reserves already recorded. Due to the degree of judgment required and the potential for variability in the underlying assumptions, it is reasonably possible that our actual costs could differ from those estimated, such differences could be material, and, therefore, we are unable to estimate the range of any such differences.

In the quarter ended July 31, 2017, we identified a small number of claims from homes delivered in Delaware after the date parameters disclosed in our 2016 Form 10-K. Based on the limited number of homes delivered by the Company in Delaware, we believe that any accrual for these pending and any future claims would be immaterial to our results of operations, liquidity, or our financial condition.

Based upon our reviews for the nine month and three month periods ended July 31, 2017, we determined that no adjustments to our previous estimates were needed. Based upon our review for the nine month and three month periods ended July 31, 2016, we determined that our estimated costs had increased and we recognized an additional charge of $4.3 million and $1.9 million, respectively, in the nine month and three month periods ended July 31, 2016.

As of July 31, 2017, we recognized cumulative charges of approximately $171.8 million for water intrusion claims; the estimated aggregate cost of these claims is $324.4 million, of which we expect to recover approximately $152.6 million from outside insurance carriers and suppliers.

At July 31, 2017 and October 31, 2016, our estimated remaining liability to be expended for the aforementioned known and unknown stucco and other water intrusion claims was $269.3 million and $298.0 million, respectively, of which we expect to recover a total of approximately $122.7 million and $141.7 million, respectively, from outside insurance carriers and others.

The table below provides, for the periods indicated, a reconciliation of the changes in our warranty accrual (amounts in thousands):

	Nine months ended July 31,		Three months ended July 31,	
	2017	2016	2017	2016
Balance, beginning of period	$370,992	$93,083	$355,934	$91,194
Additions – homes closed during the period	21,220	18,208	8,519	7,241
Addition – Coleman liabilities acquired	1,111			
Increase in accruals for homes closed in prior years	5,539	11,045	2,351	4,853
Reclassification from other accruals	1,082			
Charges incurred	(55,579)	(30,369)	(22,439)	(11,321)
Balance, end of period	$344,365	$91,967	$344,365	$91,967

7. Income Taxes

We recorded income tax provisions of $168.9 million and $153.2 million for the nine months ended July 31, 2017 and 2016, respectively. The effective tax rate was 33.0% for the nine months ended July 31, 2017, compared to 36.4% for the nine months ended July 31, 2016. For the three months ended July 31, 2017 and 2016, we recorded an income tax provision of $55.0 million and $58.2 million, respectively. The effective tax rate for the three months ended July 31, 2017 was 27.0%, compared to 35.5% for the three months ended July 31, 2016. The income tax provisions for all periods included the provision for state income taxes and interest accrued on anticipated tax assessments, offset by tax benefits related to the utilization of domestic production activities deductions and other permanent differences. In addition, in the nine-month and three-month periods ended July 31, 2017, we recognized net benefits of $27.1 million and $27.9 million, respectively, associated primarily with the reversal of a state deferred tax asset valuation allowance.

We currently operate in 20 states and are subject to various state tax jurisdictions. We estimate our state tax liability based upon the individual taxing authorities' regulations, estimates of income by taxing jurisdiction, and our ability to utilize certain tax-saving strategies. We estimate our rate for the full fiscal year 2017 for state income taxes will be 7.3%. Our state income tax rate for the full fiscal year 2016 was 7.0%.

At July 31, 2017, we had $26.6 million of gross unrecognized tax benefits, including interest and penalties. If these unrecognized tax benefits were to reverse in the future, they would have a beneficial impact on our effective tax rate at that time. During the next 12 months, it is reasonably possible that our unrecognized tax benefits will change, but we are not able to provide a range of such change. The possible changes would be principally due to the expiration of tax statutes, settlements with taxing jurisdictions, increases due to new tax positions taken, and the accrual of estimated interest and penalties.

8. Stock-Based Benefit Plans

We grant stock options and various types of restricted stock units to our employees and our nonemployee directors. Additionally, we have an employee stock purchase plan that allows employees to purchase our stock at a discount. Information regarding the amount of total stock-based compensation expense and tax benefit recognized by us, for the periods indicated, is as follows (amounts in thousands):

	Nine months ended July 31,		Three months ended July 31,	
	2017	2016	2017	2016
Total stock-based compensation expense recognized	$22,088	$21,006	$6,503	$5,925
Income tax benefit recognized	$8,718	$8,092	$2,624	$2,283

At July 31, 2017 and October 31, 2016, the aggregate unamortized value of outstanding stock-based compensation awards was approximately $30.7 million and $27.0 million, respectively.

