CENTRA SOFTWARE INC
Form 425
October 06, 2005

Filed Pursuant to Rule 425

Filing Person: Saba Software, Inc.

Commission File No.: 000-30221

Subject Company: Centra Software, Inc.

Commission File No.: 000-27861

TO: Saba Partners
FROM: Bobby Yazdani
DATE: October 6, 2005
SUBJECT: Saba and Centra to Combine Businesses

I am delighted to inform you that Saba and Centra today signed a definitive agreement to combine businesses. The combined company will operate as Saba Software. I will continue as Saba Chairman and CEO and Leon Navickas, Centra Chairman and CEO, will serve on our Board of Directors.

In combining our businesses, we are bringing together the best collaborative learning and managed learning products, people and processes in the world. Together, we have 20 years of award-winning product innovation, over 500 employees and the best practices of our more than 1,100 enterprise customers worldwide.

Centra and Saba have been successful partners in the learning industry for years. With converging visions based on complementary technology, we believe ours is a winning combination that:

Provides the industry s FIRST COMPLETE enterprise learning solution. With a built-in, seamlessly integrated LMS/LCMS and Virtual Classroom, customers can get up and running faster and start transferring knowledge more quickly.

Creates the LARGEST enterprise learning company in the world. Together, we will be a $100 million company serving many of the largest companies in the world including 51 of the Fortune 100. We will have more than 200 research & development professionals and over 180 professional services staff committed to product innovations and customer service.

Has the VISION and UNMATCHED RESOURCES to deliver on our strategic human capital management (HCM) roadmap. We remain committed to delivering a top-tier HCM suite, with a strong learning suite foundation. This combination allows us to deepen our learning offering, while providing the talent and resources to continue building out a broader HCM solution.

It s clear to me that the Saba-Centra combination is a good fit, and that the combined experience and vision of our two companies will result in valuable products and services that neither company could provide on its own.

For more information about this exciting news, please refer to **today s press release** and a set of **Questions and Answers**.

I look forward to talking to you over the upcoming days and weeks, as this transaction unfolds and we combine these two companies start to unite. Please contact me or anyone on the Saba management team if you have any questions.

Regards,

Bobby Yazdani

Chairman and CEO

Saba

Forward-Looking Statements

This document contains 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, including, but not limited to, statements regarding Mr. Yazdani s continuing as Saba Chairman and CEO, Mr. Navickas joining the Saba Board of Directors, employees and customers of the combined company, providing the industry s first complete enterprise learning solution, creating the largest enterprise learning company in the world, having the vision and unmatched resources to deliver on our HCM roadmap, the Saba/Centra combination being a good fit, and the combination of the companies resulting in valuable products and services. These forward-looking statements involve important factors that could cause our actual results to differ materially from those in the forward-looking statements. Such important factors involve risks and uncertainties including, but not limited to, the possibility that the market for the sale of certain products and services may not develop as expected; the possibility that the transaction does not close; unanticipated delays and difficulties in obtaining regulatory approvals necessary to close the transaction; the possibility that the parties will be unable to successfully execute their integration strategies or achieve planned synergies; the possibility that prior to the closing of the transaction, the businesses of both Saba and Centra suffer due to customer uncertainty; unanticipated delays and difficulties in the integration of the two companies technologies; and other risks that are described in Saba s Securities and Exchange Commission (SEC) reports including, but not limited to, Saba s Annual Report on Form 10-K for the fiscal year ended May 31, 2005, and subsequently filed reports. Saba assumes no obligation, and does not intend, to update these forward-looking statements.

Additional Information and Where to Find It

Saba and Centra will file a joint proxy statement/prospectus with the SEC in connection with the proposed merger. Investors and security holders are urged to read the joint proxy statement/prospectus when it becomes available and any other relevant documents filed with the SEC because they will contain important information regarding Saba, Centra, the proposed merger, the persons soliciting proxies in connection with the proposed merger on behalf of Saba and Centra and the interests of those persons in the proposed merger and related matters. Saba and Centra intend to mail the joint proxy statement/prospectus to their respective stockholders once such joint proxy statement/prospectus is declared effective by the SEC. Investors and security holders will be able to obtain a copy of the joint proxy statement/prospectus and other documents filed by Saba and Centra with the SEC free of charge at the website maintained by the SEC at http://www.sec.gov. In addition, documents filed with the SEC by Saba are available free of charge by contacting Saba Investor Relations, 2400 Bridge Parkway, Redwood Shores, California 94065, (650) 581-2500, and documents filed with the SEC by Centra are available free of charge by contacting Centra Investor Relations, 430 Bedford Street, Lexington, Massachusetts 02420, (781) 861-7000.

Participants in Solicitation

Saba and Centra, and their respective directors, executive officers and employees may be deemed to be participants in the solicitation of proxies from the stockholders of Saba and Centra in connection with the proposed merger and related items. Information regarding the directors and executive officers of Saba and their ownership of Saba shares is set forth in the proxy statement for Saba s annual meeting of stockholders to be held November 3, 2005. Information regarding the directors and executive officers of Centra and their ownership of Centra stock is set forth in Centra s proxy statement for Centra s 2005 annual meeting of stockholders. Investors may obtain additional information regarding the interests of those participants by reading the joint proxy statement/prospectus when it becomes available.

TO: Saba Employees
FROM: Bobby Yazdani
DATE: October 6, 2005
SUBJECT: Saba and Centra to Combine Businesses

I am delighted to inform you that Saba and Centra today signed a definitive agreement to combine businesses. The combined company will operate as Saba Software. I will continue as Saba Chairman and CEO and Leon Navickas, Centra Chairman and CEO, will serve on our Board of Directors.

In combining our businesses, we are bringing together the best collaborative learning and managed learning products, people and processes in the world. Together, we have 20 years of award-winning product innovation, over 500 employees and the best practices of our more than 1,100 enterprise customers worldwide.

Centra and Saba have been successful partners in the learning industry for years. With converging visions based on complementary technology, we believe ours is a winning combination that:

- ***Provides the industry s FIRST COMPLETE enterprise learning solution***. For the first time, customers can have one vendor partner for all of their collaborative learning and learning management needs.

- ***Creates the LARGEST enterprise learning company in the world***. Together, we will be a $100 million company serving many of the largest customers in the world including 51 of the Fortune 100. We will have more than 200 research & development professionals and over 180 professional services staff committed to innovating the product and servicing our customers.

- ***Has the VISION and UNMATCHED RESOURCES to deliver on our strategic HCM roadmap***. We remain committed to delivering a top-tier HCM suite, with a strong learning suite foundation. This combination allows us to deepen our learning offering, while providing the talent and resources to continue building out a broader HCM solution.

It s clear to me that the Saba-Centra combination is a good fit, and that the combined experience and vision of our two companies will result in valuable products and services that neither company could provide on its own.

It s also clear that today s news wouldn t be possible without you. I understand that our company s growth and positive momentum comes from your continued focus, talent and commitment to success. Thank you for your continued hard work and contributions.

Attached please find **today s press release** and a set of **Employee Questions and Answers** with more information. You will also find these documents and others at a special web site we set up for Saba employees, to help provide information and answer questions that may come up in the next three months:

Url: www.Saba-welcome.com

Group username: saba

Password: welcome

We have also scheduled a Saba All Hands meeting for tomorrow, Friday, October 7th, to discuss this exciting news:

Saba All Hands Meeting: Friday, October 7th

Time: 9 a.m. PDT/12:00 noon EDT/5:00 pm GMT

Phone US & Canada: 1-800-399-0552

Phone International: 1-706-645-9711

Conference ID#: 1259-422

URL: http://www.placeware.com/cc/saba/A?id=9876&pw=

I hope you join me in celebrating this combination. I look forward to talking to you over the upcoming days and weeks, as this transaction unfolds and our two companies start to combine. Please stop by or call if you have any questions. Or contact anyone on the Saba management team for more information.

Regards,

Bobby Yazdani

Chairman and CEO

Saba

Forward-Looking Statements

This document contains 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, including, but not limited to, statements regarding Mr. Yazdani s continuing as Saba Chairman and CEO, Mr. Navickas joining the Saba Board of Directors, employees and customers of the combined company, providing the industry s first complete enterprise learning solution, creating the largest enterprise learning company in the world, having the vision and unmatched resources to deliver on our HCM roadmap, the Saba/Centra combination being a good fit, and the combination of the companies resulting in valuable products and services. These forward-looking statements involve important factors that could cause our actual results to differ materially from those in the forward-looking statements. Such important factors involve risks and uncertainties including, but not limited to, the possibility that the market for the sale of certain products and services may not develop as expected; the possibility that the transaction does not close; unanticipated delays and difficulties in obtaining regulatory approvals necessary to close the transaction; the possibility that the parties will be unable to successfully execute their integration strategies or achieve planned synergies; the possibility that prior to the closing of the transaction, the businesses of both Saba and Centra suffer due to customer uncertainty; unanticipated delays and difficulties in the integration of the two companies technologies; and other risks that are described in Saba s Securities and Exchange Commission (SEC) reports including, but not limited to, Saba s Annual Report on Form 10-K for the fiscal year ended May 31, 2005, and subsequently filed reports. Saba assumes no obligation, and does not intend, to update these forward-looking statements.

Additional Information and Where to Find It

Saba and Centra will file a joint proxy statement/prospectus with the SEC in connection with the proposed merger. Investors and security holders are urged to read the joint proxy statement/prospectus when it becomes available and any other relevant documents filed with the SEC because they will contain important information regarding Saba, Centra, the proposed merger, the persons soliciting proxies in connection with the proposed merger on behalf of Saba and Centra and the interests of those persons in the proposed merger and related matters. Saba and Centra intend to mail the joint proxy statement/prospectus to their respective stockholders once such joint proxy statement/prospectus is declared effective by the SEC. Investors and security holders will be able to obtain a copy of the joint proxy statement/prospectus and other documents filed by Saba and Centra with the SEC free of charge at the website maintained by the SEC at http://www.sec.gov. In addition, documents filed with the SEC by Saba are available free of charge by contacting Saba Investor Relations, 2400 Bridge Parkway, Redwood Shores, California 94065, (650) 581-2500, and documents filed with the SEC by Centra are available free of charge by contacting Centra Investor Relations, 430 Bedford Street, Lexington, Massachusetts 02420, (781) 861-7000.

Participants in Solicitation

Saba and Centra, and their respective directors, executive officers and employees may be deemed to be participants in the solicitation of proxies from the stockholders of Saba and Centra in connection with the proposed merger and related items. Information regarding the directors and executive officers of Saba and their ownership of Saba shares is set forth in the proxy statement for Saba s annual meeting of stockholders to be held November 3, 2005. Information regarding the directors and executive officers of Centra and their ownership of Centra stock is set forth in Centra s proxy statement for Centra s 2005 annual meeting of stockholders. Investors may obtain additional information regarding the interests of those participants by reading the joint proxy statement/prospectus when it becomes available.

TO: Saba Customers
FROM: Bobby Yazdani
DATE: October 6, 2005
SUBJECT: Saba and Centra to Combine Businesses

I am delighted to inform you that Saba and Centra today signed a definitive agreement to combine businesses. The combined company will operate as Saba Software. I will continue as Saba Chairman and CEO and Leon Navickas, Centra Chairman and CEO, will serve on our Board of Directors.

In combining our businesses, we are bringing together the best collaborative learning and managed learning products, people and processes in the world. Together, we have 20 years of award-winning product innovation, over 500 employees and the best practices of our more than 1,100 enterprise customers worldwide.

Centra and Saba have been successful partners in the learning industry for years. With converging visions based on complementary technology, we believe ours is a winning combination for customers that:

Provides the industry s FIRST COMPLETE enterprise learning solution. With a built-in, seamlessly integrated LMS/LCMS and Virtual Classroom, you can get up and running faster and start transferring knowledge more quickly.

Creates the LARGEST enterprise learning company in the world. Together, we will be a $100 million company serving many of the largest companies in the world including 51 of the Fortune 100. We will have over 200 research & development professionals and over 180 professional services personnel committed to product innovations and customer service.

Has the VISION and UNMATCHED RESOURCES to deliver on our strategic human capital management (HCM) roadmap. We remain committed to delivering a top-tier strategic HCM suite, with a strong learning suite foundation. The Saba-Centra combination allows us to deepen our learning offering, while providing the talent and resources to continue building out a broader HCM solution.

It s clear to me that the Saba-Centra combination is a good fit, and that the combined experience and vision of our two companies will result in valuable products and services that neither company could provide on its own.

For more information about this exciting news, please refer to **today s press release** and a set of **Questions and Answers**.

I look forward to talking to you over the upcoming days and weeks, as this transaction unfolds and we combine these two companies. Please contact me or anyone on the Saba management team if you have questions.

Best Regards,

Bobby Yazdani

Chairman and CEO

Saba

Forward-Looking Statements

This document contains 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, including, but not limited to, statements regarding Mr. Yazdani s continuing as Saba Chairman and CEO, Mr. Navickas joining the Saba Board of Directors, employees and customers of the combined company, providing the industry s first complete enterprise learning solution, creating the largest enterprise learning company in the world, having the vision and unmatched resources to deliver on our HCM roadmap, the Saba/Centra combination being a good fit, and the combination of the companies resulting in valuable products and services. These forward-looking statements involve important factors that could cause our actual results to differ materially from those in the forward-looking statements. Such important factors involve risks and uncertainties including, but not limited to, the possibility that the market for the sale of certain products and services may not develop as expected; the possibility that the transaction does not close; unanticipated delays and difficulties in obtaining regulatory approvals necessary to close the transaction; the possibility that the parties will be unable to successfully execute their integration strategies or achieve planned synergies; the possibility that prior to the closing of the transaction, the businesses of both Saba and Centra suffer due to customer uncertainty; unanticipated delays and difficulties in the integration of the two companies technologies; and other risks that are described in Saba s Securities and Exchange Commission (SEC) reports including, but not limited to, Saba s Annual Report on Form 10-K for the fiscal year ended May 31, 2005, and subsequently filed reports. Saba assumes no obligation, and does not intend, to update these forward-looking statements.

Additional Information and Where to Find It

Saba and Centra will file a joint proxy statement/prospectus with the SEC in connection with the proposed merger. Investors and security holders are urged to read the joint proxy statement/prospectus when it becomes available and any other relevant documents filed with the SEC because they will contain important information regarding Saba, Centra, the proposed merger, the persons soliciting proxies in connection with the proposed merger on behalf of Saba and Centra and the interests of those persons in the proposed merger and related matters. Saba and Centra intend to mail the joint proxy statement/prospectus to their respective stockholders once such joint proxy statement/prospectus is declared effective by the SEC. Investors and security holders will be able to obtain a copy of the joint proxy statement/prospectus and other documents filed by Saba and Centra with the SEC free of charge at the website maintained by the SEC at http://www.sec.gov. In addition, documents filed with the SEC by Saba are available free of charge by contacting Saba Investor Relations, 2400 Bridge Parkway, Redwood Shores, California 94065, (650) 581-2500, and documents filed with the SEC by Centra are available free of charge by contacting Centra Investor Relations, 430 Bedford Street, Lexington, Massachusetts 02420, (781) 861-7000.

Participants in Solicitation

Saba and Centra, and their respective directors, executive officers and employees may be deemed to be participants in the solicitation of proxies from the stockholders of Saba and Centra in connection with the proposed merger and related items. Information regarding the directors and executive officers of Saba and their ownership of Saba shares is set forth in the proxy statement for Saba s annual meeting of stockholders to be held November 3, 2005. Information regarding the directors and executive officers of Centra and their ownership of Centra stock is set forth in Centra s proxy statement for Centra s 2005 annual meeting of stockholders. Investors may obtain additional information regarding the interests of those participants by reading the joint proxy statement/prospectus when it becomes available.

Saba to Acquire Centra

Questions & Answers

October 6, 2005

This document was prepared to address the most anticipated questions regarding Saba and Centra s planned combination.

Should you have additional questions, please contact Elizabeth Doubleday at +1-410-727-5112, x1261.

THE ANNOUNCEMENT

1. What is the news?

Saba (NASDAQ: SABA) and Centra (NASDAQ: CTRA) have agreed to combine businesses.

2. Why combine these two companies?

The combination of Centra and Saba would create the leading enterprise learning software company. Combined, Centra and Saba would:

Provide the Industry s FIRST COMPLETE enterprise learning software solution. In combining Saba s learning management solutions and Centra s collaborative learning solutions, the new company would offer customers the very first enterprise learning software solution with the only built-in and seamlessly integrated LMS/LCMS and Virtual Classroom, so customers would achieve faster time to implementation and faster time to resolution from a single vendor.

Create the LARGEST Enterprise Learning Software Company in the world. The new Saba would have over 500 experienced employees, a $100 Million annual revenue run rate and more than 1,100 customers in 31 countries.

Have the VISION and UNMATCHED RESOURCES to deliver a winning solution to the larger strategic HCM market, which will total more than $4.4 B by 2009. Together, the new company would be twice the size of either company alone.

The time is right to combine the strengths of two proven learning companies, with converging visions and complementary technologies. Opportunities for growth and success would be enormous, as the new company would have the scale and talent to be successful in the large and growing HCM market.

The combination of Centra and Saba creates the world s #1 learning software company, with strong financial assets, more than 1100 enterprise learning customers and over 500 professionals.

Bobby Yazdani, CEO & Chairman, Saba

3. What is HCM?

Human Capital Management (HCM) is a business strategy that enables organizations to turn people into competitive assets. Since every core business process and strategic initiative requires a Human Capital Management business strategy to execute it, improvements made in HCM systems and processes can significantly impact an organization s bottom line.

Human Capital Management (HCM) is based on four key principles:

- **HCM accepts responsibility for the strategic growth of the individuals involved**. HCM systems are designed to cultivate far-reaching plans that allow organizations to build their employee base in alignment with their overall plans for long-term sustainable organizational growth

- **HCM is a strategy to leverage knowledge across the enterprise**, in all types of organizations (commercial, government, associations)

- **HCM is a competitive tool that identifies, cultivates and rewards the most valuable employees** in an organization and uses compensation and other motivational activities to drive desired behaviors aligned with corporate goals and objectives

- **HCM is designed to optimize the *value* of people**, not to minimize their costs

To implement an effective Human Capital Management strategy, organizations need an integrated strategic human capital management software system to align, develop, motivate and measure their people to organizational goals.