9. Stock Repurchase Program and Cash Dividend

On May 23, 2016, our Board of Directors terminated a prior share repurchase program and authorized, under a new repurchase program, the repurchase of 20 million shares of our common stock in open market transactions or otherwise for general corporate purposes, including to obtain shares for the Company's equity award and other employee benefit plans. The Board of Directors did not fix any expiration date for this repurchase program.

The table below provides, for the periods indicated, information about our share repurchase programs:

	Nine months ended July 31,		Three months ended July 31,	
	2017	2016	2017	2016
Number of shares purchased (in thousands)	2,492	11,405	1,929	3,698
Average price per share	$36.40	$28.72	$39.02	$26.33
Remaining authorization at July 31 (in thousands)	13,347	18,085	13,347	18,085

Subsequent to July 31, 2017 and through September 5, 2017, we repurchased approximately 3.8 million shares of our common stock at an average price of $38.27 per share.

On February 21, 2017, our Board of Directors approved the initiation of quarterly cash dividends to shareholders. During the nine months and three months ended July 31, 2017, we declared and paid dividends of $0.16 per share and $0.08 per share, respectively.

10. Earnings per Share Information

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

	Nine months ended July 31,		Three months ended July 31,	
	2017	2016	2017	2016
Numerator:				
Net income as reported	$343,617	$267,717	$148,563	$105,483
Plus interest and costs attributable to 0.5% Exchangeable Senior Notes, net of income tax benefit	1,147	1,165	378	388
Numerator for diluted earnings per share	$344,764	$268,882	$148,941	$105,871
Denominator:				
Basic weighted-average shares	163,186	169,692	163,478	165,919
Common stock equivalents (a)	2,077	1,853	2,210	1,628
Shares attributable to 0.5% Exchangeable Senior Notes	5,864	5,858	5,874	5,858
Diluted weighted-average shares	171,127	177,403	171,562	173,405
Other information:				
Weighted-average number of antidilutive options and restricted stock units (b)	2,556	3,854	600	4,243
Shares issued under stock incentive and employee stock purchase plans	2,762	502	788	19

(a) Common stock equivalents represent the dilutive effect of outstanding in-the-money stock options using the treasury stock method and shares expected to be issued under performance-based restricted stock units and nonperformance-based restricted stock units.

(b) Weighted-average number of antidilutive options and restricted stock units are based upon the average closing price of our common stock on the NYSE for the period.

On August 15, 2017, we notified holders of our 0.5% Exchangeable Senior Notes that we will redeem all $287.5 million aggregate principal amount of such notes on September 15, 2017. Accordingly, subsequent to September 15, 2017, the above adjustments to our diluted earnings per share calculation, related to such notes, will be removed. See Note 5, “Loans Payable, Senior Notes, and Mortgage Company Loan Facility” for additional information.

11. Fair Value Disclosures

Financial Instruments

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

Financial Instrument	Fair value hierarchy	Fair value July 31, 2017	October 31, 2016
Mortgage Loans Held for Sale	Level 2	$89,419	$248,601
Forward Loan Commitments — Residential Mortgage Loans Held for Sale	Level 2	$(88)	$1,390
Interest Rate Lock Commitments (“IRLCs”)	Level 2	$99	$(921)
Forward Loan Commitments — IRLCs	Level 2	$(99)	$921

At July 31, 2017 and October 31, 2016, the carrying value of cash and cash equivalents and restricted cash and investments approximated fair value.

Mortgage Loans Held for Sale

At the end of the reporting period, we determine the fair value of our mortgage loans held for sale and the forward loan commitments we have entered into as a hedge against the interest rate risk of our mortgage loans and commitments using the market approach to determine fair value.

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The table below provides, as of the dates 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 July 31, 2017	$ 88,434	$89,419	$985
At October 31, 2016	$ 246,794	$248,601	$1,807

Inventory

We recognize 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. See Note 1, "Significant Accounting Policies – Inventory," in our 2016 Form 10-K for information regarding our methodology for determining fair value. The table below summarizes, for the periods indicated, the ranges of certain quantitative unobservable inputs utilized in determining the fair value of impaired operating communities:

Three months ended:	Selling price per unit ($ in thousands)	Sales pace per year (in units)	Discount rate
Fiscal 2017:			
January 31	692 - 880	4 - 12	16.3%
April 30	827 - 856	6 - 11	16.3%
July 31	465 - 754	3 - 10	16.5% - 19.5%
Fiscal 2016:			
January 31	—	—	—
April 30	369 - 394	18 - 23	16.3%
July 31	—	—	—
October 31	—	—	—

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 recognized
Fiscal 2017:				
January 31	57	2	$ 8,372	$ 4,000
April 30	46	6	$ 25,092	2,935
July 31	53	4	$ 5,965	1,360
				$ 8,295
Fiscal 2016:				
January 31	43	2	$ 1,713	$ 600
April 30	41	2	$ 10,103	6,100
July 31	51	2	$ 11,714	1,250
October 31	59	2	$ 1,126	415
				$ 8,365

Debt

The table below provides, as of the dates indicated, the book value and estimated fair value of our debt (amounts in thousands):

		July 31, 2017		October 31, 2016	
	Fair value hierarchy	Book value	Estimated fair value	Book value	Estimated fair value
Loans payable (a)	Level 2	$621,371	$619,975	$872,809	$870,384
Senior notes (b)	Level 1	3,157,376	3,321,149	2,707,376	2,843,177
Mortgage company loan facility (c)	Level 2	57,921	57,921	210,000	210,000
		$3,836,668	$3,999,045	$3,790,185	$3,923,561

(a) The estimated fair value of loans payable was based upon contractual cash flows discounted at interest rates that we believed were available to us for loans with similar terms and remaining maturities as of the applicable valuation date.

(b) The estimated fair value of our senior notes is based upon their market prices as of the applicable valuation date.

(c) We believe that the carrying value of our mortgage company loan borrowings approximates their fair value.

12. Other Income – Net

The table below provides the significant components of other income – net (amounts in thousands):

	Nine months ended July 31,		Three months ended July 31,	
	2017	2016	2017	2016
Interest income	$3,834	$1,612	$1,904	$676
Income from ancillary businesses, net	10,555	11,559	3,709	4,139
Gibraltar	2,650	6,351	(220)	102
Management fee income from unconsolidated entities, net	10,448	6,863	2,477	2,348
Retained customer deposits	4,461	4,449	1,407	780
Income from land sales	7,503	11,018	2,417	6,527
Other	342	1,622	286	549
Total other income – net	$39,793	$43,474	$11,980	$15,121

In the nine months ended July 31, 2016, our security monitoring business recognized a gain of $1.6 million from a bulk sale of security monitoring accounts in fiscal 2015, which is included in income from ancillary businesses in the table above.

Income from ancillary businesses includes our mortgage, title, landscaping, security monitoring, and golf course and country club operations. The table below provides, for the periods indicated, revenues and expenses for our ancillary businesses (amounts in thousands):

	Nine months ended July 31,		Three months ended July 31,	
	2017	2016	2017	2016
Revenues	$95,317	$85,955	$34,733	$32,823
Expenses	$84,762	$74,396	$31,024	$28,684

The table below provides, for the periods indicated, revenues and expenses recognized from land sales (amounts in thousands):

	Nine months ended July 31,		Three months ended July 31,	
	2017	2016	2017	2016
Revenues	$151,470	$77,701	$4,633	$64,109
Expenses	(148,625)	(64,076)	(2,420)	(54,975)
Deferred gain on land sale to joint venture		(2,607)		(2,607)
Deferred gain recognized	4,658		204	
Income from land sales	$7,503	$11,018	$2,417	$6,527

Land sale revenues for the nine months ended July 31, 2017 includes $143.3 million related to an in substance real estate sale transaction which resulted in a new Home Building Joint Venture in which we have a 20% interest. No gain or loss was realized on the sale. See Note 3, “Investments in Unconsolidated Entities,” for more information on this transaction. The deferred gains recognized in the fiscal 2017 periods relate to the sale of a property in fiscal 2015 to a Home Building Joint Venture in which

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we have a 25% interest. Due to our continued involvement in this unconsolidated entity through our ownership interest and guarantees provided on the entity's debt, we deferred the $9.3 million gain realized on the sale. We are recognizing the gain as units are sold by the entity to the ultimate home buyers. The deferred gain on land sale to joint venture in the fiscal 2016 periods relate to a sales transaction to a Rental Property Joint Venture in which we have a 50% interest. Due to our continued involvement in this unconsolidated entity through our ownership interest, we deferred 50% of the gain realized on the sale. We will amortize this deferred gain into income over the life of the rental property using the straight line method.