A Strategic HCM system requires the following components to give executives a global view of their people and their productivity:

- Learning management
- Competency management
- Performance management
- Knowledge management
- Compensation management
- Talent management with analytics

Putting the right decision-making tools and information in the hands of the managers and operations that run the business enhances the ability to leverage the knowledge, creativity and the work efforts of those involved.

4. Is this an acquisition or merger?

This is an acquisition. Centra would become part of the Saba family, strengthening the company and providing customers with even more strategic support. The combined company would operate as Saba and would keep the Centra brand to describe the Centra product lines.

5. What are the terms of this combination?

Saba agreed to acquire Centra for a combination of Saba stock and cash. The consideration per share to be received by the stockholders of Centra will be comprised of $0.663 in cash and Saba stock at a fixed exchange ratio of 0.354 of a share of Saba stock for each share of Centra stock.

6. Is the acquisition complete?

Not yet. Saba has signed a definitive agreement to acquire Centra. The transaction has been approved by the Boards of Directors of both companies and due diligence is complete. While the transaction and timing are subject to stockholder and regulatory approvals, the transaction is expected to close in the third quarter of Saba s fiscal year ending May 31, 2006.

ORGANIZATIONAL STRUCTURE & LEADERSHIP

7. Who is Saba?

Founded in 1997, Saba (NASDAQ: SABA) is a leading provider of integrated Human Capital Management (HCM) solutions. Saba enables The Aligned Enterprise by aligning goals, developing and motivating people, and measuring results driving greater organizational performance.

More than 10 million current users in 31 countries use Saba today. Customers include ABN AMRO, Alcatel, Bank of Tokyo-Mitsubishi, BMW, CEMEX, Cisco Systems, DaimlerChrysler, Dell, Deloitte Touche Tohmatsu, EDS, EMC Corporation, FedEx Kinko s, Insurance Australia Group, Lockheed Martin, Medtronic, National Australia Bank, Novartis, Petrobras, Procter & Gamble, Scotiabank, Sprint, Standard Chartered Bank, Swedbank and the U.S. Army and U.S. Navy.

Saba Name

Saba means knowing in many languages. In Persian, it is a poetic term referring to the Ah ha moment or the moment when a reader understands the meaning of a poem and achieves enlightenment . In Persian, Saba can also refer to the moment when the Sun rises over the horizon and a new day dawns. In Spanish, Saba is a form of the verb to know . In Hebrew, Saba is the word for a wise and knowing grandfather .

Historically, Saba was an ancient kingdom in southern Arabia that was instrumental in the trade between Egypt and India. Saba was the home of the Queen of Sheba and most likely was the home of the three wise men as well.

Bobby Yazdani chose this name when he founded the company in 1997 to represent the new frontier of human capital management.

People-Centered Values

Saba s core values are the foundation for everything the company does:

- Foster enduring relationships with customers, partners and employees
- Respect, empower and energize people
- Create value through continuous innovation, change and accomplishment
- Manage truthfully and responsibly

Strong Fundamentals

Great companies start with great people. This fundamental belief is the foundation of Saba. As evidenced by sustained positive financial results, key customer wins in the both the private and public sectors, and groundbreaking new products, Saba is poised to become the dominant strategic HCM provider in the marketplace.

Saba s financial strength is evidenced by accelerated growth:

FY 2005 revenue up 22% over prior year: Q1 2006 revenues up 46%

Six consecutive quarter of revenue gains

Profitable on a pro forma basis in FY 2006

40% license growth in FY 2005

Average 98% renewal rate for the past 3 years

Services revenue increase of 15% over last year; doubled revenues in the Americas

More than doubled the number of hosted users over the past year, to 700,000+

$30M invested in R&D over the past 3 years

8. Who is Centra?

Since 1995, Centra (NASDAQ: CTRA) has licensed its software and services for online learning and training. Centra has helped millions of professionals in over 1,500 organizations increase productivity and efficiency across their enterprise.

Online learning and training solutions from Centra create workforce efficiencies and enable organizations to share and exchange business-critical information with geographically distributed customers, partners, prospects and employees. Centra enables groups to work faster and more effectively by automating critical learning and training initiatives online through virtual classrooms, online meetings and Web conferences. From enterprise-application training and support to workforce development and more, Centra s software and services help organizations deliver critical information and skills to support their most challenging business initiatives. Currently available in nine languages, Centra solutions can be deployed as on-site software or through its ASP service.

Organizations across every major industry and market sector choose Centra, including Wyndham International, Weyerhaeuser, Underwriters Laboratories, BMW and Stanford University. Headquartered in Lexington, Massachusetts, Centra serves a worldwide customer base throughout the Americas, Europe, Asia and Australia. For more information, visit http://www.Centra.com.

Centra s innovative products and services start with people - professional, smart, self-motivated, creative and totally committed to leading the revolution in online learning and training. Since our initial product release in 1997, Centra has applied pioneering technology, focused business strategies, and innovative execution to its suite of online learning and training solutions. As the first company to create the working vision of a comprehensive approach to online learning and training, Centra continues to set the pace of progress for companies around the world.

Leadership Vision

Centra was the first company to:

- Unite people, resources, and information in a single-platform enterprise solution for online learning and training
- Recognize and implement a combined solution for collaboration, coordination, and scheduling on the Web
- Envision and build an extensive ecosystem of content, services, and technology alliances to support the successful planning and implementation of online learning and training for strategic business processes
- Market an integrated enterprise software solution for the delivery of all forms of online learning and training including online meetings, large-scale online presentations, virtual classrooms, content management, personalized eLearning, and content authoring
- Offer an extensible delivery platform that can be seamlessly integrated with popular Microsoft platforms and virtually all of today s leading Learning Management Systems (LMS), learning content standards, and eCommerce systems

Ship a Web-based online learning and training system that supports blended eLearning

9. Please describe the new company

The combined company would have over 500 employees, including over 200 R&D professionals and more than 180 Professional Services staff worldwide.

Bobby Yazdani, who founded Saba in 1997 and took the company public in 2000, would remain Chairman and CEO of Saba

Leon Navickas, Centra Chairman and CEO who founded the company in 1995 and took the company public in 2000, would serve on the Saba Board of Directors

In addition to Bobby and Leon, the seven-member Board of Directors would include 3 designated by Saba and 2 nominated by Centra

The combined leadership team of the new company would include executives and managers from both Saba and Centra.

Worldwide headquarters would remain in Redwood Shores, CA

2400 Bridge Parkway

Redwood Shores, CA 94065

10. What would happen to the other company offices?

Saba would continue operations in Centra US northeast (Lexington, MA) and US southeast (Atlanta, GA) offices. While there are no immediate plans to close any Centra or Saba offices, there are geographies where the combined company would have several offices in close proximity that are underutilized. The new Saba would do a facilities review after the acquisition is closed.

11. Would there be layoffs?

Saba s acquisition of Centra would result in a stronger entity and the combined workforce would be a key component to the success of the new organization. As with any combination, there would be some duplicate roles, which would lead to personnel changes. Staffing changes would be communicated as quickly as possible following the close of the acquisition.

12. Would any function be moving to other locations? Would anyone be asked to relocate?

There are no plans to take an existing function and move it from one location to another. As a result, no employees would be asked to relocate as a result of the merger. Employees could move on a temporary or permanent basis to take on new opportunities if they choose.

PRODUCT/SOLUTION DIRECTION

13. How would customers buy Saba and Centra products?

Customers would have significant choice in how they purchase Saba and Centra products. They could purchase:

Stand-alone components that are available as either ASP or behind-the-firewall solutions

An integrated behind-the-firewall Saba and Centra solution

An integrated ASP Saba and Centra solution that will be available in the future

14. What products and services does Saba provide?

Saba continues to lead the market with the **industry s first integrated Human Capital Management suite** including:

Saba Foundation provides core capabilities for all HCM applications.

Saba Performance enable the development of The Aligned Enterprise an organization in which goals and objectives are aligned and communicated, and performance expectations are clear and concise.

Saba Learning provides the industry s most advanced learning management system enabling compliance, corporate universities, sales force effectiveness, and customer education solutions.

Saba Collaboration provides a Web-based collaboration system that facilitates knowledge transfer and high-impact informal learning between individuals and subject matter experts.

Saba Content Management delivers a content authoring tool-independent learning content management system (LCMS) designed for enterprise-wide content development and delivery.

Saba Talent enables an organization to develop and nurture leaders as well as reduce organizational risk through succession management.

Saba Analytics provides an extensive set of built-in business analyses, including learning effectiveness, performance & goals achievement, compliance and certification, revenue and cost analysis and content utilization, to speed time-to-value.

Saba Professional Services

Saba also offers comprehensive services to assist in the successful implementation of its products. Saba s global services organization supports multiple offerings, including:

Saba Consulting. As experts in HCM infrastructure and processes, Saba consultants stand ready to help your company achieve excellence in Learning, Talent, and Performance management. Saba Consulting implements our best-in-class applications quickly and accurately and provides the strategic guidance, technology expertise, process definition and long-term leadership to assist you in making your vision a reality.

Saba Education. Saba Education helps your organization instill the knowledge and skills necessary to maximize your investment in Saba. For live instruction, choose from class-room training at a Saba location, on-site training at a location of your choosing, or virtual on-line training. Or you may choose Web-Based Training to educate learners, managers, and administrators of your Saba solution.

Saba Learning Services. Evaluate your needs, then define and implement your content strategy through content transformation or custom content development. Saba Learning Services helps you realize more value from your learning content.

Saba OnDemand. With Saba OnDemand, a high performance operating environment for your Saba application is assured through our expertise in application configuration, tuning and administration.

Saba Maintenance and Support. Ensure that your Saba solution is achieving your desired business results. Benefit directly from Saba s leadership in HCM and ongoing investment in product development with new product releases, timely service packs, and ready access to Saba expertise.

15. What products and services does Centra provide?

Centra 7

Centra 7 is application software that enables online learning and training. Organizations can share knowledge and exchange information with customers, partners, prospects and employees around the world in real-time. Centra 7 increases productivity and efficiency by helping you incorporate learning and knowledge transfer into your business processes.

Centra 7 allows you to accelerate mission-critical initiatives that involve learning and training with a suite of integrated, enterprise-class software that features:

Centra Live for Virtual Classes - Engage with groups in live, highly interactive education sessions across many locations

Virtual Classes for Universities and Schools - Bring instructors and students together online in highly interactive, online classes and degree programs that allow for all the interaction of a typical classroom

Centra Live for Web Seminars - A fast, efficient, cost-effective way to reach and engage large audiences quickly

Centra Live for eMeetings - Eliminate the hassles of complex meeting coordination and the time and expense of business travel

Centra Knowledge Center - Power on-demand access to blended learning programs, knowledge assets, and important documents with the Centra Knowledge Center. A searchable library of content and learning activities, it enables you to design personalized tracks of essential corporate or training materials and recorded events tailored to job roles, skill levels or knowledge gaps

Centra Performance Insight - Measure and report on learning activity and outcomes easily, quickly, and to your liking with Centra Performance Insight. Custom built reports and dashboards present critical data in easy-to-understand formats, enabling analysis and decision-making related to your organization s learning and business objectives

Centra Info Guide - Empower employees with on-demand access to personalized, business-critical information as they are doing their work. A single, complete information source for enterprise application use and your organization s business processes and rules, it delivers relevant help to employees and partners in the context of a task, enabling just-in-time learning at a moment of need

Centra Instant Assist - Supplement on-the-job, self-service help and support with instant, real-time assistance

Centra Professional Services

Hosted Services - Best-of-class ASP hosting gives you easy-to-implement deployment and lower support requirements of on-premises software deployments, all backed by Centra s industry-recognized service excellence

Consulting Services - Get the critical assistance you need to ensure successful implementation of your online learning and training solution. Business process consulting, implementation planning, event and content consulting, and support for rapid deployment methodology

Education Services - Learn and train on Centra solutions with online courses, certification programs, education consulting, best practices, training resources and materials

Event Management Services - Centra and The Maxwell Group s event teams can manage your event start-to-finish: event moderation, practice sessions, registration confirmations and event reminders, online registration forms and surveys, feedback forms, attendance reporting, and session recording with 30-day online availability

Support Services - Centra s customer care includes industry-recognized technical support and documentation. Product updates, support programs, and a comprehensive self-service Customer Support Web site

16. Which products would continue to be supported?

There would be no change in the support services that either company provides around their current products.

17. How does this acquisition affect product plans?

In summer 2006, the new company would deliver new releases of Saba and Centra with the only built-in and seamlessly integrated LMS/LCMS and Virtual Classroom solution. The product roadmap would be evaluated and adjusted to ensure that we support the strategic initiatives of the new company.

18. What would happen to Centra customers with integrated solutions from other providers?

Existing Centra customers with joint integrations would see no difference with regard to support. Existing adapters with other partners such as Oracle, SAP and Blackboard, as well as existing Application Programming Interfaces (APIs) would continue to be available.

19. What would happen to Saba customers with integrated solutions from other providers?

Existing Saba customers with third-party integrations would see no difference with regard to support. Existing Virtual Learning Environment solutions for Microsoft Live Meeting, as well as APIs, will continue to be available.

CUSTOMER SUPPORT

20. How would Centra customers be supported?

Saba would continue to remain committed to supporting customers. Today, Saba and Centra have a combined customer renewal rate of 95%. The combined company would maintain its ASP offerings, hosting commitments and current level of customer support.

Centra and Saba have converging visions based on complementary technology. The combination of our two companies ensures continued success for our customers.

Leon Navickas, CEO and Chairman, Centra

21. What would happen to Centra s user groups and other customer communities?

The new Saba would enhance the Centra Regional User Groups and Customer Advisory Boards, by increasing their ability to affect product change. Additionally, Saba would add a collaborative learning special interest group (SIG) to their other SIG activities.

Saba intends to host a combined Users Conference in the summer of 2006 for all customers.

INTEGRATION MANAGEMENT

22. Who is involved in managing the integration of Saba and Centra?

The integration process to date has been guided by a team of Senior Managers from both Saba and Centra. A leader from Saba has been paired with a Centra leader for each functional area, to initiate the integration plan. In moving forward, we would rely on both organizations to generate and implement integration plans that would make the effort a success.

23. What would happen to Centra s public web site?

Following the completion of the acquisition, information from the Centra web site would be integrated into the Saba web site. Visitors to www.Centra.com would be redirected to the Saba site.

24. How can I get more information?

More information is available in the press release issued on October 6, 2005, posted to both Saba and Centra web sites.

Investors may contact Saba or Centra for more information:

Saba: Pete Williams at pwilliams@saba.com

Centra: Kristine Mozes at kmozes@centra.com

Media and industry analysts may contact:

Saba: Elizabeth Doubleday at edoubleday@saba.com

Centra: Ellen Slaby at eslaby@centra.com

Forward-Looking Statements

This document contains 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, including, but not limited to, statements regarding the creation of the industry s first complete enterprise learning software company, creating the largest enterprise learning software company in the world, our vision and unmatched resources, the strategic HCM market totaling more than $4.4 billion by 2009, the new company being twice the size of either company alone, the time being right to combine the strengths of the two companies, keeping the Centra brand, timing of closing, employees and customers of the combined company, the Board composition of the combined company, worldwide headquarters remaining in Redwood Shores, CA, other combined company offices, layoffs relating to the transaction, relocation of employees, products and services provided by the combined company, the expectation that in summer 2006, the combined company would deliver new releases of Saba and Centra products, leveraging new market and technology competencies, and merging of the two companies support sites. These forward-looking statements involve important factors that could cause our actual results to differ materially from those in the forward-looking statements. Such important factors involve risks and uncertainties including, but not limited to, the possibility that the market for the sale of certain products and services may not develop as expected; the possibility that the transaction does not close; unanticipated delays in closing; the possibility that the parties will be unable to successfully execute their integration strategies or achieve planned synergies; the possibility that prior to the closing of the transaction, the businesses of both Saba and Centra suffer due to customer uncertainty; unanticipated delays and difficulties in the integration of the two companies technologies; unanticipated costs relating to the transaction and the integration of the two companies; and other risks that are described in Saba s and Centra s Securities and Exchange Commission (SEC) reports including, but not limited to, Saba s Annual Report on Form 10-K for the fiscal year ended May 31, 2005 and Centra s Annual Report on Form 10-K for the year ended December 31, 2004 and Form 10-Q for the three months ended June 30, 2005, and subsequently filed reports. Neither Saba nor Centra assumes any obligation, and does not intend, to update these forward-looking statements.

Additional Information and Where to Find It

Saba and Centra will file a joint proxy statement/prospectus with the SEC in connection with the proposed merger. Investors and security holders are urged to read the joint proxy statement/prospectus when it becomes available and any other relevant documents filed with the SEC because they will contain important information regarding Saba, Centra, the proposed merger, the persons soliciting proxies in connection with the proposed merger on behalf of Saba and Centra and the interests of those persons in the proposed merger and related matters. Saba and Centra intend to mail the joint proxy statement/prospectus to their respective stockholders once such joint proxy statement/prospectus is declared effective by the SEC. Investors and security holders will be able to obtain a copy of the joint proxy statement/prospectus and other documents filed by Saba and Centra with the SEC free of charge at the website maintained by the SEC at http://www.sec.gov. In addition, documents filed with the SEC by Saba are available free of charge by contacting Saba Investor Relations, 2400 Bridge Parkway, Redwood Shores, California 94065, (650) 581-2500, and documents filed with the SEC by Centra are available free of charge by contacting Centra Investor Relations, 430 Bedford Street, Lexington, Massachusetts 02420, (781) 861-7000.

Participants in Solicitation

Saba and Centra, and their respective directors, executive officers and employees may be deemed to be participants in the solicitation of proxies from the stockholders of Saba and Centra in connection with the proposed merger and related items. Information regarding the directors and executive officers of Saba and their ownership of Saba shares is set forth in the proxy statement for Saba s annual meeting of stockholders to be held November 3, 2005. Information regarding the directors and executive officers of Centra and their ownership of Centra stock is set forth in Centra s proxy statement for Centra s 2005 annual meeting of stockholders. Investors may obtain additional information regarding the interests of those participants by reading the joint proxy statement/prospectus when it becomes available.

#####

Saba to Acquire Centra

Questions & Answers

October 6, 2005

For Saba Employees

This document was prepared to address the most anticipated questions regarding Saba and Centra s planned combination. Should you have additional questions, please contact anyone on the Saba management team.

NOTE: If you are contacted by anyone outside of the company regarding this announcement, refer all calls to Elizabeth Doubleday at +1-410-727-5112, x1261. Do not comment on this news to any external parties.

THE ANNOUNCEMENT

1. What is the news?

Saba (NASDAQ: SABA) and Centra (NASDAQ: CTRA) have agreed to combine businesses.