13. Commitments and Contingencies

Legal Proceedings

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

In April 2017, the SEC informed the Company that it was conducting an investigation and requested that we voluntarily produce documents and information relating to our estimated repair costs for stucco and other water intrusion claims in fiscal 2016. As previously described in our 2016 Form 10-K, in the fourth quarter of fiscal 2016, our estimated liability for these water intrusion claims increased significantly. The Company has produced detailed information and documents in response to this request. Management cannot at this time predict the eventual scope or outcome of this matter.

Investments in Unconsolidated Entities

At July 31, 2017, we had investments in a number of unconsolidated entities, were committed to invest or advance additional funds, and had guaranteed a portion of the indebtedness and/or loan commitments of these entities. See Note 3, "Investments in Unconsolidated Entities," for more information regarding our commitments to these entities.

Land Purchase Commitments

Generally, our purchase agreements to acquire land parcels do not require us to purchase those land parcels, although we, in some cases, forfeit any deposit balance outstanding if and when we terminate a purchase agreement. Information regarding our land purchase commitments, as of the dates indicated, is provided in the table below (amounts in thousands):

	July 31, 2017	October 31, 2016
Aggregate purchase commitments:		
Unrelated parties	$1,872,468	$1,544,185
Unconsolidated entities that the Company has investments in	8,921	79,204
Total	$1,881,389	$1,623,389
Deposits against aggregate purchase commitments	$94,903	$65,299
Additional cash required to acquire land	1,786,486	1,558,090
Total	$1,881,389	$1,623,389
Amount of additional cash required to acquire land included in accrued expenses	$3,672	$18,266

In addition, we expect to purchase approximately 3,400 additional home sites over a number of years from several joint ventures in which we have interests; the purchase prices of these home sites will be determined at a future date.

At July 31, 2017, we also had purchase commitments to acquire land for apartment developments of approximately $150.1 million, of which we had outstanding deposits in the amount of $6.2 million.

We have additional land parcels under option that have been excluded from the aforementioned aggregate purchase amounts since we do not believe that we will complete the purchase of these land parcels and no additional funds will be required from us to terminate these contracts.

Surety Bonds and Letters of Credit

At July 31, 2017, we had outstanding surety bonds amounting to $713.1 million, primarily related to our obligations to governmental entities to construct improvements in our communities. We estimate that $363.2 million of work remains on these improvements. We have an additional $168.3 million of surety bonds outstanding that guarantee other obligations. We do not believe that it is probable that any outstanding bonds will be drawn upon.

At July 31, 2017, we had outstanding letters of credit of $146.5 million under our Credit Facility. These letters of credit were issued to secure our various financial obligations, including insurance policy deductibles and other claims, land deposits, and security to complete improvements in communities in which we are operating. We do not believe that it is probable that any outstanding letters of credit will be drawn upon.

Backlog

At July 31, 2017, we had agreements of sale outstanding to deliver 6,282 homes with an aggregate sales value of $5.31 billion.

Mortgage Commitments

Information regarding our mortgage commitments, as of the dates indicated, is provided in the table below (amounts in thousands):

	July 31, 2017	October 31, 2016
Aggregate mortgage loan commitments:		
IRLCs	$422,782	$255,647
Non-IRLCs	1,256,917	1,094,861
Total	$1,679,699	$1,350,508
Investor commitments to purchase:		
IRLCs	$422,782	$255,647
Mortgage loans receivable	80,637	231,398
Total	$503,419	$487,045

14. Information on Segments

We operate in two segments: Traditional Home Building and Urban Infill. We build and sell detached and attached homes in luxury residential communities located in affluent suburban markets that cater to move-up, empty-nester, active-adult, age-qualified, and second-home buyers in the United States (“Traditional Home Building”). We also build and sell homes in urban infill markets through Toll Brothers City Living® (“City Living”).