2. Why combine these two companies?

The combination of Centra and Saba would create the leading enterprise learning software company. Combined, Centra and Saba would:

Provide the Industry s FIRST COMPLETE enterprise learning software solution. In combining Saba s learning management solutions and Centra s collaborative learning solutions, the new company would offer customers the very first enterprise learning software solution with the only built-in and seamlessly integrated LMS/LCMS and Virtual Classroom, so customers would achieve faster time to implementation and faster time to resolution from a single vendor.

Create the LARGEST Enterprise Learning Software Company in the world. The new Saba would have over 500 experienced employees, a $100 Million annual revenue run rate and more than 1,100 customers in 31 countries.

Have the VISION and UNMATCHED RESOURCES to deliver a winning solution to the larger strategic HCM market, which will total more than $4.4 B by 2009. Together, the new company would be twice the size of either company alone.

The time is right to combine the strengths of two proven learning companies, with converging visions and complementary technologies. Opportunities for growth and success would be enormous, as the new company would have the scale and talent to be successful in the large and growing HCM market.

The combination of Centra and Saba creates the world s #1 learning software company, with strong financial assets, more than 1100 enterprise learning customers and over 500 professionals.

Bobby Yazdani, CEO & Chairman, Saba

3. What is HCM?

Human Capital Management (HCM) is a business strategy that enables organizations to turn people into competitive assets. Since every core business process and strategic initiative requires a Human Capital Management business strategy to execute it, improvements made in HCM systems and processes can significantly impact an organization s bottom line.

Human Capital Management (HCM) is based on four key principles:

HCM accepts responsibility for the strategic growth of the individuals involved. HCM systems are designed to cultivate far-reaching plans that allow organizations to build their employee base in alignment with their overall plans for long-term sustainable organizational growth

HCM is a strategy to leverage knowledge across the enterprise, in all types of organizations (commercial, government, associations)

HCM is a competitive tool that identifies, cultivates and rewards the most valuable employees in an organization and uses compensation and other motivational activities to drive desired behaviors aligned with corporate goals and objectives

HCM is designed to optimize the *value* of people, not to minimize their costs

To implement an effective Human Capital Management strategy, organizations need an integrated strategic human capital management software system to align, develop, motivate and measure their people to organizational goals.

A Strategic HCM system requires the following components to give executives a global view of their people and their productivity:

Learning management

Competency management

Performance management

Knowledge management

Compensation management

Talent management with analytics

Putting the right decision-making tools and information in the hands of the managers and operations that run the business enhances the ability to leverage the knowledge, creativity and the work efforts of those involved.

4. Is this an acquisition or merger?

This is an acquisition. Centra would become part of the Saba family, strengthening the company and providing customers with even more strategic support. The combined company would operate as Saba and would keep the Centra brand to describe the Centra product lines.

5. What are the terms of this combination?

Saba agreed to acquire Centra for a combination of Saba stock and cash. The consideration per share to be received by the stockholders of Centra will be comprised of $0.663 in cash and Saba stock at a fixed exchange ratio of 0.354 of a share of Saba stock for each share of Centra stock.

6. Is the acquisition profitable for Saba?

The transaction is expected to be accretive to Saba s earnings on a non-GAAP basis in fiscal year 2006.

7. Is the acquisition complete?

Not yet. Saba has signed a definitive agreement to acquire Centra. The transaction has been approved by the Boards of Directors of both companies and due diligence is complete. While the transaction and timing are subject to stockholder and regulatory approvals, the transaction is expected to close in the third quarter of the fiscal year ending May 31, 2006.

ORGANIZATIONAL STRUCTURE & LEADERSHIP

8. Who is Saba?

Founded in 1997, Saba (NASDAQ: SABA) is a leading provider of integrated Human Capital Management (HCM) solutions. Saba enables The Aligned Enterprise by aligning goals, developing and motivating people, and measuring results driving greater organizational performance.

More than 10 million current users in 31 countries use Saba today. Customers include ABN AMRO, Alcatel, Bank of Tokyo-Mitsubishi, BMW, CEMEX, Cisco Systems, DaimlerChrysler, Dell, Deloitte Touche Tohmatsu, EDS, EMC Corporation, FedEx Kinko s, Insurance Australia Group, Lockheed Martin, Medtronic, National Australia Bank, Novartis, Petrobras, Procter & Gamble, Scotiabank, Sprint, Standard Chartered Bank, Swedbank and the U.S. Army and U.S. Navy.

Saba Name

Saba means knowing in many languages. In Persian, it is a poetic term referring to the Ah ha moment or the moment when a reader understands the meaning of a poem and achieves enlightenment . In Persian, Saba can also refer to the moment when the Sun rises over the horizon and a new day dawns. In Spanish, Saba is a form of the verb to know . In Hebrew, Saba is the word for a wise and knowing grandfather .

Historically, Saba was an ancient kingdom in southern Arabia that was instrumental in the trade between Egypt and India. Saba was the home of the Queen of Sheba and most likely was the home of the three wise men as well.

Bobby Yazdani chose this name when he founded the company in 1997 to represent the new frontier of human capital management.

People-Centered Values

Saba s core values are the foundation for everything the company does:

- Foster enduring relationships with customers, partners and employees
- Respect, empower and energize people
- Create value through continuous innovation, change and accomplishment
- Manage truthfully and responsibly

Strong Fundamentals

Great companies start with great people. This fundamental belief is the foundation of Saba. As evidenced by sustained positive financial results, key customer wins in the both the private and public sectors, and groundbreaking new products, Saba is poised to become the dominant strategic HCM provider in the marketplace.

Saba s financial strength is evidenced by accelerated growth:

FY 2005 revenue up 22% over prior year: Q1 2006 revenues up 46%

Six consecutive quarter of revenue gains

Profitable on a pro forma basis in FY 2006

40% license growth in FY 2005

Average 98% renewal rate for the past 3 years

Services revenue increase of 15% over last year; doubled revenues in the Americas

More than doubled the number of hosted users over the past year, to 700,000+

$30M invested in R&D over the past 3 years

9. Who is Centra?

Since 1995, Centra (NASDAQ: CTRA) has licensed its software and services for online learning and training. Centra has helped millions of professionals in over 1,500 organizations increase productivity and efficiency across their enterprise.

Centra is a leader in the live eLearning market which is currently growing at 21% annually. The live eLearning market is a distinct market from the general-purpose web conferencing market.

10. Why Centra?

The Centra acquisition is advantageous on multiple fronts:

- Complementary technology to strengthen both companies core market
- Combined 1100+ enterprise customers
- Great people with integrity, motivation to innovate and domain expertise

Together Centra and Saba would create the largest enterprise learning software company in the world, with the unmatched resources to deliver on the strategic HCM vision.

11. Please describe the new company

The combined company would have over 500 employees, including over 200 R&D professionals and more than 180 Professional Services staff worldwide.

- **Bobby Yazdani**, who founded Saba in 1997 and took the company public in 2000, would remain Chairman and CEO of Saba
- **Leon Navickas**, Centra Chairman and CEO who founded the company in 1995 and took the company public in 2000, would serve on the Saba Board of Directors
- In addition to Bobby and Leon, the seven-member Board of Directors would include 3 designated by Saba and 2 nominated by Centra

The combined leadership team of the new company would include executives and managers from both Saba and Centra.

Worldwide headquarters would remain in Redwood Shores, CA

2400 Bridge Parkway

Redwood Shores, CA 94065

12. What would happen to the other company offices?

Saba would continue operations in Centra US northeast (Lexington, MA) and US southeast (Atlanta, GA) offices, where a majority of Centra employees work.

While there are no immediate plans to close any Centra or Saba offices, there are geographies where the combined company would have several offices in close proximity that are underutilized. The new Saba would do a facilities review after the acquisition is closed.

13. What would happen to the Centra name?

The combined company would operate as Saba, but keep the Centra brand to describe the Centra product lines.

14. What are the strategic goals of the new company?

The goal of the new organization would be to become the leading strategic human capital management (HCM) company in the industry, with a commitment to customer success and a business model that supports sustainable growth.

15. Would there be layoffs?

Saba s acquisition of Centra would result in a stronger entity and the combined workforce would be a key component to the success of the new organization. As with any combination, there would be some duplicate roles, which would lead to personnel changes. Staffing changes would be communicated as quickly as possible following the close of the acquisition.

16. Would both Saba and Centra employees be laid off?

The combined management team would review the personnel requirements of the new company with the intention of making staffing decisions in the best interest of the company.

17. Will Saba employees who get laid off receive a severance package and outplacement services?

Yes, any Saba employee affected by a layoff would receive these benefits and services.

18. Would any function be moving to other locations? Would anyone be asked to relocate?

There are no plans to take an existing function and move it from one location to another. As a result, no employees would be asked to relocate as a result of the merger. Employees could move on a temporary or permanent basis to take on new opportunities if they choose.

PRODUCT/SOLUTION DIRECTION

19. How would customers buy Saba and Centra products?

Customers would have significant choice in how they purchase Saba and Centra products. They could purchase:

- Stand-alone components that are available as either ASP or behind-the-firewall solutions
- An integrated behind-the-firewall Saba and Centra solution

An integrated ASP Saba and Centra solution that will be available in the future

20. What products and services does Saba provide?

Saba continues to lead the market with the **industry s first integrated Human Capital Management suite** including:

Saba Foundation provides core capabilities for all HCM applications.

Saba Performance enable the development of The Aligned Enterprise an organization in which goals and objectives are aligned and communicated, and performance expectations are clear and concise.

Saba Learning provides the industry s most advanced learning management system enabling compliance, corporate universities, sales force effectiveness, and customer education solutions.

Saba Collaboration provides a Web-based collaboration system that facilitates knowledge transfer and high-impact informal learning between individuals and subject matter experts.

Saba Content Management delivers a content authoring tool-independent learning content management system (LCMS) designed for enterprise-wide content development and delivery.

Saba Talent enables an organization to develop and nurture leaders as well as reduce organizational risk through succession management.

Saba Analytics provides an extensive set of built-in business analyses, including learning effectiveness, performance & goals achievement, compliance and certification, revenue and cost analysis and content utilization, to speed time-to-value.

Saba Professional Services

Saba also offers comprehensive services to assist in the successful implementation of its products. Saba s global services organization supports multiple offerings, including:

Saba Consulting. As experts in HCM infrastructure and processes, Saba consultants stand ready to help your company achieve excellence in Learning, Talent, and Performance management. Saba Consulting implements our best-in-class applications quickly and accurately and provides the strategic guidance, technology expertise, process definition and long-term leadership to assist you in making your vision a reality.

Saba Education. Saba Education helps your organization instill the knowledge and skills necessary to maximize your investment in Saba. For live instruction, choose from class-room training at a Saba location, on-site training at a location of your choosing, or virtual on-line training. Or you may choose Web-Based Training to educate learners, managers, and administrators of your Saba solution.

Saba Learning Services. Evaluate your needs, then define and implement your content strategy through content transformation or custom content development. Saba Learning Services helps you realize more value from your learning content.

Saba OnDemand. With Saba OnDemand, a high performance operating environment for your Saba application is assured through our expertise in application configuration, tuning and administration.

Saba Maintenance and Support. Ensure that your Saba solution is achieving your desired business results. Benefit directly from Saba s leadership in HCM and ongoing investment in product development with new product releases, timely service packs, and ready access to Saba expertise.

21. What products and services does Centra provide?

Centra 7

Centra 7 is application software that enables online learning and training. Organizations can share knowledge and exchange information with customers, partners, prospects and employees around the world in real-time. Centra 7 increases productivity and efficiency by helping you incorporate learning and knowledge transfer into your business processes.

Centra 7 allows you to accelerate mission-critical initiatives that involve learning and training with a suite of integrated, enterprise-class software that features:

Centra Live for Virtual Classes - Engage with groups in live, highly interactive education sessions across many locations

Virtual Classes for Universities and Schools - Bring instructors and students together online in highly interactive, online classes and degree programs that allow for all the interaction of a typical classroom

Centra Live for Web Seminars -A fast, efficient, cost-effective way to reach and engage large audiences quickly

Centra Live for eMeetings - Eliminate the hassles of complex meeting coordination and the time and expense of business travel

Centra Knowledge Center - Power on-demand access to blended learning programs, knowledge assets, and important documents with the Centra Knowledge Center. A searchable library of content and learning activities, it enables you to design personalized tracks of essential corporate or training materials and recorded events tailored to job roles, skill levels or knowledge gaps

Centra Performance Insight - Measure and report on learning activity and outcomes easily, quickly, and to your liking with Centra Performance Insight. Custom built reports and dashboards present critical data in easy-to-understand formats, enabling analysis and decision-making related to your organization s learning and business objectives

Centra Info Guide - Empower employees with on-demand access to personalized, business-critical information as they are doing their work. A single, complete information source for enterprise application use and your organization s business processes and rules, it delivers relevant help to employees and partners in the context of a task, enabling just-in-time learning at a moment of need

Centra Instant Assist - Supplement on-the-job, self-service help and support with instant, real-time assistance

Centra Professional Services

Hosted Services - Best-of-class ASP hosting gives you easy-to-implement deployment and lower support requirements of on-premises software deployments, all backed by Centra s industry-recognized service excellence

Consulting Services - Get the critical assistance you need to ensure successful implementation of your online learning and training solution. Business process consulting, implementation planning, event and content consulting, and support for rapid deployment methodology

Education Services - Learn and train on Centra solutions with online courses, certification programs, education consulting, best practices, training resources and materials

Event Management Services - Centra and The Maxwell Group s event teams can manage your event start-to-finish: event moderation, practice sessions, registration confirmations and event reminders, online registration forms and surveys, feedback forms, attendance reporting, and session recording with 30-day online availability

Support Services - Centra s customer care includes industry-recognized technical support and documentation. Product updates, support programs, and a comprehensive self-service Customer Support Web site

22. Which Centra and Saba products would continue to be supported?

There would be no change in the support services that either company provides around their current products.

23. How does this acquisition affect product plans?

In summer 2006, the new company would deliver new releases of Saba and Centra with the only built-in and seamlessly integrated LMS/LCMS and Virtual Classroom solution. The product roadmap would be evaluated and adjusted to ensure that we support the strategic initiatives of the new company.

24. What would happen to Centra customers with integrated solutions from other providers?

Existing Centra customers with joint integrations would see no difference with regard to support.

Moving forward, we would have three tiers of customer support:

Tier One: Existing integrations with Saba and Centra will be fully supported, maintained and upgraded over time

Tier Two: Existing adapters with other partners such as Oracle, SAP and Blackboard, but not updated over time

Tier Three: Existing Application Programming Interfaces (APIs), which are available to system integrators, would continue to be available but not supported

25. What would happen to Saba customers with integrated solutions from other providers?

Existing Saba customers with third-party integrations would see no difference with regard to support.

Moving forward, we would have three tiers of customer support:

Tier One: Existing integrations with Saba and Centra will be fully supported, maintained and upgraded over time

Tier Two: Existing Virtual Learning Environment solutions for Microsoft Live Meeting will be supported but not updated over time

Tier Three: Existing APIs would continue to be enhanced, supported and published; however, systems integrators will be fully responsible for testing and supporting the APIs

CUSTOMER SUPPORT

26. How would Centra customers be supported following the acquisition?

Saba would continue to remain committed to supporting customers. Today, Saba and Centra have a combined customer renewal rate of 95%. The combined company would maintain its ASP offerings, hosting commitments and current level of customer support.

The Centra Support Site would remain the same for now. Following a completed acquisition, Saba would intend to merge the two sites, when appropriate, while keeping the current urls active and automatically directing customers to the new location during a transition period.

Centra and Saba have converging visions based on complementary technology. The combination of our two companies ensures continued success for our customers.

Leon Navickas, CEO and Chairman, Centra

27. What would happen to Centra s user groups and other customer communities?

The new Saba would enhance the Centra Regional User Groups and Customer Advisory Boards, by increasing their ability to affect product change. Additionally, Saba would add a collaborative learning special interest group (SIG) to their other SIG activities.

Saba intends to host a combined Users Conference in the summer of 2006 for all customers.

INTEGRATION MANAGEMENT

28. Who is involved in managing the integration of Saba and Centra?

The integration process to date has been guided by a team of Senior Managers from both Saba and Centra. A leader from Saba has been paired with a Centra leader for each functional area, to initiate the integration plan. In moving forward, we would rely on both organizations to generate and implement integration plans that would make the effort a success.

29. What would the values of the combined company be?

As part of the integration process, Saba s Chief Operating Officer, Mark Frost, and Centra s Senior Vice President of Products and Operations, John Walsh, would lead a cross-company team of people to collaboratively determine the values and desired behavior for the new company. The values exercise would kick off in October 2005.

30. What would happen to Centra s public web site?

Following the completion of the acquisition, information from the Centra web site would be integrated into the Saba web site. Visitors to www.Centra.com would be redirected to the Saba site.

31. How can I get more information?

More information is available in the press release issued on October 6, 2005, posted to both Saba and Centra web sites.

We have set up a special website for Saba employees, to help provide information and to answer questions that may come up in the next three months. To find the press release, this Q&A, and other related documents, please go to:

Url: www.Saba-welcome.com

Group username: saba

Password: welcome

Additionally, both Centra and Saba would host company-wide meetings to provide information and to address questions from employees. Employees are encouraged to speak to senior management to answer questions that come up between meetings.

Forward-Looking Statements

This document contains 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, including, but not limited to, statements regarding the creation of the industry s first complete enterprise learning software company, creating the largest enterprise learning software company in the world, our vision and unmatched resources, the strategic HCM market totaling more than $4.4 billion by 2009, the new company being twice the size of either company alone, the time being right to combine the strengths of the two companies, keeping the Centra brand, expectations regarding the transaction being accretive to Saba s earnings, timing of closing, employees and customers of the combined company, the Board composition of the combined company, worldwide headquarters remaining in Redwood Shores, CA, other combined company offices, layoffs and resulting severance benefits relating to the transaction, relocation of employees, products and services provided by the combined company, the expectation that in summer 2006, the combined company would deliver new releases of Saba and Centra products, leveraging new market and technology competencies, and merging of the two companies support sites. These forward-looking statements involve important factors that could cause our actual results to differ materially from those in the forward-looking statements. Such important factors involve risks and uncertainties including, but not limited to, the possibility that the market for the sale of certain products and services may not develop as expected; the possibility that the transaction does not close; unanticipated delays in closing; the possibility that the parties will be unable to successfully execute their integration strategies or achieve planned synergies; the possibility that prior to the closing of the transaction, the businesses of both Saba and Centra suffer due to customer uncertainty; unanticipated delays and difficulties in the integration of the two companies technologies; unanticipated costs relating to the transaction and the integration of the two companies; and other risks that are described in Saba s and Centra s Securities and Exchange Commission (SEC) reports including, but not limited to, Saba s Annual Report on Form 10-K for the fiscal year ended May 31, 2005 and Centra s Annual Report on Form 10-K for the year ended December 31, 2004 and Form 10-Q for the three months ended June 30, 2005, and subsequently filed reports. Neither Saba nor Centra assumes any obligation, and does not intend, to update these forward-looking statements.

Additional Information and Where to Find It

Saba and Centra will file a joint proxy statement/prospectus with the SEC in connection with the proposed merger. Investors and security holders are urged to read the joint proxy statement/prospectus when it becomes available and any other relevant documents filed with the SEC because they will contain important information regarding Saba, Centra, the proposed merger, the persons soliciting proxies in connection with the proposed merger on behalf of Saba and Centra and the interests of those persons in the proposed merger and related matters. Saba and Centra intend to mail the joint proxy statement/prospectus to their respective stockholders once such joint proxy statement/prospectus is declared effective by the SEC. Investors and security holders will be able to obtain a copy of the joint proxy statement/prospectus and other documents filed by Saba and Centra with the SEC free of charge at the website maintained by the SEC at http://www.sec.gov. In addition, documents filed with the SEC by Saba are available free of charge by contacting Saba Investor Relations, 2400 Bridge Parkway, Redwood Shores, California 94065, (650) 581-2500, and documents filed with the SEC by Centra are available free of charge by contacting Centra Investor Relations, 430 Bedford Street, Lexington, Massachusetts 02420, (781) 861-7000.

Participants in Solicitation

Saba and Centra, and their respective directors, executive officers and employees may be deemed to be participants in the solicitation of proxies from the stockholders of Saba and Centra in connection with the proposed merger and related items. Information regarding the directors and executive officers of Saba and their ownership of Saba shares is set forth in the proxy statement for Saba s annual meeting of stockholders to be held November 3, 2005. Information regarding the directors and executive officers of Centra and their ownership of Centra stock is set forth in Centra s proxy statement for Centra s 2005 annual meeting of stockholders. Investors may obtain additional information regarding the interests of those participants by reading the joint proxy statement/prospectus when it becomes available.

#####

Saba and Centra to Combine Companies

Questions & Answers

October 6, 2005

For Centra Employees

This document was prepared to address the most anticipated questions regarding Saba and Centra s planned combination. Should you have additional questions, please contact your department Senior Vice President.

NOTE: If you are contacted by anyone outside of the company regarding this announcement, refer all calls to Ellen Slaby at Centra x1068. Do not comment on this news to any external parties.

THE ANNOUNCEMENT

1. What is the news?

Saba (NASDAQ: SABA) and Centra (NASDAQ: CTRA) have agreed to combine businesses.

2. Why combine these two companies?

The combination of Centra and Saba would create the leading enterprise learning software company. Combined, Centra and Saba would:

- **Provide the Industry s FIRST COMPLETE enterprise learning software solution.** In combining Saba s learning management solutions and Centra s collaborative learning solutions, the new company would offer customers the very first enterprise learning software solution with the only built-in and seamlessly integrated LMS/LCMS and Virtual Classroom, so customers would achieve faster time to implementation and faster time to resolution from a single vendor.

- **Create the LARGEST Enterprise Learning Software Company in the world**. The new Saba would have over 500 experienced employees, a $100 Million annual revenue run rate and more than 1,100 customers in 31 countries.

- **Have the VISION and UNMATCHED RESOURCES to deliver a winning solution** to the larger strategic HCM market, which will total more than $4.4 B by 2009. Together, the new company would be twice the size of either company alone.

The time is right to combine the strengths of two proven learning companies, with converging visions and complementary technologies. Opportunities for growth and success would be enormous, as the new company would have the scale and talent to be successful in the large and growing HCM market.

The combination of Centra and Saba creates the world s #1 learning software company, with strong financial assets, more than 1100 enterprise learning customers and over 500 professionals.

Bobby Yazdani, CEO & Chairman, Saba

3. What is HCM?

Human Capital Management (HCM) is a business strategy that enables organizations to turn people into competitive assets. Since every core business process and strategic initiative requires a Human Capital Management business strategy to execute it, improvements made in HCM systems and processes can significantly impact an organization s bottom line.

Human Capital Management (HCM) is based on four key principles:

- **HCM accepts responsibility for the strategic growth of the individuals involved**. HCM systems are designed to cultivate far-reaching plans that allow organizations to build their employee base in alignment with their overall plans for long-term sustainable organizational growth

- **HCM is a strategy to leverage knowledge across the enterprise**, in all types of organizations (commercial, government, associations)

- **HCM is a competitive tool that identifies, cultivates and rewards the most valuable employees** in an organization and uses compensation and other motivational activities to drive desired behaviors aligned with corporate goals and objectives

- **HCM is designed to optimize the *value* of people**, not to minimize their costs

To implement an effective Human Capital Management strategy, organizations need an integrated strategic human capital management software system to align, develop, motivate and measure their people to organizational goals.

A Strategic HCM system requires the following components to give executives a global view of their people and their productivity:

- Learning management
- Competency management
- Performance management
- Knowledge management
- Compensation management
- Talent management with analytics

Putting the right decision-making tools and information in the hands of the managers and operations that run the business enhances the ability to leverage the knowledge, creativity and the work efforts of those involved.

4. Is this an acquisition or merger?

This is an acquisition. Centra would become part of the Saba family, strengthening the company and providing customers with even more strategic support. The combined company would operate as Saba and would keep the Centra brand to describe the Centra product lines.

5. What are the terms of this combination?

Centra shareholders will receive 66 cents per share and approximately 0.354 shares of Saba stock for every Centra share.

6. Is the acquisition profitable for Saba?

The transaction is expected to be accretive to Saba s earnings on a non-GAAP basis in fiscal year 2006.

7. Is the acquisition complete?

Not yet. Saba has signed a definitive agreement to acquire Centra. The transaction has been approved by the Boards of Directors of both companies and due diligence is complete. While the transaction and timing are subject to stockholder and regulatory approvals, the transaction is expected to close during Saba s third quarter of the fiscal year ending May 31, 2006.

ORGANIZATIONAL STRUCTURE & LEADERSHIP

8. Who is Saba?

Founded in 1997, Saba (NASDAQ: SABA) is a leading provider of integrated Human Capital Management (HCM) solutions. Saba enables The Aligned Enterprise by aligning goals, developing and motivating people, and measuring results driving greater organizational performance.

More than 10 million current users in 31 countries use Saba today. Customers include ABN AMRO, Alcatel, Bank of Tokyo-Mitsubishi, BMW, CEMEX, Cisco Systems, DaimlerChrysler, Dell, Deloitte Touche Tohmatsu, EDS, EMC Corporation, FedEx Kinko s, Insurance Australia Group, Lockheed Martin, Medtronic, National Australia Bank, Novartis, Petrobras, Procter & Gamble, Scotiabank, Sprint, Standard Chartered Bank, Swedbank and the U.S. Army and U.S. Navy.

Saba Name

Saba means knowing in many languages. In Persian, it is a poetic term referring to the Ah ha moment or the moment when a reader understands the meaning of a poem and achieves enlightenment . In Persian, Saba can also refer to the moment when the Sun rises over the horizon and a new day dawns. In Spanish, Saba is a form of the verb to know . In Hebrew, Saba is the word for a wise and knowing grandfather .

Historically, Saba was an ancient kingdom in southern Arabia that was instrumental in the trade between Egypt and India. Saba was the home of the Queen of Sheba and most likely was the home of the three wise men as well.

Bobby Yazdani chose this name when he founded the company in 1997 to represent the new frontier of human capital management.

People-Centered Values

Saba s core values are the foundation for everything the company does:

- Foster enduring relationships with customers, partners and employees
- Respect, empower and energize people
- Create value through continuous innovation, change and accomplishment
- Manage truthfully and responsibly

Strong Fundamentals

Great companies start with great people. This fundamental belief is the foundation of Saba. As evidenced by sustained positive financial results, key customer wins in the both the private and public sectors, and groundbreaking new products, Saba is poised to become the dominant strategic HCM provider in the marketplace.

Saba s financial strength is evidenced by accelerated growth:

FY 2005 revenue up 22% over prior year: Q1 2006 revenues up 46%

Six consecutive quarter of revenue gains

Profitable on a pro forma basis in FY 2006

40% license growth in FY 2005

Average 98% renewal rate for the past 3 years

Services revenue increase of 15% over last year; doubled revenues in the Americas

More than doubled the number of hosted users over the past year, to 700,000+

$30M invested in R&D over the past 3 years

9. Please describe the new company

The combined company would have over 500 employees, including over 200 R&D professionals and more than 180 Professional Services staff worldwide.

Bobby Yazdani, who founded Saba in 1997 and took the company public in 2000, would remain Chairman and CEO of Saba

Leon Navickas, Centra Chairman and CEO who founded the company in 1995 and took the company public in 2000, would serve on the Saba Board of Directors

In addition to Bobby and Leon, the seven-member Board of Directors would include 3 designated by Saba and 2 nominated by Centra

The combined leadership team of the new company would include executives and managers from both Saba and Centra.

Worldwide headquarters would remain in Redwood Shores, CA

2400 Bridge Parkway

Redwood Shores, CA 94065

10. What would happen to the other company offices?

Saba would continue operations in Centra US northeast (Lexington, MA) and US southeast (Atlanta, GA) offices, where a majority of Centra employees work.

While there are no immediate plans to close any Centra or Saba offices, there are geographies where the combined company would have several offices in close proximity that are underutilized. The new Saba would do a facilities review after the acquisition is closed.

11. What would happen to the Centra name?

The combined company would operate as Saba, but keep the Centra brand to describe the Centra product lines.

12. What are the strategic goals of the new company?

The goal of the new organization would be to become the leading strategic human capital management (HCM) company in the industry, with a commitment to customer success and a business model that supports sustainable growth.

13. Would there be layoffs?

Saba s acquisition of Centra would result in a stronger entity and the combined workforce would be a key component to the success of the new organization. As with any combination, there would be some duplicate roles, which would lead to personnel changes. Staffing changes would be communicated as quickly as possible following the close of the acquisition.

14. Would both Saba and Centra employees be laid off?

The combined management team would review the personnel requirements of the new company with the intention of making staffing decisions in the best interest of the company.

15. Will employees who get laid off receive a severance package and outplacement services?

To the extent that you already have severance packages or outplacement services arrangements in place with Centra, we would expect that any Centra employee affected by a layoff would receive these benefits and services.

16. Will Centra employees receive offer letters?

Yes. All Centra employees who are invited to join Saba would receive an offer letter shortly after the combination is complete.

17. How do Saba benefits compare with Centra s?

Comparison of benefits is underway. It is expected that Saba s benefits are comparable to those from Centra. More information will be provided once the comparison is complete.

18. Would we be able to keep our accrued vacation time?

Yes. There would be no change to vacation accruals as a result of the combination.

19. Who would I report to?

You would continue to report to your current manager. If there are changes as a result of the combination, your manager would communicate those changes as soon as possible following the combination.

20. What happens to my Centra stock options?

Centra employees may exercise their vested stock options through close (targeted to be during Saba s third quarter of the fiscal year ending May 31, 2006). After close, all unexercised stock options will be cancelled. The terms of any subsequent options granted by Saba are expected to be in your offer letter.

21. Does Saba have a 401(k) plan?

Yes, Saba has a 401(k).

22. Would any function be moving to other locations? Would anyone be asked to relocate?

There are no plans to take an existing function and move it from one location to another. As a result, no employees would be asked to relocate as a result of the merger. Employees could move on a temporary or permanent basis to take on new opportunities if they choose.

PRODUCT/SOLUTION DIRECTION

23. How would customers buy Saba and Centra products?

Customers would have significant choice in how they purchase Saba and Centra products. They could purchase:

- Stand-alone components that are available as either ASP or behind-the-firewall solutions
- An integrated behind-the-firewall Saba and Centra solution
- An integrated ASP Saba and Centra solution that will be available in the future

24. What products and services does Saba provide?

Saba continues to lead the market with the **industry s first integrated Human Capital Management suite** including:

- **Saba Foundation** provides core capabilities for all HCM applications.
- **Saba Performance** enable the development of The Aligned Enterprise an organization in which goals and objectives are aligned and communicated, and performance expectations are clear and concise.
- **Saba Learning** provides the industry s most advanced learning management system enabling compliance, corporate universities, sales force effectiveness, and customer education solutions.

Saba Collaboration provides a Web-based collaboration system that facilitates knowledge transfer and high-impact informal learning between individuals and subject matter experts.

Saba Content Management delivers a content authoring tool-independent learning content management system (LCMS) designed for enterprise-wide content development and delivery.

Saba Talent enables an organization to develop and nurture leaders as well as reduce organizational risk through succession management.

Saba Analytics provides an extensive set of built-in business analyses, including learning effectiveness, performance & goals achievement, compliance and certification, revenue and cost analysis and content utilization, to speed time-to-value.

Saba Professional Services

Saba also offers comprehensive services to assist in the successful implementation of its products. Saba s global services organization supports multiple offerings, including:

Saba Consulting. As experts in HCM infrastructure and processes, Saba consultants stand ready to help your company achieve excellence in Learning, Talent, and Performance management. Saba Consulting implements our best-in-class applications quickly and accurately and provides the strategic guidance, technology expertise, process definition and long-term leadership to assist you in making your vision a reality.

Saba Education. Saba Education helps your organization instill the knowledge and skills necessary to maximize your investment in Saba. For live instruction, choose from class-room training at a Saba location, on-site training at a location of your choosing, or virtual on-line training. Or you may choose Web-Based Training to educate learners, managers, and administrators of your Saba solution.

Saba Learning Services. Evaluate your needs, then define and implement your content strategy through content transformation or custom content development. Saba Learning Services helps you realize more value from your learning content.

Saba OnDemand. With Saba OnDemand, a high performance operating environment for your Saba application is assured through our expertise in application configuration, tuning and administration.

Saba Maintenance and Support. Ensure that your Saba solution is achieving your desired business results. Benefit directly from Saba s leadership in HCM and ongoing investment in product development with new product releases, timely service packs, and ready access to Saba expertise.

25. What products and services does Centra provide?

Centra 7 is application software that enables online learning and training. Organizations can share knowledge and exchange information with customers, partners, prospects and employees around the world in real-time. Centra 7 increases productivity and efficiency by helping you incorporate learning and knowledge transfer into your business processes.

Centra 7 allows you to accelerate mission-critical initiatives that involve learning and training with a suite of integrated, enterprise-class software that features:

Centra Live for Virtual Classes - Engage with groups in live, highly interactive education sessions across many locations

Virtual Classes for Universities and Schools - Bring instructors and students together online in highly interactive, online classes and degree programs that allow for all the interaction of a typical classroom

Centra Live for Web Seminars - A fast, efficient, cost-effective way to reach and engage large audiences quickly

Centra Live for eMeetings - Eliminate the hassles of complex meeting coordination and the time and expense of business travel

Centra Knowledge Center - Power on-demand access to blended learning programs, knowledge assets, and important documents with the Centra Knowledge Center. A searchable library of content and learning activities, it enables you to design personalized tracks of essential corporate or training materials and recorded events tailored to job roles, skill levels or knowledge gaps

Centra Performance Insight - Measure and report on learning activity and outcomes easily, quickly, and to your liking with Centra Performance Insight. Custom built reports and dashboards present critical data in easy-to-understand formats, enabling analysis and decision-making related to your organization s learning and business objectives

Centra Info Guide - Empower employees with on-demand access to personalized, business-critical information as they are doing their work. A single, complete information source for enterprise application use and your organization s business processes and rules, it delivers relevant help to employees and partners in the context of a task, enabling just-in-time learning at a moment of need

Centra Instant Assist - Supplement on-the-job, self-service help and support with instant, real-time assistance

Centra Professional Services

Hosted Services - Best-of-class ASP hosting gives you easy-to-implement deployment and lower support requirements of on-premises software deployments, all backed by Centra s industry-recognized service excellence

Consulting Services - Get the critical assistance you need to ensure successful implementation of your online learning and training solution. Business process consulting, implementation planning, event and content consulting, and support for rapid deployment methodology

Education Services - Learn and train on Centra solutions with online courses, certification programs, education consulting, best practices, training resources and materials

Event Management Services - Centra and The Maxwell Group s event teams can manage your event start-to-finish: event moderation, practice sessions, registration confirmations and event reminders, online registration forms and surveys, feedback forms, attendance reporting, and session recording with 30-day online availability

Support Services - Centra s customer care includes industry-recognized technical support and documentation. Product updates, support programs, and a comprehensive self-service Customer Support Web site

26. Which Centra and Saba products would continue to be supported?

There would be no change in the support services that either company provides around their current products.

27. How does this acquisition affect product plans?

In summer 2006, the new company would deliver new releases of Saba and Centra with the only built-in and seamlessly integrated LMS/LCMS and Virtual Classroom solution. The product roadmap would be evaluated and adjusted to ensure that we support the strategic initiatives of the new company.

28. What would happen to Centra customers with integrated solutions from other providers?

Existing Centra customers with joint integrations would see no difference with regard to support.

Moving forward, we would have three tiers of customer support:

Tier One: Existing integrations with Saba and Centra will be fully supported, maintained and upgraded over time

Tier Two: Existing adapters with other partners such as Oracle, SAP and Blackboard, but not updated over time

Tier Three: Existing Application Programming Interfaces (APIs), which are available to system integrators, would continue to be available but not supported

29. What would happen to Saba customers with integrated solutions from other providers?

Existing Saba customers with third-party integrations would see no difference with regard to support.

Moving forward, we would have three tiers of customer support:

Tier One: Existing integrations with Saba and Centra will be fully supported, maintained and upgraded over time

Tier Two: Existing Virtual Learning Environment solutions for Microsoft Live Meeting will be supported but not updated over time

Tier Three: Existing APIs would continue to be enhanced, supported and published; however, systems integrators will be fully responsible for testing and supporting the APIs

CUSTOMER SUPPORT

30. How would this combination affect our customers?

Customers would benefit in many ways. We believe the combined entity would leverage new market and technology competencies and bring additional value to customers.