We have determined that our Traditional Home Building operations operate in five geographic segments: North, Mid-Atlantic, South, West, and California. The states comprising each geographic segment are as follows:

North: Connecticut, Illinois, Massachusetts, Michigan, Minnesota, New Jersey, and New York

Mid-Atlantic: Delaware, Maryland, Pennsylvania, and Virginia

South: Florida, North Carolina, and Texas

West: Arizona, Colorado, Idaho, Nevada, and Washington

California: California

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

	Nine months ended July 31,		Three months ended July 31,	
	2017	2016	2017	2016
Revenues:				
Traditional Home Building:				
North	$560,812	$491,692	$225,829	$205,200
Mid-Atlantic	692,457	576,991	281,915	220,596
South	591,211	571,364	253,904	232,118
West	821,241	548,701	307,406	223,076
California	928,303	881,779	335,224	336,438
Traditional Home Building	3,594,024	3,070,527	1,404,278	1,217,428
City Living	193,127	243,530	98,631	52,506
Total	$3,787,151	$3,314,057	$1,502,909	$1,269,934
Income (loss) before income taxes:				
Traditional Home Building:				
North	$37,042	$35,300	$16,436	$18,994
Mid-Atlantic	69,171	56,348	35,628	18,478
South	67,496	84,765	33,566	32,386
West	111,002	74,164	43,180	30,313
California	199,232	198,776	72,703	80,293
Traditional Home Building	483,943	449,353	201,513	180,464
City Living	131,782	74,598	46,750	14,682
Corporate and other	(103,161)	(103,084)	(44,689)	(31,493)
Total	$512,564	$420,867	$203,574	$163,653

“Corporate and other” is comprised principally of general corporate expenses such as the offices of our executive officers; the corporate finance, accounting, audit, tax, human resources, risk management, information technology, marketing, and legal groups; interest income; income from certain of our ancillary businesses, including Gibraltar; and income from a number of our unconsolidated entities.

Total assets for each of our segments, as of the dates indicated, are shown in the table below (amounts in thousands):

	July 31, 2017	October 31, 2016
Traditional Home Building:		
North	$1,089,376	$1,020,250
Mid-Atlantic	1,177,785	1,166,023
South	1,288,665	1,203,554
West	1,276,911	1,130,625
California	2,714,799	2,479,885
Traditional Home Building	7,547,536	7,000,337
City Living	760,349	946,738
Corporate and other	1,821,051	1,789,714
Total	$10,128,936	$9,736,789

“Corporate and other” is comprised principally of cash and cash equivalents, restricted cash and investments, deferred tax assets, investments in our Rental Property Joint Ventures, expected recoveries from insurance carriers and suppliers, our Gibraltar investments, manufacturing facilities, and our mortgage and title subsidiaries.

15. Supplemental Disclosure to Condensed Consolidated Statements of Cash Flows

The following are supplemental disclosures to the Condensed Consolidated Statements of Cash Flows, for the periods indicated (amounts in thousands):

	Nine months ended July 31, 2017	2016
Cash flow information:		
Interest paid, net of amount capitalized	$3,142	$876
Income tax payments	$88,281	$116,681
Income tax refunds	$1,719	$2,002
Noncash activity:		
Cost of inventory acquired through seller financing or municipal bonds, net	$25,880	$25,368
Financed portion of land sale	$625	
Reduction in inventory for our share of earnings in land purchased from unconsolidated entities and allocation of basis difference	$12,235	$8,546
Rental property acquired by capital land lease	$7,167	
Defined benefit plan amendment		$757
Deferred tax decrease related to stock-based compensation activity included in additional paid-in capital	$5,119	$9,797
Transfer of inventory to investment in unconsolidated entities	$36,256	
Transfer of investment in distressed loans and REO to investment in unconsolidated entities		$5,917
Transfer of other assets to investment in unconsolidated entities		$19,050
Miscellaneous increases to investments in unconsolidated entities	$1,977	$1,558
Acquisition of a Business:		
Fair value of assets purchased	$90,560	
Liabilities assumed	$5,377	
Cash paid	$85,183	

16. Supplemental Guarantor Information

At July 31, 2017, our 100%-owned subsidiary, Toll Brothers Finance Corp. (the “Subsidiary Issuer”), has issued the following outstanding Senior Notes (amounts in thousands):

	Original amount issued and amount outstanding
8.91% Senior Notes due 2017	$ 400,000
4.0% Senior Notes due 2018	$ 350,000
6.75% Senior Notes due 2019	$ 250,000
5.875% Senior Notes due 2022	$ 419,876
4.375% Senior Notes due 2023	$ 400,000
5.625% Senior Notes due 2024	$ 250,000
4.875% Senior Notes due 2025	$ 350,000
4.875% Senior Notes due 2027	$ 450,000
0.5% Exchangeable Senior Notes due 2032	$ 287,500