31. How would Centra customers be supported following the acquisition?

Saba would continue to remain committed to supporting customers. Today, Saba and Centra have a combined customer renewal rate of 95%. The combined company would maintain its ASP offerings, hosting commitments and current level of customer support.

Exhibit Number	Description
10.10*	Toll Brothers, Inc. Amended and Restated Stock Incentive Plan for Employees (2007) (amended and restated as of September 17, 2008, is hereby incorporated by reference to Exhibit 4.1 of the Registrant s Amendment No. 1 to Toll Brothers, Inc. s Registration Statement on Form S-8 (No. 333-143367) filed with the Securities and Exchange Commission on October 29, 2008.
10.11*	Toll Brothers, Inc. Amended and Restated Stock Incentive Plan for Non-Employee Directors (2007) (amended and restated as of September 17, 2008) is hereby incorporated by reference to Exhibit 4.1 of the Registrant s Amendment No. 1 to Toll Brothers, Inc. s Registration Statement on Form S-8 (No. 333-144230) filed with the Securities and Exchange Commission on October 29, 2008.
10.12*	Form of Non-Qualified Stock Option Grant pursuant to the Toll Brothers, Inc. Stock Incentive Plan for Employees (2007) is hereby incorporated by reference to Exhibit 10.1 of the Registrant s Form 8-K filed with the Securities and Exchange Commission on December 19, 2007.
10.13*	Form of Addendum to Non-Qualified Stock Option Grant pursuant to the Toll Brothers, Inc. Stock Incentive Plan for Employees (2007) is hereby incorporated by reference to Exhibit 10.3 of the Registrant s Form 10-Q for the quarter ended July 31, 2007.
10.14*	Form of Stock Award Grant pursuant to the Toll Brothers, Inc. Stock Incentive Plan for Employees (2007) is hereby incorporated by reference to Exhibit 10.4 of the Registrant s Form 10-Q for the quarter ended July 31, 2007.
10.15*	Form of Restricted Stock Unit Award pursuant to the Toll Brothers, Inc. Amended and Restated Stock Incentive Plan for Employees (2007) is hereby incorporated by reference to Exhibit 10.19 of the Registrant s Form 10-K for the period ended October 31, 2008.
10.16*	Restricted Stock Unit Award to Robert I. Toll, dated December 19, 2008, pursuant to the Toll Brothers, Inc. Amended and Restated Stock Incentive Plan for Employees (2007) is incorporated by reference to Exhibit 10.20 of the Registrant s Form 10-K for the period ended October 31, 2008.
10.17*	Restricted Stock Unit Award to Robert I. Toll, dated December 21, 2009, pursuant to the Toll Brothers, Inc. Amended and Restated Stock Incentive Plan for Employees (2007) is incorporated by reference to Exhibit 10.17 of the Registrant s Form 10-K for the period ended October 31, 2009.
10.18*	Form of Non-Qualified Stock Option Grant pursuant to the Toll Brothers, Inc. Stock Incentive Plan for Non-Employee Directors (2007) is hereby incorporated by reference to Exhibit 10.2 of the Registrant s Current Report on Form 8-K filed with the Securities and Exchange Commission on December 19, 2007.
10.19*	Form of Addendum to Non-Qualified Stock Option Grant pursuant to the Toll Brothers, Inc. Amended and Restated Stock Incentive Plan for Non-Employee Directors (2007) is hereby incorporated by reference to Exhibit 10.6 of the Registrant s Form 10-Q for the quarter ended July 31, 2007.
10.20*	Form of Stock Award Grant pursuant to the Toll Brothers, Inc. Stock Incentive Plan for Non-Employee Directors (2007) is hereby incorporated by reference to Exhibit 10.7 of the Registrant s Form 10-Q for the quarter ended July 31, 2007.
10.21	

Form of Stock Award Amendment pursuant to the Toll Brothers, Inc. Amended and Restated Stock Incentive Plan for Non-Employee Directors (2007) is hereby incorporated by reference to Exhibit 10.4 of the Registrant s Form 10-Q for the quarter ended January 31, 2010.

10.22* Toll Brothers, Inc. Cash Bonus Plan (amended and restated as of December 9, 2009) is incorporated by reference to Exhibit 10.21 of the Registrant s Form 10-K for the period ended October 31, 2009.

Table of Contents

Exhibit Number	Description
10.23*	Toll Brothers, Inc. Senior Officer Bonus Plan is hereby incorporated by reference to Addendum C to Toll Brothers, Inc. s definitive proxy statement on Schedule 14A for the Toll Brothers, Inc. 2010 Annual Meeting of Stockholders held on March 17, 2010 filed with the Securities and Exchange Commission on February 1, 2010.
10.24*	Toll Brothers, Inc. Supplemental Executive Retirement Plan (amended and restated effective as of December 12, 2007) is hereby incorporated by reference to Exhibit 10.1 to the Registrant s Form 10-Q for the quarter ended July 31, 2010.
10.25*	Agreement dated March 5, 1998 between the Registrant and Bruce E. Toll regarding Mr. Toll s resignation and related matters is hereby incorporated by reference to Exhibit 10.2 to the Registrant s Form 10-Q for the quarter ended April 30, 1998.
10.26*	Advisory and Non-Competition Agreement between the Registrant and Bruce E. Toll, dated as of November 1, 2010, is incorporated by reference to Exhibit 10.34 of the Registrant s Form 10-K for the period ended October 31, 2010.
10.27*	Toll Bros., Inc. Non-Qualified Deferred Compensation Plan, amended and restated as of November 1, 2008, is incorporated by reference to Exhibit 10.45 of the Registrant s Form 10-K for the period ended October 31, 2008.
10.28*	Amendment Number 1 dated November 1, 2010 to the Toll Bros., Inc. Non-Qualified Deferred Compensation Plan, amended and restated as of November 1, 2008, is incorporated by reference to Exhibit 10.40 of the Registrant s Form 10-K for the period ended October 31, 2010.
10.29	Form of Indemnification Agreement between the Registrant and the members of its Board of Directors, is hereby incorporated by reference to Exhibit 10.1 to the Registrant s Current Report on Form 8-K filed with the Securities and Exchange Commission on March 17, 2009.
10.30*	Restricted Stock Unit Award to Douglas C. Yearley, Jr., dated December 20, 2010, pursuant to the Toll Brothers, Inc. Amended and Restated Stock Incentive Plan for Employees (2007), is incorporated by reference to Exhibit 10.42 of the Registrant s Form 10-K for the period ended October 31, 2010.
10.31*	Restricted Stock Unit Award to Martin P. Connor, dated December 20, 2010, pursuant to the Toll Brothers, Inc. Amended and Restated Stock Incentive Plan for Employees (2007), is incorporated by reference to Exhibit 10.43 of the Registrant s Form 10-K for the period ended October 31, 2010.
10.32*	Restricted Stock Unit Award to Robert I. Toll, dated December 20, 2010, pursuant to the Toll Brothers, Inc. Amended and Restated Stock Incentive Plan for Employees (2007), is incorporated by reference to Exhibit 10.44 of the Registrant s Form 10-K for the period ended October 31, 2010.
10.33**	Form of Performance Based Restricted Stock Unit Award pursuant to the Toll Brothers, Inc. Amended and Restated Stock Incentive Plan for Employees (2007), is filed herewith.
12***	Statement re: Computation of Ratios of Earnings to Fixed Charges.

21***	Subsidiaries of the Registrant.
23.1***	Consent of Ernst & Young LLP, Independent Registered Public Accountant.
23.2***	Consent of WeiserMazars LLP, Independent Registered Public Accountant.

Table of Contents

Exhibit Number	Description
31.1***	Certification of Douglas C. Yearley, Jr. pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2***	Certification of Martin P. Connor pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1***	Certification of Douglas C. Yearley, Jr. pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
32.2***	Certification of Martin P. Connor pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
99.1***	Financial Statements of TMF Kent Partners, LLC.
99.2***	Financial Statements of KTL 303 LLC.
101.INS***	XBRL Instance Document
101.SCH***	XBRL Schema Document
101.CAL***	XBRL Calculation Linkbase Document
101.LAB***	XBRL Labels Linkbase Document
101.PRE***	XBRL Presentation Linkbase Document
101.DEF***	XBRL Definition Linkbase Document

* This exhibit is a management contract or compensatory plan or arrangement required to be filed as an exhibit to this report.

** This exhibit is a management contract or compensatory plan or arrangement required to be filed as an exhibit to this report and is furnished electronically herewith.

*** Furnished electronically herewith.

Table of Contents

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized, in the Township of Horsham, Commonwealth of Pennsylvania on December 22, 2011.

TOLL BROTHERS, INC.

By: /s/ Douglas C. Yearly, Jr.
Douglas C. Yearley, Jr.
Chief Executive Officer
(Principal Executive Officer)

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the Registrant and in the capacities and on the dates indicated.

Signature	Title	Date
/s/ Robert I. Toll Robert I. Toll	Executive Chairman of the Board of Directors	December 22, 2011
/s/ Bruce E. Toll Bruce E. Toll	Vice Chairman of the Board and Director	December 22, 2011
/s/ Douglas C. Yearley, Jr. Douglas C. Yearley, Jr.	Chief Executive Officer and Director (Principal Executive Officer)	December 22, 2011
/s/ Zvi Barzilay Zvi Barzilay	President, Chief Operating Officer and Director	December 22, 2011
/s/ Martin P. Connor Martin P. Connor	Senior Vice President, Chief Financial Officer and Treasurer (Principal Financial Officer)	December 22, 2011
/s/ Joseph R. Sicree Joseph R. Sicree	Senior Vice President and Chief Accounting Officer (Principal Accounting Officer)	December 22, 2011
/s/ Robert S. Blank Robert S. Blank	Director	December 22, 2011
/s/ Edward G. Boehne Edward G. Boehne	Director	December 22, 2011

/s/ Richard J. Braemer	Director	December 22, 2011
Richard J. Braemer		
/s/ Christine N. Garvey	Director	December 22, 2011
Christine N. Garvey		
/s/ Carl B. Marbach	Director	December 22, 2011
Carl B. Marbach		
/s/ Stephen A. Novick	Director	December 22, 2011
Stephen A. Novick		
/s/ Paul E. Shapiro	Director	December 22, 2011
Paul E. Shapiro		

Table of Contents

Management s Annual Report on Internal Control Over Financial Reporting

Our management is responsible for establishing and maintaining adequate internal control over financial reporting, as such term is defined in the Securities Exchange Act Rule 13a-15(f). Internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. Internal control over financial reporting includes those policies and procedures that: (i) pertain to the maintenance of records that in reasonable detail accurately and fairly reflect the transactions and dispositions of the assets of the company; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company s assets that could have a material effect on the financial statements. Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Under the supervision and with the participation of our management, including our principal executive officer and our principal financial officer, we conducted an evaluation of the effectiveness of our internal control over financial reporting based on the framework in *Internal Control Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on this evaluation under the framework in *Internal Control Integrated Framework,* our management concluded that our internal control over financial reporting was effective as of October 31, 2011.

Our independent registered public accounting firm, Ernst & Young LLP, has issued its report, which is included herein, on the effectiveness of our internal control over financial reporting.

F-1

Table of Contents

Report of Independent Registered Public Accounting Firm

The Board of Directors and Stockholders of Toll Brothers, Inc.

We have audited Toll Brothers, Inc. s internal control over financial reporting as of October 31, 2011, based on criteria established in Internal Control Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (the COSO criteria). Toll Brothers, Inc. s management is responsible for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting included in the accompanying Management s Annual Report on Internal Control Over Financial Reporting. Our responsibility is to express an opinion on the company s internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company s internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company s internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the company s assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, Toll Brothers, Inc. maintained, in all material respects, effective internal control over financial reporting as of October 31, 2011, based on the COSO criteria**.**

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of Toll Brothers, Inc. and subsidiaries as of October 31, 2011 and 2010, and the related consolidated statements of operations, changes in equity, and cash flows for each of the three years in the period ended October 31, 2011 of Toll Brothers, Inc. and subsidiaries and our report dated December 22, 2011 expressed an unqualified opinion thereon.

/s/ Ernst & Young LLP
Philadelphia, Pennsylvania
December 22, 2011

Table of Contents

Report of Independent Registered Public Accounting Firm

The Board of Directors and Stockholders of Toll Brothers, Inc.

We have audited the accompanying consolidated balance sheets of Toll Brothers, Inc. as of October 31, 2011 and 2010, and the related consolidated statements of operations, changes in equity, and cash flows for each of the three years in the period ended October 31, 2011. These financial statements are the responsibility of the Company s management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Toll Brothers, Inc. at October 31, 2011 and 2010, and the consolidated results of its operations, changes in equity and its cash flows for each of the three years in the period ended October 31, 2011, in conformity with U.S. generally accepted accounting principles.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), Toll Brothers Inc. s internal control over financial reporting as of October 31, 2011, based on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated December 22, 2011 expressed an unqualified opinion thereon.

/s/ Ernst & Young LLP
Philadelphia, Pennsylvania
December 22, 2011

Table of Contents

CONSOLIDATED STATEMENTS OF OPERATIONS
(Amounts in thousands, except per share data)

	Year ended October 31, 2011	2010	2009
Revenues	$ 1,475,881	$ 1,494,771	$ 1,755,310
Cost of revenues	1,260,770	1,376,558	1,951,312
Selling, general and administrative	261,355	263,224	313,209
Interest expense	1,504	22,751	7,949
	1,523,629	1,662,533	2,272,470
Loss from operations	(47,748)	(167,762)	(517,160)
Other:			
(Loss) income from unconsolidated entities	(1,194)	23,470	(7,518)
Interest and other income	23,403	28,313	41,906
Expenses related to early retirement of debt	(3,827)	(1,208)	(13,693)
Loss before income taxes	(29,366)	(117,187)	(496,465)
Income tax (benefit) provision	(69,161)	(113,813)	259,360
Net income (loss)	$ 39,795	$ (3,374)	$ (755,825)
Income (loss) per share:			
Basic	$ 0.24	$ (0.02)	$ (4.68)
Diluted	$ 0.24	$ (0.02)	$ (4.68)
Weighted-average number of shares:			
Basic	167,140	165,666	161,549
Diluted	168,381	165,666	161,549

See accompanying notes

Table of Contents

CONSOLIDATED BALANCE SHEETS
(Amounts in thousands)

	October 31, 2011	October 31, 2010
ASSETS		
Cash and cash equivalents	$ 906,340	$ 1,039,060
Marketable securities	233,572	197,867
Restricted cash	19,760	60,906
Inventory	3,416,723	3,241,725
Property, construction and office equipment, net	99,712	79,916
Receivables, prepaid expenses and other assets	105,576	97,039
Mortgage loans receivable	63,175	93,644
Customer deposits held in escrow	14,859	21,366
Investments in and advances to unconsolidated entities	126,355	198,442
Investments in non-performing loan portfolios and foreclosed real estate	69,174	
Income tax refund recoverable		141,590
	$ 5,055,246	$ 5,171,555
LIABILITIES AND EQUITY		
Liabilities		
Loans payable	$ 106,556	$ 94,491
Senior notes	1,490,972	1,544,110
Mortgage company warehouse loan	57,409	72,367
Customer deposits	83,824	77,156
Accounts payable	96,817	91,738
Accrued expenses	521,051	570,321
Income taxes payable	106,066	162,359
Total liabilities	2,462,695	2,612,542
Equity		
Stockholders equity		
Preferred stock, none issued		
Common stock, 168,675 and 166,413 shares issued at October 31, 2011 and 2010, respectively	1,687	1,664
Additional paid-in capital	400,382	360,006
Retained earnings	2,234,251	2,194,456
Treasury stock, at cost - 2,946 shares and 5 shares at October 31, 2011 and 2010, respectively	(47,065)	(96)
Accumulated other comprehensive loss	(2,902)	(577)
Total stockholders equity	2,586,353	2,555,453
Noncontrolling interest	6,198	3,560
Total equity	2,592,551	2,559,013

	$ 5,055,246	$ 5,171,555

See accompanying notes,

Table of Contents

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY
(Amounts in thousands)

	Common Stock Shares	Common Stock $	Additional Paid-In Capital $	Retained Earnings $	Treasury Stock $	Accumulated Other Comprehensive Income (Loss) $	Non-Controlling Interest $	Total Equity $
Balance, November 1, 2008	160,369	1,604	282,090	2,953,655	(21)	325		3,237,653
Net loss				(755,825)				(755,825)
Purchase of treasury stock	(79)	(1)	1		(1,473)			(1,473)
Exercise of stock options	4,415	44	22,954		1,322			24,320
Employee benefit plan issuances	26		486					486
Conversion of restricted stock units to stock	1		35		13			48
Stock-based compensation			10,925					10,925
Issuance of restricted stock			27					27
Formation of majority- owned joint venture							3,283	3,283
Other comprehensive loss						(2,962)		(2,962)
Balance, October 31, 2009	164,732	1,647	316,518	2,197,830	(159)	(2,637)	3,283	2,516,482
Net loss				(3,374)				(3,374)
Purchase of treasury stock	(31)				(588)			(588)
Exercise of stock options	1,684	17	33,638		620			34,275
Employee benefit plan issuances	24		435					435
Conversion of restricted stock units to stock	3		61		31			92
Stock-based compensation			9,332					9,332
	1		22					22

Issuance of restricted stock								
Other comprehensive income						2,060		2,060
Capital contribution							277	277
Balance, October 31, 2010	166,413	1,664	360,006	2,194,456	(96)	(577)	3,560	2,559,013
Net income				39,795				39,795
Purchase of treasury stock			(1)		(49,102)			(49,103)
Exercise of stock options	2,236	23	23,156		1,940			25,119
Employee benefit plan issuances	15		285		126			411
Conversion of restricted stock units to stock	10		208		67			275
Stock-based compensation			8,626					8,626
Issuance of restricted stock and stock units	1		8,102					8,102
Other comprehensive loss						(2,325)		(2,325)
Capital contribution							2,638	2,638
Balance, October 31, 2011	168,675	1,687	400,382	2,234,251	(47,065)	(2,902)	6,198	2,592,551

See accompanying notes

Table of Contents

CONSOLIDATED STATEMENTS OF CASH FLOWS
(Amounts in thousands)

	Year ended October 31, 2011	2010	2009
Cash flow provided by (used in) operating activities:			
Net income (loss)	$ 39,795	$ (3,374)	$ (755,825)
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:			
Depreciation and amortization	23,142	20,044	23,925
Stock-based compensation	12,768	11,677	10,987
Excess tax benefits from stock-based compensation		(4,954)	(24,817)
Impairments of investments in unconsolidated entities	40,870		11,300
Income from unconsolidated entities	(39,676)	(23,470)	(3,782)
Distributions of earnings from unconsolidated entities	12,081	10,297	816
Income from non-performing loan portfolios	(5,113)		
Change in deferred tax asset	(18,188)	60,697	(52,577)
Deferred tax valuation allowances	18,188	(60,697)	458,280
Inventory impairments	51,837	115,258	465,411
Change in fair value of mortgage loans receivable and derivative instruments	475	(970)	
Expenses related to early retirement of debt	3,827	1,208	13,693
Changes in operating assets and liabilities			
(Increase) decrease in inventory	(215,738)	(140,344)	489,213
Origination of mortgage loans	(630,294)	(628,154)	(571,158)
Sale of mortgage loans	659,610	579,221	577,263
Decrease (increase) in restricted cash	41,146	(60,906)	
(Increase) decrease in receivables, prepaid expenses and other assets	(11,521)	(3,115)	20,045
Increase (decrease) in customer deposits	13,175	(15,182)	(45,706)
Decrease in accounts payable and accrued expenses	(28,899)	(38,598)	(149,065)
Decrease (increase) in income tax refund recoverable	141,590	20,250	(161,840)
(Decrease) increase in current income taxes payable	(56,225)	14,828	(22,972)
Net cash provided by (used in) operating activities	52,850	(146,284)	283,191
Cash flow used in investing activities:			
Purchase of property and equipment net	(9,553)	(4,830)	(2,712)
Purchase of marketable securities	(452,864)	(157,962)	(101,324)
Sale and redemption of marketable securities	408,831	60,000	
Investment in and advances to unconsolidated entities	(132)	(58,286)	(31,342)
Return of investments in unconsolidated entities	43,309	9,696	3,205
Investment in non-performing loan portfolios and foreclosed real estate	(66,867)		
Return of investments in non-performing loan portfolios and foreclosed real estate	2,806		
Net cash used in investing activities	(74,470)	(151,382)	(132,173)

Cash flow (used in) provided by financing activities:			
Net proceeds from issuance of senior notes			635,765
Proceeds from loans payable	921,251	927,233	636,975
Principal payments of loans payable	(952,621)	(1,316,514)	(785,883)
Redemption of senior subordinated notes		(47,872)	(296,503)
Redemption of senior notes	(58,837)	(46,114)	(210,640)
Proceeds from stock-based benefit plans	25,531	7,589	22,147
Excess tax benefits from stock-based compensation		4,954	24,817
Purchase of treasury stock	(49,102)	(588)	(1,473)
Change in noncontrolling interest	2,678	320	(2,000)
Net cash (used in) provided by financing activities	(111,100)	(470,992)	23,205
Net (decrease) increase in cash and cash equivalents	(132,720)	(768,658)	174,223
Cash and cash equivalents, beginning of year	1,039,060	1,807,718	1,633,495
Cash and cash equivalents, end of year	$ 906,340	$ 1,039,060	$ 1,807,718

See accompanying notes

Table of Contents

Notes to Consolidated Financial Statements

1. Significant Accounting Policies

Basis of Presentation

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

Use of Estimates

The preparation of financial statements in conformity with U.S. generally accepted accounting principles (GAAP) requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

Cash and Cash Equivalents

Liquid investments or investments with original maturities of three months or less are classified as cash equivalents. The carrying value of these investments approximates their fair value.

Marketable Securities

Marketable securities are classified as available-for-sale, and accordingly, are stated at fair value, which is based on quoted market prices. Changes in unrealized gains and losses are excluded from earnings and are reported as other comprehensive income, net of income tax effects, if any.

Restricted Cash

Restricted cash primarily represent cash deposits collateralizing outstanding letters of credit with three banks that were in the Company s prior bank revolving credit facility that chose not to participate in the Company s new revolving credit facility and cash deposited into a voluntary employee benefit association to fund certain future employee benefits. As the Company replaces the letters of credit with new letters of credit issued under its new revolving credit facility, the restricted cash related to the replaced letters of credit will be returned to the Company.

Inventory

Inventory is stated at cost unless an impairment exists, in which case it is written down to fair value in accordance with the Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) 360, Property, Plant and Equipment (ASC 360). In addition to direct land acquisition costs, land development costs and home construction costs, costs also include interest, real estate taxes and direct overhead related to development and construction, which are capitalized to inventory during the period beginning with the commencement of development and ending with the completion of construction. For those communities that have been temporarily closed, no additional capitalized interest is allocated to a community s inventory until it re-opens. While the community remains closed, carrying costs such as real estate taxes are expensed as incurred.

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

Once a parcel of land has been approved for development and the Company opens one of its typical communities, it may take four or more years to fully develop, sell and deliver all the homes in such community. Longer or shorter time periods are possible depending on the number of home sites in a community and the sales and delivery pace of the homes in a community. The Company s master planned communities, consisting of several smaller communities, may take up to ten years or more to complete. Because the Company s inventory is considered a long-lived asset under GAAP, the Company is required, under ASC 360, to regularly review the carrying value of each community and write down the value of those communities for which it believes the values have been impaired.

Current Communities: When the profitability of a current community deteriorates, the sales pace declines significantly, or some other factor indicates a possible impairment in the recoverability of the asset, the asset is reviewed for impairment by comparing the estimated future undiscounted cash flow for the community to its carrying value. If the estimated future undiscounted cash flow is less than the community s carrying value, the carrying value is written down to its estimated fair value. Estimated fair value is primarily determined by discounting the estimated future cash flow of each community. The impairment is charged to cost of revenues in the period in which the impairment is determined. In estimating the future undiscounted cash flow of a community, the Company uses various estimates such as: (a) the expected sales pace in a community, based upon general economic conditions that will have a short-term or long-term impact on the market in which the community is located and on competition within the market, including the number of home sites available and pricing and incentives being offered in other communities owned by the Company or by other builders; (b) the expected sales prices and sales incentives to be offered in a community; (c) costs expended to date and expected to be incurred in the future, including, but not limited to, land and land development, home construction, interest and overhead costs; (d) alternative product offerings that may be offered in a community that will have an impact on sales pace, sales price, building cost or the number of homes that can be built on a particular site; and (e) alternative uses for the property such as the possibility of a sale of the entire community to another builder or the sale of individual home sites.

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

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

Variable Interest Entities: The Company has a significant number of land purchase contracts and several investments in unconsolidated entities which it evaluates in accordance with ASC 810, Consolidation (ASC 810). The Company analyzes its land purchase contracts and the unconsolidated entities in which it has an investment to determine whether the land sellers and unconsolidated entities are variable interest entities (VIEs) and, if so, whether the Company is the primary beneficiary. If the Company is determined to be the primary beneficiary of a VIE, it must consolidate the VIE. A VIE is an entity with insufficient equity investment or in which the equity investors lack some of the characteristics of a controlling financial interest. In determining whether it is the primary beneficiary, the Company considers, among other things, whether it has the power to direct the activities of the VIE that most significantly impact the entity s economic performance, including, but not limited to, determining or limiting the scope or purpose of the VIE, selling or transferring property owned or controlled by the VIE, or arranging financing for the VIE. The Company also considers whether it has the obligation to absorb losses of or the right to receive benefits from the VIE.

Property, Construction and Office Equipment

Property, construction and office equipment are recorded at cost and are stated net of accumulated depreciation of $153.3 million and $146.3 million at October 31, 2011 and 2010, respectively. Depreciation is recorded using the straight-line method over the estimated useful lives of the assets.

Mortgage Loans Receivable

Residential mortgage loans held for sale are measured at fair value in accordance with the provisions of ASC 825, Financial Instruments (ASC 825). The Company believes the use of ASC 825 improves consistency of mortgage loan valuations between the date the borrower locks in the interest rate on the pending mortgage loan and the date of the mortgage loan sale. 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. Interest income on mortgage loans held for sale is calculated based upon the stated interest rate of each loan. In addition, the recognition of net origination costs and fees associated with residential mortgage loans originated are expensed as incurred. These gains and losses, interest income and origination costs and fees are recognized in interest and other income in the accompanying Consolidated Statements of Operations.

Investments in and Advances to Unconsolidated Entities

The trends, uncertainties or other factors that have negatively impacted our business and the industry in general have also impacted the unconsolidated entities in which the Company has investments. In accordance with ASC 323, Investments Equity Method and Joint Ventures , the Company reviews each of its investments on a quarterly basis for indicators of impairment. A series of operating losses of an investee, the inability to recover the Company s invested capital, or other factors may indicate that a loss in value of the Company s investment in the unconsolidated entity has occurred. If a loss exists, the Company further reviews to determine if the loss is other than temporary, in which case, it writes down the investment to its fair value. The evaluation of the Company s investment in unconsolidated entities entails a detailed cash flow analysis using many estimates including but not limited to expected sales pace, expected sales prices, expected incentives, costs incurred and anticipated, sufficiency of financing and capital, competition, market conditions and anticipated cash receipts, in order to determine projected future distributions.

Each of the unconsolidated entities evaluates its inventory in a similar manner as the Company does. See Inventory above for more detailed disclosure on the Company s evaluation of inventory. If a valuation adjustment is recorded by an unconsolidated entity related to its assets, the Company s proportionate share is reflected in the Company s (loss) income from unconsolidated entities with a corresponding decrease to its investment in unconsolidated entities.

The Company is a party to several joint ventures with independent third parties to develop and sell land that is owned by its joint venture partners. The Company recognizes its proportionate share of the earnings from the sale of home sites to other builders. The Company does not recognize earnings from the home sites it purchases from these ventures, but reduces its cost basis in the home sites by its share of the earnings from those home sites.

In fiscal 2010, the Company formed Gibraltar Capital and Asset Management LLC (Gibraltar) to invest in distressed real estate opportunities. Through Gibraltar, the Company has invested in a structured asset joint venture.

The Company is also a party to several other joint ventures. The Company recognizes its proportionate share of the earnings and losses of its unconsolidated entities.

Investments in Non-Performing Loan Portfolios and Foreclosed Real Estate

The Company s investments in non-performing loan portfolios were initially recorded at cost which the Company believes was fair value. The fair value was determined by discounting the cash flows expected to be collected from the portfolios using a discount rate that management believes a market participant would use in determining fair value. Management estimated cash flows expected to be collected on a loan-by-loan basis considering the contractual terms of the loan, current and expected loan performance, the manner and timing of disposition, the nature and estimated fair value of real estate or other collateral, and other factors it deemed appropriate. The estimated fair value of the loans at acquisition was significantly less than the contractual amounts due under the terms of the loan agreements.

Since, at the acquisition date, the Company expected to collect less than the contractual amounts due under the terms of the loans based, at least in part, on the assessment of the credit quality of the borrowers, the loans are accounted for in accordance with ASC Topic 310-30, Loans and Debt Securities Acquired with Deteriorated Credit Quality (ASC 310-30). Under ASC 310-30, the accretable yield, or the amount by which the cash flows expected to be collected at the acquisition date exceeds the estimated fair value of the loan, is recognized in interest and other income over the estimated remaining life of the loan using a level yield methodology provided the Company does not presently have the intention to utilize real estate secured by the loans for use in its operations or significantly improving the collateral for resale. 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.

Pursuant to ASC 310-30, the Company aggregated loans with common risk characteristics into pools for purposes of recognizing interest income and evaluating changes in estimated cash flows. Loan pools are evaluated as a single loan for purposes of placing the pool on nonaccrual status or evaluating loan impairment. Generally, a loan pool is classified as nonaccrual when management is unable to reasonably estimate the timing or amount of cash flows expected to be collected from the loan pool or has serious doubts about further collectability of principal or interest. Proceeds received on nonaccrual loan pools generally are either applied against principal or reported as interest and other income, depending on management s judgment as to the collectability of principal. For the year ended October 31, 2011, none of the Company s loan pools were on nonaccrual status.

Table of Contents

A loan is removed from a loan pool only when the Company sells, forecloses or otherwise receives assets in satisfaction of the loan, or the loan is written off. Loans removed from a pool are removed at their amortized cost (unpaid principal balance less unamortized discount and provision for loan loss) as of the date of resolution.

The Company periodically re-evaluates cash flows expected to be collected for each loan pool based upon all available information as of the measurement date. Subsequent increases in cash flows expected to be collected are recognized prospectively through an adjustment to the loan pool s yield over its remaining life, which may result in a reclassification from nonaccretable difference to accretable yield. Subsequent decreases in cash flows expected to be collected are evaluated to determine whether a provision for loan loss should be established. If decreases in expected cash flows result in a decrease in the estimated fair value of the loan pool below its amortized cost, the loan pool is deemed to be impaired and the Company will record a provision for loan losses to write the loan pool down to its estimated fair value. For the year ended October 31, 2011, the Company did not record a provision for loan losses.

The Company s investments in non-performing loans are classified as held for investment because the Company has the intent and ability to hold them for the foreseeable future.

Real Estate Owned (REO)

REO assets, either directly owned or owned through a participation arrangement, acquired through subsequent foreclosure or deed in lieu actions on non-performing loans are initially recorded at fair value based upon third-party appraisals, broker opinions of value, or internal valuation methodologies (which may include discounted cash flows, capitalization rates analyses or comparable transactional analyses). 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. REO assets acquired are reviewed to determine if they should be classified as held and used or held for sale . REO classified as held and used is stated at carrying cost unless an impairment exists, in which case it is written down to fair value in accordance with ASC 360-10-35. REO classified as held for sale is carried at the lower of carrying amount or fair value less cost to sell. Any decreases in estimated fair value subsequent to the acquisition date are recognized through an impairment reserve. For both classifications, carrying costs incurred after the acquisition, including property taxes and insurance, are expensed.

Loan Sales

As part of its disposition strategy for the loan portfolios, the Company may sell certain loans to third-party purchasers. The Company recognizes gains or losses on the sale of mortgage loans when the loans have been legally isolated from the Company and it no longer maintains effective control over the transferred assets.

Fair Value Disclosures

The Company uses ASC 820, Fair Value Measurements and Disclosures (ASC 820), to measure the fair value of certain assets and liabilities. ASC 820 provides a framework for measuring fair value in accordance with GAAP, establishes a fair value hierarchy which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value and requires certain disclosures about fair value measurements. In January 2010, the FASB issued ASU No. 2010-06, Improving Disclosure about Fair Value Measurements (ASU 2010-06), which amended ASC 820 to increase disclosure requirements regarding recurring and non-recurring fair value measurements. The Company adopted ASU 2010-06 as of February 1, 2010, except for the disclosures about Level 3 fair value disclosures which will be effective for the Company on November 1, 2011. The adoption of ASU 2010-06 did not have a material impact on the Company s consolidated financial position, results of operations or cash flows.

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.

Treasury Stock

Treasury stock is recorded at cost. Issuance of treasury stock is accounted for on a first-in, first-out basis. Differences between the cost of treasury stock and the re-issuance proceeds are charged to additional paid-in capital.

Revenue and Cost Recognition

The construction time of the Company s homes is generally less than one year, although some homes may take more than one year to complete. Revenues and cost of revenues from these home sales are recorded at the time each home is delivered and title and possession are transferred to the buyer. For single family detached homes, closing normally occurs shortly after construction is substantially completed. In addition, the Company has several high-rise/mid-rise projects that do not qualify for percentage of completion accounting in accordance with ASC 360, which are included in this category of revenues and costs. Based upon the current accounting rules and interpretations, the Company does not believe that any of its current or future communities currently qualify or will qualify in the future for percentage of completion accounting.

For the Company s standard attached and detached homes, land, land development and related costs, both incurred and estimated to be incurred in the future, are amortized to the cost of homes closed based upon the total number of homes to be constructed in each community. Any changes resulting from a change in the estimated number of homes to be constructed or in the estimated costs subsequent to the commencement of delivery of homes are allocated to the remaining undelivered homes in the community. Home construction and related costs are charged to the cost of homes closed under the specific identification method. The estimated land, common area development and related costs of master planned communities, including the cost of golf courses, net of their estimated residual value, are allocated to individual communities within a master planned community on a relative sales value basis. Any changes resulting from a change in the estimated number of homes to be constructed or in the estimated costs are allocated to the remaining home sites in each of the communities of the master planned community.

For high-rise/mid-rise projects that do not qualify for percentage of completion accounting, land, land development, construction and related costs, both incurred and estimated to be incurred in the future, are generally amortized to the cost of units closed based upon an estimated relative sales value of the units closed to the total estimated sales value. Any changes resulting from a change in the estimated total costs or revenues of the project are allocated to the remaining units to be delivered.

Forfeited customer deposits: Forfeited customer deposits are recognized in other income in the period in which the Company determines that the customer will not complete the purchase of the home and it has the right to retain the deposit.

Sales Incentives: In order to promote sales of its homes, the Company grants its home buyers sales incentives from time to time. These incentives will vary by type of incentive and by amount on a community-by-community and home-by-home basis. Incentives that impact the value of the home or the sales price paid, such as special or additional options, are generally reflected as a reduction in sales revenues. Incentives that the Company pays to an outside party, such as paying some or all of a home buyer s closing costs, are recorded as an additional cost of revenues. Incentives are recognized at the time the home is delivered to the home buyer and the Company receives the sales proceeds.

Advertising Costs

The Company expenses advertising costs as incurred. Advertising costs were $11.1 million, $9.2 million and $11.5 million for the years ended October 31, 2011, 2010 and 2009, respectively.

Warranty Costs

The Company provides all of its home buyers with a limited warranty as to workmanship and mechanical equipment. The Company also provides many of its home buyers with a limited ten-year warranty as to structural integrity. The Company accrues for expected warranty costs at the time each home is closed and title and possession have been transferred to the buyer. Costs are accrued based upon historical experience.

Insurance Costs

The Company accrues for the expected costs associated with the deductibles and self-insured amounts under its various insurance policies.

Stock-Based Compensation

The Company accounts for its stock-based compensation in accordance with ASC 718, Compensation Stock Compensation (ASC 718). The Company used a lattice model for the valuation for its stock option grants. The option pricing models used are designed to estimate the value of options that, unlike employee stock options and restricted stock units, can be traded at any time and are transferable. In addition to restrictions on trading, employee stock options and restricted stock units may include other restrictions such as vesting periods. Further, such models require the input of highly subjective assumptions, including the expected volatility of the stock price.