The obligations of the Subsidiary Issuer to pay principal, premiums, if any, and interest are guaranteed jointly and severally on a senior basis by us and substantially all of our 100%-owned home building subsidiaries (the “Guarantor Subsidiaries”). The guarantees are full and unconditional. Our non-home building subsidiaries and several of our home building subsidiaries (together, the “Nonguarantor Subsidiaries”) do not guarantee these Senior Notes. The Subsidiary Issuer generates no operating revenues and does not have any independent operations other than the financing of our other subsidiaries by lending the proceeds from the above-described debt issuances. The indentures under which the Senior Notes were issued provide that any of our subsidiaries that provide a guarantee of our obligations under the Credit Facility will guarantee the Senior Notes. The indentures further provide that any Guarantor Subsidiary may be released from its guarantee so long as (i) no default or event of default exists or would result from release of such guarantee; (ii) the Guarantor Subsidiary being released has consolidated net worth of less than 5% of the Company’s consolidated net worth as of the end of our most recent fiscal quarter; (iii) the Guarantor Subsidiaries released from their guarantees in any fiscal year comprise in the aggregate less than 10% (or 15% if and to the extent necessary to permit the cure of a default) of our consolidated net worth as of the end of our most recent fiscal quarter; (iv) such release would not have a material adverse effect on our and our subsidiaries’ home building business; and (v) the Guarantor Subsidiary is released from its guaranty under the Credit Facility. If there are no guarantors under the Credit Facility, all Guarantor Subsidiaries under the indentures will be released from their guarantees.

During the preparation of the Form 10-Q for the three months ended January 31, 2017, we identified an immaterial revision that was necessary to certain columns in the consolidating statements for the year ended October 31, 2016. The revision impacted the Guarantor and Nonguarantor Subsidiaries columns in the Consolidating Statement of Operations and Comprehensive Income for the year ended October 31, 2016 and the Nonguarantor Subsidiaries and Eliminations columns in the Condensed Consolidating Balance Sheet as of October 31, 2016, by offsetting amounts. Corresponding changes to the Consolidating Statement of Cash Flows for the year ended October 31, 2016 were also made. The revision had no impact on any consolidated totals of such consolidating statements.

Accordingly, the Consolidating Statements of Operations and Comprehensive Income and of Cash Flows for the year ended October 31, 2016 and the Condensed Consolidating Balance Sheet as of October 31, 2016 have been revised to reflect the immaterial adjustment described above and are included hereunder.

Separate financial statements and other disclosures concerning the Guarantor Subsidiaries are not presented because management has determined that such disclosures would not be material to investors.

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

Condensed Consolidating Balance Sheet at July 31, 2017:

	Toll Brothers, Inc.	Subsidiary Issuer	Guarantor Subsidiaries	Nonguarantor Subsidiaries	Eliminations	Consolidated
ASSETS						
Cash and cash equivalents	—	—	784,527	161,668	—	946,195
Restricted cash and investments				781		781
Inventory			7,378,098	255,470		7,633,568
Property, construction and office equipment, net			164,156	15,320		179,476
Receivables, prepaid expenses and other assets			354,597	252,406	(70,479)	536,524
Mortgage loans held for sale				89,419		89,419
Customer deposits held in escrow			91,378	2,473		93,851
Investments in unconsolidated entities			66,405	447,860		514,265
Investments in and advances to consolidated entities	4,514,891	3,211,923	91,740	128,433	(7,946,987)	—
Deferred tax assets, net of valuation allowances	134,857					134,857
	4,649,748	3,211,923	8,930,901	1,353,830	(8,017,466)	10,128,936
LIABILITIES AND EQUITY						
Liabilities						
Loans payable			612,407	7,167		619,574
Senior notes		3,145,380			3,525	3,148,905
Mortgage company loan facility				57,921		57,921
Customer deposits			395,407	18,738		414,145
Accounts payable			274,350	2,416		276,766
Accrued expenses	151	46,233	593,862	393,208	(77,333)	956,121
Advances from consolidated entities			2,404,026	685,740	(3,089,766)	—
Income taxes payable	116,883					116,883
Total liabilities	117,034	3,191,613	4,280,052	1,165,190	(3,163,574)	5,590,315
Equity						
Stockholders’ equity						
Common stock						