Income Taxes

The Company accounts for income taxes in accordance with ASC 740, Income Taxes (ASC 740). Deferred tax assets and liabilities are recorded based on temporary differences between the amounts reported for financial reporting purposes and the amounts deductible for income tax purposes. In accordance with the provisions of ASC 740, the Company assesses the realizability of its deferred tax assets. A valuation allowance must be established when, based upon available evidence, it is more likely than not that all or a portion of the deferred tax assets will not be realized. See Income Taxes Valuation Allowance below.

Provisions (benefits) for federal and state income taxes are calculated on reported pretax earnings (losses) based on current tax law and also include, in the applicable period, the cumulative effect of any changes in tax rates from those used previously in determining deferred tax assets and liabilities. Such provisions (benefits) differ from the amounts currently receivable or payable because certain items of income and expense are recognized for financial reporting purposes in different periods than for income tax purposes. Significant judgment is required in determining income tax provisions (benefits) and evaluating tax positions. The Company establishes reserves for income taxes when, despite the belief that its tax positions are fully supportable, it believes that its positions may be challenged and disallowed by various tax authorities. The consolidated tax provisions (benefit) and related accruals include the impact of such reasonably estimable disallowances as deemed appropriate. To the extent that the probable tax outcome of these matters changes, such changes in estimates will impact the income tax provision (benefit) in the period in which such determination is made.

ASC 740 clarifies the accounting for uncertainty in income taxes recognized and prescribes a recognition threshold and measurement attributes for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. ASC 740 also provides guidance on de-recognition, classification, interest and penalties, accounting in interim periods, disclosure and transition. ASC 740 requires a company to recognize the financial statement effect of a tax position when it is more-likely-than-not (defined as a substantiated likelihood of more than 50%), based on the technical merits of the position, that the position will be sustained upon examination. A tax position that meets the more-likely-than-not recognition threshold is measured to determine the amount of benefit to be recognized in the financial statements based upon the largest amount of benefit that is greater than 50% likely of being realized upon ultimate settlement with a taxing authority that has full knowledge of all relevant information.

The inability of the Company to determine that a tax position meets the more-likely-than-not recognition threshold does not mean that the Internal Revenue Service (IRS) or any other taxing authority will disagree with the position that the Company has taken.

If a tax position does not meet the more-likely-than-not recognition threshold, despite the Company s belief that its filing position is supportable, the benefit of that tax position is not recognized in the statements of operations and the Company is required to accrue potential interest and penalties until the uncertainty is resolved. Potential interest and penalties are recognized as a component of the provision for income taxes which is consistent with the Company s historical accounting policy. Differences between amounts taken in a tax return and amounts recognized in the financial statements are considered unrecognized tax benefits. The Company believes that it has a reasonable basis for each of its filing positions and intends to defend those positions if challenged by the IRS or another taxing jurisdiction. If the IRS or other taxing authorities do not disagree with the Company s position, and after the statute of limitations expires, the Company will recognize the unrecognized tax benefit in the period that the uncertainty of the tax position is eliminated.

Income Taxes Valuation Allowance

Significant judgment is required in estimating valuation allowances for deferred tax assets. In accordance with ASC 740, a valuation allowance is established against a deferred tax asset if, based on the available evidence, it is more likely than not that such asset will not be realized. The realization of a deferred tax asset ultimately depends on the existence of sufficient taxable income in either the carryback or carryforward periods under tax law. The Company periodically assesses the need for valuation allowances for deferred tax assets based on ASC 740 s more-likely-than-not realization threshold criterion. In the Company s assessment, appropriate consideration is given to all positive and negative evidence related to the realization of the deferred tax assets. This assessment considers, among other matters, the nature, frequency and severity of current and cumulative income and losses, forecasts of future profitability, the duration of statutory carryback or carryforward periods, its experience with operating loss and tax credit carryforwards being used before expiration, and tax planning alternatives.

The Company s assessment of the need for a valuation allowance on its deferred tax assets includes assessing the likely future tax consequences of events that have been recognized in its consolidated financial statements or tax returns. The Company bases its estimate of deferred tax assets and liabilities on current tax laws and rates and, in certain cases, on business plans and other expectations about future outcomes. Changes in existing tax laws or rates could affect actual tax results and future business results may affect the amount of deferred tax liabilities or the valuation of deferred tax assets over time. The Company s accounting for deferred tax assets represents its best estimate of future events using the guidance provided by ASC 740.

Due to uncertainties in the estimation process, particularly with respect to changes in facts and circumstances in future reporting periods (carryforward period assumptions), it is reasonably possible that actual results could differ from the estimates used in the Company s historical analyses. The Company s assumptions require significant judgment because the residential homebuilding industry is cyclical and is highly sensitive to changes in economic conditions. If the Company s results of operations are less than projected and there is insufficient objectively verifiable evidence to support the likely realization of its deferred tax assets, a valuation allowance would be required to reduce or eliminate its deferred tax assets.

Noncontrolling Interest

The Company has a 67% interest in an entity that is developing land. The financial statements of this entity are consolidated in the Company s consolidated financial statements. The amounts shown in the Company s Consolidated Balance Sheets under Noncontrolling interest represent the noncontrolling interest attributable to the 33% minority interest not owned by the Company.

Geographic Segment Reporting

The Company has determined that its home building operations operate in four geographic segments: North, Mid-Atlantic, South and West. 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, South Carolina and Texas
West:	Arizona, California, Colorado and Nevada

In fiscal 2010, the Company discontinued the sale of homes in West Virginia and Georgia. At October 31, 2010, the Company had no backlog in West Virginia and Georgia. The operations in West Virginia and Georgia were immaterial to the Mid-Atlantic and South geographic segments, respectively.

Related Party Transactions

See Note 3. Investments and Advances to Unconsolidated Entities for information regarding Toll Brothers Realty Trust.

Recent Accounting Pronouncements

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

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

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

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

Reclassification

In order to provide attractive mortgage financing to its home buyers, the Company s homebuilding operations subsidize the Company s mortgage subsidiary. In fiscal 2011, the Company determined that the amount of subsidies in fiscal 2010 were in excess of the mortgage company s costs and reclassified the excess from interest and other income to cost of revenues. The table below provides information regarding the changes made to the previously reported fiscal 2010 statement of operations (amounts in thousands).

	Cost of revenues	Interest and other income
As reported	$ 1,383,075	$ 34,830
Reclassified	1,376,558	28,313
Increase (decrease)	$ (6,517)	$ 6,517

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

F-15

2. Inventory

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

	2011	2010
Land controlled for future communities	$ 46,581	$ 31,899
Land owned for future communities	979,145	923,972
Operating communities	2,390,997	2,285,854
	$ 3,416,723	$ 3,241,725

During fiscal 2010 and 2009, the Company sold non-strategic inventory for $22.5 million and $47.7 million, respectively, and recognized income of $0.9 million in fiscal 2010 and a loss of $0.1 million in fiscal 2009. The Company did not sell any non-strategic inventory in fiscal 2011. The net gain/loss, including the related capitalized interest, is included in interest and other income in the Company s Consolidated Statements of Operations for fiscals 2010 and 2009.

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 year 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 at October 31, 2011, 2010 and 2009 is provided in the table below ($ amounts in thousands).

	2011	2010	2009
Land owned for future communities:			
Number of communities	43	36	16
Carrying value (in thousands)	$ 256,468	$ 212,882	$ 75,942
Operating communities:			
Number of communities	2	13	16
Carrying value (in thousands)	$ 11,076	$ 78,100	$ 91,477

The Company provided for inventory impairment charges and the expensing of costs that it believed not to be recoverable in each of the three fiscal years ended October 31, 2011, 2010 and 2009 as shown in the table below (amounts in thousands).

	2011	2010	2009
Land controlled for future communities	$ 17,752	$ 6,069	$ 28,518
Land owned for future communities	17,000	55,700	169,488
Operating communities	17,085	53,489	267,405
	$ 51,837	$ 115,258	$ 465,411

Table of Contents

The table below provides, for the periods indicated, the number of operating communities that the Company tested for potential impairment, the number of operating communities in which the Company recognized impairment charges, and the amount of impairment charges recognized, and, as of the end of the period indicated, the fair value of those communities, net of impairment charges ($ amounts in millions).

		Impaired Communities		
Three months ended:	Number of Communities Tested	Number of Communities	Fair Value of Communities Net of Impairment Charges	Impairment Charges
Fiscal 2011:				
January 31	143	6	$ 56,105	$ 5,475
April 30	142	9	$ 40,765	10,725
July 31	129	2	$ 867	175
October 31	114	3	$ 3,367	710
				$ 17,085
Fiscal 2010:				
January 31	260	14	$ 60,519	$ 22,750
April 30	161	7	$ 53,594	15,020
July 31	155	7	$ 21,457	6,600
October 31	144	12	$ 39,209	9,119
				$ 53,489
Fiscal 2009:				
January 31	289	41	$ 216,227	$ 108,300
April 30	288	36	$ 181,790	67,410
July 31	288	14	$ 67,713	46,822
October 31	254	21	$ 116,379	44,873
				$ 267,405

At October 31, 2011, the Company evaluated its land purchase contracts to determine if any of the selling entities were VIEs and, if they were, whether the Company was the primary beneficiary of any of them. Under these land purchase contracts, the Company does not possess legal title to the land and its risk is generally limited to deposits paid to the sellers and the creditors of the sellers generally have no recourse against the Company. At October 31, 2011, the Company determined that 48 land purchase contracts, with an aggregate purchase price of $453.0 million, on which it had made aggregate deposits totaling $24.2 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 in each of the three fiscal years ended October 31, 2011, 2010 and 2009 was as follows (amounts in thousands):

	2011	2010	2009
Interest capitalized, beginning of year	$ 267,278	$ 259,818	$ 238,832
Interest incurred	114,761	114,975	118,026
Interest expensed to cost of revenues	(77,623)	(75,876)	(78,661)

Interest directly expensed to statement of operations	(1,504)	(22,751)	(7,949)
Write-off against other income	(1,155)	(8,369)	(10,116)
Interest reclassified to property, construction and office equipment	(3,000)	(519)	
Capitalized interest applicable to inventory transferred to joint ventures			(314)
Interest capitalized, end of year	$ 298,757	$ 267,278	$ 259,818

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 October 31, 2011, 2010 and 2009 would have been reduced by approximately $54.0 million, $53.3 million and $57.5 million, respectively.

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

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

3. Investments in and Advances to Unconsolidated Entities

The Company has investments in and advances to various unconsolidated entities. In fiscal 2010, the Company formed Gibraltar to invest in distressed real estate opportunities. Through Gibraltar, the Company has invested in a structured asset joint venture.

Development Joint Ventures

The Company has investments in and advances to, a number of joint ventures with unrelated parties to develop land (Development Joint Ventures). Some of these Development Joint Ventures develop land for the sole use of the venture participants, including the Company, and others develop land for sale to the joint venture participants and to unrelated builders. The Company recognizes its share of earnings from the sale of home sites by the Development Joint Ventures to other builders. With regard to home sites the Company purchases from the Development Joint Ventures, the Company reduces its cost basis in those home sites by its share of the earnings on the home sites. At October 31, 2011, the Company had approximately $17.1 million, net of impairment charges, invested in or advanced to the Development Joint Ventures. In addition, the Company has a funding commitment of $3.5 million to one Development Joint Venture should an additional investment in that venture be required.

As of October 31, 2011, the Company had recognized cumulative impairment charges in connection with its current Development Joint Ventures of $97.5 million. These impairment charges are attributable to investments in certain Development Joint Ventures where the Company determined there were losses in value in the investments that were other than temporary. In fiscal 2011 and 2009, the Company recognized impairment charges in connection with its Development Joint Ventures of $25.7 million and $5.3 million, respectively. The Company did not recognize any impairment charges in connection with the Development Joint Ventures in fiscal 2010.

On October 27, 2011, a bankruptcy court issued an order confirming a plan of reorganization for South Edge, LLC (South Edge), a Nevada land development joint venture, which was the subject of an involuntary bankruptcy petition filed in December 2010. Pursuant to the plan of reorganization, South Edge settled litigation regarding a loan made by a syndicate of lenders to it having a principal balance of $327.9 million, for which the Company had executed certain completion guarantees and conditional repayment guarantees. The confirmed plan of reorganization provided for a cash settlement to the lenders, the acquisition of land by the Company and the other members of South Edge which are parties to the agreement, and the resolution of all claims between members of the lending syndicate representing 99% of the outstanding amounts due under the loan, the bankruptcy trustee and the members of South Edge which are parties to the agreement. The Company believes it had made adequate provision at October 31 2011, for the settlement, including accruing for its share of the cash payments required under the agreement, for any remaining exposure to lenders which are not parties to the agreement and recording impairments to reflect the estimated fair value of land to be acquired. The Company paid $57.6 million in November 2011 to settle this matter. The disposition of the above matter did not have a material adverse effect on the Company s results of operations and liquidity or on its financial condition.

Planned Community Joint Venture

The Company is a participant in a joint venture with an unrelated party to develop a single master planned community (the Planned Community Joint Venture). At October, 31, 2011, the Company had an investment of $32.0 million in this Planned Community Joint Venture. At October 31, 2011, each participant had agreed to contribute additional funds up to $8.3 million, if required. If a participant fails to make a required capital contribution, the other participant may make the additional contribution and diminish the non-contributing participant s ownership interest. At October 31, 2011, this joint venture did not have any indebtedness. The Company recognized impairment charges in connection with the Planned Community Joint Venture of $15.2 million in fiscal 2011. The Company did not recognize any impairment charges in connection with the Planned Community Joint Venture in fiscal 2010 or fiscal 2009.

Table of Contents

Condominium Joint Ventures

At October 31, 2011, the Company had an aggregate of $40.7 million of investments in four joint ventures with unrelated parties to develop luxury for-sale and rental residential units and commercial space (Condominium Joint Ventures). At October 31, 2011, the Condominium Joint Ventures had aggregate loan commitments of $39.0 million, against which approximately $35.9 million had been borrowed. Included in the aggregate loan commitments and amount borrowed was $18.4 million due to the Company.

As of October 31, 2011, the Company had recognized cumulative impairment charges against its investments in the Condominium Joint Ventures and its pro rata share of impairment charges recognized by these Condominium Joint Ventures in the amount of $63.9 million. The Company did not recognize any impairment charges in connection with its Condominium Joint Ventures in fiscal 2011 and 2010; however, it recognized $6.0 million of impairment charges in fiscal 2009. At October 31, 2011, the Company did not have any commitments to make contributions to any Condominium Joint Venture.

Structured Asset Joint Venture

In July 2010, the Company, through Gibraltar, invested $29.1 million in a joint venture in which it is a 20% participant with two unrelated parties to purchase a 40% interest in an entity that owns and controls a portfolio of loans and real estate (Structured Asset Joint Venture). At October 31, 2011, the Company had an investment of $34.7 million in this Structured Asset Joint Venture. At October 31, 2011, the Company did not have any commitments to make additional contributions to the joint venture and has not guaranteed any of the joint venture s liabilities. If the joint venture needs additional capital and a participant fails to make a requested capital contribution, the other participants may make a contribution in consideration for a preferred return or may make the additional capital contribution and diminish the non-contributing participant s ownership interest.

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 October 31, 2011, the Company had an investment of $1.5 million in Trust II. Prior to the formation of Trust II, the Company formed Toll Brothers Realty Trust (the 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), Zvi Barzilay (and members of his family), Douglas C. Yearley, Jr. and former members of the Company s senior management; and one-third by an affiliate of PASERS (collectively, the Shareholders). As of October 31, 2011, the Company had a net investment in the Trust of $0.4 million. The Company provides development, finance and management services to the Trust and recognized fees under the terms of various agreements in the amounts of $2.9 million, $3.1 million and $2.1 million in fiscal 2011, 2010 and 2009, respectively. The Company believes that the transactions between itself and the Trust were on terms no less favorable than it would have agreed to with unrelated parties.

General

At October 31, 2011, the Company had accrued $60.1 million of aggregate exposure with respect to its estimated obligations to unconsolidated entities in which it has an investment. The Company s investments in these entities are accounted for using the equity method. The Company recognized $40.9 million and $11.3 million of impairment charges related to its investments in and advances to unconsolidated entities in fiscal 2011 and 2009. The Company did not recognize any impairment charges related to its investments in and advances to unconsolidated entities in fiscal 2010. Impairment charges related to these entities are included in (Loss) income from unconsolidated entities in the Company s consolidated statements of operations.

Table of Contents

The condensed balance sheets as of October 31, 2011 and 2010 and condensed statements of operations for the years ended October 31, 2011, 2010 and 2009 for unconsolidated entities, aggregated by type of business, are as follows (in thousands):
Condensed Balance Sheets:

	October 31, 2011				
	Develop-ment Joint Ventures	Home Building Joint Ventures	Toll Brothers Realty Trust I and II	Structured Asset Joint Venture	Total
Cash and cash equivalents	$ 14,190	$ 10,663	$ 11,726	$ 48,780	$ 85,359
Inventory	37,340	170,239	5,501		213,080
Non-performing loan portfolio				295,044	295,044
Rental properties			178,339		178,339
Real estate owned			1,087	230,872	231,959
Other assets (1)	331,315	20,080	9,675	159,143	520,213
Total assets	$ 382,845	$ 200,982	$ 206,328	$ 733,839	$ 1,523,994
Debt (1)	$ 327,856	$ 50,515	$ 198,927	$ 310,847	$ 888,145
Other liabilities	5,352	9,745	3,427	382	18,906
Members equity	49,637	140,722	3,974	172,944	367,277
Non-controlling interest				249,666	249,666
Total liabilities and equity	$ 382,845	$ 200,982	$ 206,328	$ 733,839	$ 1,523,994
Company s net investment in unconsolidated entities (2)	$ 17,098	$ 72,734	$ 1,872	$ 34,651	$ 126,355

	October 31, 2010				
	Develop-ment Joint Ventures	Home Building Joint Ventures	Toll Brothers Realty Trust I and II	Structured Asset Joint Venture	Total
Cash and cash equivalents	$ 21,224	$ 14,831	$ 13,154	$ 21,287	$ 70,496
Inventory	486,394	343,463	5,340		835,197
Non-performing loan portfolio				498,256	498,256
Rental properties			185,658		185,658
Real estate owned			1,934	124,775	126,709
Other assets (1)	194,541	29,374	9,401	15,003	248,319
Total assets	$ 702,159	$ 387,668	$ 215,487	$ 659,321	$ 1,964,635
Debt (1)	$ 379,793	$ 208,295	$ 184,616	$ 303,192	$ 1,075,896
Other liabilities	60,385	11,207	3,952	265	75,809

Members equity	261,981	168,166	26,919	146,248	603,314
Non-controlling interest				209,616	209,616
Total liabilities and equity	$ 702,159	$ 387,668	$ 215,487	$ 659,321	$ 1,964,635
Company s net investment in unconsolidated entities (2)	$ 58,551	$ 99,259	$ 11,382	$ 29,250	$ 198,442

(1) Included in other assets at October 31, 2011 and 2010 of the Structured Asset Joint Venture is $152.6 million and $8.5 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 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.

Table of Contents

Condensed Statements of Operations:

	For the year ended October 31, 2011				
	Develop-ment Joint Ventures	Home Building Joint Ventures	Toll Brothers Realty Trust I and II	Structured Asset Joint Venture	Total
Revenues	$ 4,624	$ 242,326	$ 37,728	$ 46,187	$ 330,865
Cost of revenues	3,996	191,922	15,365	30,477	241,760
Other expenses	1,527	8,954	18,808	10,624	39,913
Gain on disposition of loans and REO				61,406	61,406
Income (loss) from operations	(899)	41,450	3,555	66,492.	110,598
Other income	9,498	1,605		252	11,355
Net income before noncontrolling interest	8,599	43,055	3,555	66,744.	121,953
Less: Net income attributable to noncontrolling interest				40,048	40,048
Net income	$ 8,599	$ 43,055	$ 3,555	$ 26,696	$ 81,905
Company s equity in (losses) earnings of unconsolidated entities (3)	$ (25,272)	$ 15,159	$ 3,580	$ 5,339	$ (1,194)

	For the year ended October 31, 2010				
	Develop-ment Joint Ventures	Home Building Joint Ventures	Toll Brothers Realty Trust I and II	Structured Asset Joint Venture	Total
Revenues	$ 7,370	$ 132,878	$ 34,755	$ 16,582	$ 191,585
Cost of revenues	6,402	106,638	13,375	6,693	133,108
Other expenses	1,522	8,121	18,693	2,977	31,313
Loss on disposition of loans and REO				(5,272)	(5,272)
Income (loss) from operations	(554)	18,119	2,687	1,640	21,892
Other income	13,616	572		5	14,193
Net income before noncontrolling interest	13,062	18,691	2,687	1,645	36,085
Less: Net income attributable to noncontrolling interest				987	987

Net income	$ 13,062	$ 18,691	$ 2,687	$ 658	$ 35,098
Company s equity in earnings of unconsolidated entities (3)	$ 10,664	$ 11,272	$ 1,402	$ 132	$ 23,470

	For the year ended October 31, 2009				
	Develop-ment Joint Ventures	Home Building Joint Ventures	Toll Brothers Realty Trust I and II	Structured Asset Joint Venture	Total
Revenues	$ 144	$ 48,719	$ 34,955	$	$ 83,818
Cost of revenues	141	76,525	13,943		90,609
Other expenses	1,025	8,482	17,994		27,501
Income (loss) from operations	(1,022)	(36,288)	3,018		(34,292)
Other income (loss)	15,483	(1,879)			13,604
Net (loss) income	$ 14,461	$ (38,167)	$ 3,018	$	$ (20,688)
Company s equity in (losses) earnings of unconsolidated entities (3)	$ (5,120)	$ (3,676)	$ 1,278	$	$ (7,518)

(3) Differences between the Company s equity in earnings (losses) of unconsolidated entities and the underlying net income 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.

F-21

Table of Contents

4. Investments in Non-Performing Loan Portfolios and Foreclosed Real Estate

In March 2011, the Company, through Gibraltar, acquired a 60% participation in a portfolio of non-performing loans. The portfolio of 83 loans, with an unpaid principal balance of approximately $200.3 million consisted primarily of residential acquisition, development and construction loans secured by properties at various stages of completion. The Company oversees the day-to-day management of the portfolio in accordance with the business plans which are jointly approved by the Company and the co-participant. The Company receives a management fee for such services. The Company recognizes income from the loan portfolio based upon its participation interest until such time as the portfolio meets certain internal rates of return as stipulated in the participation agreement. Upon reaching the stipulated internal rates of return, the Company will be entitled to receive additional income above its participation percentage from the portfolio. Since the acquisition of the loan portfolio, the Company sold its interest in one loan to a third party resulting in a gain of approximately $0.6 million. In fiscal 2011, the Company acquired an interest in four properties through foreclosure or obtaining deeds in lieu of foreclosure related to this loan portfolio. At October 31, 2011, the Company s pro-rata share of the carrying value of these properties was $5.9 million.

In September 2011, Gibraltar acquired three portfolios of non-performing loans consisting of 38 loans with an unpaid principal balance of approximately $71.4 million. The portfolios include residential acquisition, development, and construction loans secured by properties at various stages of completion.

The Company s earnings from the portfolios and management fees earned are included in interest and other income in its consolidated statements of operations. In fiscal 2011, the Company recognized $1.5 million of earnings from its investments in the loan portfolios.

The following summarizes the accretable yield and the nonaccretable difference on our investments in non-performing loans portfolios as of their acquisition dates (amounts in thousands):

Contractually required payments, including interest	$	200,047
Nonaccretable difference		(81,723)
Cash flows expected to be collected		118,324
Accretable difference		(51,462)
Non-performing loans carrying amount	$	66,862

The Company s investment in non-performing loan portfolios consisted of the following at October 31, 2011 (amounts in thousands):

Unpaid principal balance	$	171,559
Discount on acquired loans		(108,325)
Carrying value	$	63,234

The activity in the accretable yield for the Company s investment in the non-performing loan portfolios for the year ended October 31, 2011 was as follows (amounts in thousands):

Balance at November 1, 2010	$	
Additions		51,462
Accretion		(4,480)
Reductions from foreclosures and other dispositions		(4,599)
Other		(57)
Balance at October 31, 2011	$	42,326

The additions to accretable 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 year ended October 31, 2011 is not necessarily indicative of expected future results.

Table of Contents

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

Credit Facility

On October 22, 2010, the Company entered into an $885 million revolving credit facility (New Credit Facility) with 12 banks, which extends to October 2014. The New Credit Facility replaced a $1.89 billion credit facility consisting of a $1.56 billion unsecured revolving credit facility and a $331.7 million term loan facility (collectively, the Old Credit Facility) with 30 banks, which extended to March 17, 2011. Prior to the closing of the New Credit Facility, the Company repaid the term loan under the Old Credit Facility from cash on hand.

At October 31, 2011, the Company had no outstanding borrowings under the New Credit Facility but had outstanding letters of credit of approximately $100.3 million. At October 31, 2011, interest would have been payable on borrowings under the New Credit Facility at 2.75% (subject to adjustment based upon the Company s debt rating and leverage ratios) above the Eurodollar rate or at other specified variable rates as selected by the Company from time to time. Under the terms of the New Credit Facility, the Company is not permitted to allow its maximum leverage ratio (as defined in the credit agreement) to exceed 1.75 to 1.00 and is required to maintain a minimum tangible net worth (as defined in the New Credit Facility agreement) of approximately $1.87 billion at October 31, 2011. At October 31, 2011, the Company s leverage ratio was approximately 0.18 to 1.00 and its tangible net worth was approximately $2.55 billion. Based upon the minimum tangible net worth requirement, the Company s ability to pay dividends and repurchase its common stock was limited to an aggregate amount of approximately $680 million at October 31, 2011. The Company is obligated to pay an undrawn commitment fee of 0.50% (subject to adjustment based upon the Company s debt rating and leverage ratios) based on the average daily unused amount of the facility.

Loans Payable

The Company s loans payable represent purchase money mortgages on properties the Company has acquired that the seller has financed and various revenue bonds that were issued by government entities on behalf of the Company to finance community infrastructure and the Company s manufacturing facilities. Information regarding the Company s loans payable at October 31, 2011 and 2010 is included in the table below ($ amounts in thousands).

	2011	2010
Aggregate loans payable at October 31	$ 106,556	$ 94,491
Weighted-average interest rate	3.99%	3.75%
Interest rate range	0.16%-7.87%	0.50% - 8.00%
Loans secured by assets		
Carrying value of loans secured by assets	$ 105,092	$ 93,029
Carrying value of assets securing loans	$ 283,169	$ 257,563

Senior Notes

At October 31, 2011 and 2010, the Company s senior notes consisted of the following (amounts in thousands):

	2011	2010
6.875% Senior Notes due November 15, 2012	$ 139,776	$ 194,865
5.95% Senior Notes due September 15, 2013	141,635	141,635
4.95% Senior Notes due March 15, 2014	267,960	267,960
5.15% Senior Notes due May 15, 2015	300,000	300,000
8.91% Senior Notes due October 15, 2017	400,000	400,000
6.75% Senior Notes due November 1, 2019	250,000	250,000
Bond discount	(8,399)	(10,350)
	$ 1,490,972	$ 1,544,110

The senior notes are the unsecured obligations of Toll Brothers Finance Corp., a 100%-owned subsidiary of the Company. The payment of principal and interest is fully and unconditionally guaranteed, jointly and severally, by the

Company and a majority of its home building subsidiaries (together with Toll Brothers Finance Corp., the Senior Note Parties). The senior notes rank equally in right of payment with all the Senior Note Parties existing and future unsecured senior indebtedness, including the New Credit Facility. The senior notes are structurally subordinated to the prior claims of creditors, including trade creditors, of the subsidiaries of the Company that are not guarantors of the senior notes. The senior notes are redeemable in whole or in part at any time at the option of the Company, at prices that vary based upon the then-current rates of interest and the remaining original term of the notes.

The Company has repurchased, and may from time to time in the future repurchase, its senior notes in the open market or otherwise. The table below provides for the periods indicated, the amount of senior notes the Company has redeemed and the amount of expenses related to the retirement of the notes (amounts in thousands).

	2011	2010	2009
Fiscal year:			
6.875% Senior notes due 2012	$ 55,089		$ 105,135
5.95% Senior notes due 2013		$ 13,500	94,985
4.95% Senior notes due 2014		32,040	
	$ 55,089	$ 45,540	$ 200,120
Expenses related to retirement of debt	$ 3,827	$ 744	$ 11,626

Expenses related to the retirement of notes includes, if any, premium paid, write-off of unamortized debt issuance costs and other debt redemption costs.

Senior Subordinated Notes

The senior subordinated notes were the unsecured obligations of Toll Corp., a 100%-owned subsidiary of the Company; were guaranteed on a senior subordinated basis by the Company; were subordinated to all existing and future senior indebtedness of the Company; and were structurally subordinated to the prior claims of creditors, including trade creditors, of the Company s subsidiaries other than Toll Corp. The indentures governing these notes restricted certain payments by the Company, including cash dividends and repurchases of Company stock.

The table below provides for the periods indicated, the amount of senior subordinated notes the Company has redeemed and the amount of expenses related to the retirement of the notes (amounts in thousands).

	2010	2009
Fiscal year:		
8.25% Senior Subordinated Notes due December 2011	$ 47,872	$ 102,128
8 1/4% Senior Subordinated Notes due February 2011		193,000
Total	$ 47,872	$ 295,128
Expenses related to retirement of debt	$ 34	$ 2,067

Mortgage Company Loan Facilities

TBI Mortgage Company (TBI Mortgage), the Company s wholly-owned mortgage subsidiary, has a 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. The Repurchase Agreement, as amended, provides for loan purchases 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 25, 2012 and bears interest at LIBOR plus 1.25%, with a minimum rate of 3.50%. Borrowings under this facility are included in the fiscal 2012 maturities.

At October 31, 2011 and 2010, there were $57.4 million and $72.4 million, respectively, outstanding under the Repurchase Agreement, which are included in liabilities in the accompanying Consolidated Balance Sheets. At October 31, 2011 and 2010, amounts outstanding under the Repurchase Agreement are collateralized by $63.2 million and $93.6 million, respectively, of mortgage loans held for sale, which are included in assets in the Company s balance sheets. As of October 31, 2011, there were no aggregate outstanding purchase price limitations reducing the amount available to TBI Mortgage. There are several restrictions on purchased loans under the Repurchase Agreement, including that they cannot be sold to others, they cannot be pledged to anyone other than the agent, and they cannot support any other borrowing or repurchase agreement.

Table of Contents

General

As of October 31, 2011, the annual aggregate maturities of the Company s loans and notes during each of the next five fiscal years are as follows (amounts in thousands):

	Amount
2012	$ 92,827
2013	294,742
2014	271,969
2015	301,872
2016	1,955

6. Accrued Expenses

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

	2011	2010
Land, land development and construction	$ 109,574	$ 110,301
Compensation and employee benefit	96,037	95,107
Insurance and litigation	130,714	143,421
Commitments to unconsolidated entities	60,130	88,121
Warranty	42,474	45,835
Interest	25,968	26,998
Other	56,154	60,538
	$ 521,051	$ 570,321

The Company accrues expected warranty costs at the time each home is closed and title and possession have been transferred to the home buyer. Changes in the warranty accrual during fiscal 2011, 2010 and 2009 were as follows (amounts in thousands):

	2011	2010	2009
Balance, beginning of year	$ 45,835	$ 53,937	$ 57,292
Additions homes closed during the year	8,809	9,147	10,499
Additions (reductions) to accruals for homes closed in prior years	(828)	(4,684)	1,697
Charges incurred	(11,342)	(12,565)	(15,551)
Balance, end of year	$ 42,474	$ 45,835	$ 53,937

7. Income Taxes

A reconciliation of the Company s effective tax rate from the federal statutory tax rate for the fiscal years ended October 31, 2011, 2010 and 2009 is set forth below ($ amounts in thousands).

	2011		2010		2009	
	$	%*	$	%*	$	%*
Federal tax benefit at statutory rate	(10,278)	35.0	(41,015)	35.0	(173,763)	35.0
State taxes, net of federal benefit	(954)	3.2	(3,809)	3.3	(14,522)	2.9
Reversal of accrual for uncertain tax positions	(52,306)	178.1	(39,485)	33.7	(77,337)	15.6
	3,055	(10.4)	9,263	(7.9)	6,828	(1.4)

Accrued interest on anticipated tax assessments						
Increase in unrecognized tax benefits			35,575	(30.3)	39,500	(8.0)
Increase in deferred tax assets, net	(25,948)	88.4				
Valuation allowance recognized	43,876	(149.4)	55,492	(47.4)	458,280	(92.3)
Valuation allowance reversed	(25,689)	87.5	(128,640)	109.7		
Reversal of tax credits					10,000	(2.0)
Other	(917)	3.1	(1,194)	1.0	10,374	(2.1)
Tax (benefit)provision	(69,161)	235.5	(113,813)	97.1	259,360	(52.3)

* Due to rounding, amounts may not add.

Table of Contents

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. Due primarily to a change in the Company s estimate of the allocation of income or loss, as the case may be, among the various taxing jurisdictions and changes in tax regulations and their impact on the Company s tax strategies, the Company s estimated rate for state income taxes was 5.0% for each of fiscal 2011, and 2010 and 4.5% for fiscal 2009.

The (benefit) provision for income taxes for each of the fiscal years ended October 31, 2011, 2010 and 2009 is set forth below (amounts in thousands).

	2011	2010	2009
Federal	$ (21,517)	$ (67,318)	$ 333,311
State	(47,644)	(46,495)	(73,951)
	$ (69,161)	$ (113,813)	$ 259,360
Current	$ (43,212)	$ (156,985)	$ (229,003)
Deferred	(25,949)	43,172	488,363
	$ (69,161)	$ (113,813)	$ 259,360

A reconciliation of the change in the unrecognized tax benefits for the years ended October 31, 2011, 2010 and 2009 is set forth below (amounts in thousands).

	2011	2010	2009
Balance, beginning of year	$ 160,446	$ 171,366	$ 320,679
Increase in benefit as a result of tax positions taken in prior years	8,168	14,251	11,000
Increase in benefit as a result of tax positions taken in current year		15,675	47,500
Decrease in benefit as a result of settlements	(17,954)		(138,333)
Decrease in benefit as a result of completion of audits	(33,370)		
Decrease in benefit as a result of lapse of statute of limitation	(12,621)	(40,846)	(69,480)
Balance, end of year	$ 104,669	$ 160,446	$ 171,366

The Company has reached final settlement of its federal tax returns for fiscal years through 2009. The federal settlements resulted in a reduction in the Company s unrecognized tax benefits. The state impact of any amended federal return remains subject to examination by various states for a period of up to one year after formal notification of such amendments is made to the states.

The Company s unrecognized tax benefits are included in Income taxes payable on the Company s consolidated balance sheets. If these unrecognized tax benefits reverse in the future, they would have a beneficial impact on the Company s effective tax rate at that time. During the next twelve months, it is reasonably possible that the amount of unrecognized tax benefits will change but we are not able to provide a range of such change. The anticipated changes will be principally due to the expiration of tax statutes, settlements with taxing jurisdictions, increases due to new tax positions taken and the accrual of estimated interest and penalties.

Table of Contents

The Company recognizes in its tax provision, potential interest and penalties. Information as to the amounts recognized in its tax provision, before reduction for applicable taxes and reversal of previously accrued interest and penalties, of potential interest and penalties in the twelve-month periods ended October 31, 2011, 2010 and 2009, and the amounts accrued for potential interest and penalties at October 31, 2011 and 2010 is set forth in the table below (amounts in thousands).

Recognized in statements of operations:		
Fiscal year		
2011	$	4,700
2010	$	14,300
2009	$	11,000
Accrued at:		
October 31, 2011	$	29,200
October 31, 2010	$	39,209

The amounts accrued for interest and penalties are included in Income taxes payable on the Company s consolidated balance sheets.

Since the beginning of fiscal 2007, the Company has recorded significant deferred tax assets. These deferred tax assets were generated primarily by inventory impairments and impairments of investments in and advances to unconsolidated entities. In accordance with ASC 740, the Company assessed whether a valuation allowance should be established based on its determination of whether it is more likely than not that some portion or all of the deferred tax assets will not be realized. The Company believes that the continued downturn in the housing market, the uncertainty as to its length and magnitude, the cumulative operating losses in recent years, and the Company s continued recognition of impairment charges, are significant evidence of the continued need for a valuation allowance against its net deferred tax assets. The Company has recorded valuation allowances against its entire net deferred tax asset as of October 31, 2011 and 2010.

The components of net deferred tax assets and liabilities at October 31, 2011 and 2010 are set forth below (amounts in thousands).

	2011	2010
Deferred tax assets:		
Accrued expenses	$ 5,573	$ 4,917
Impairment charges	427,807	415,801
Inventory valuation differences	10,036	13,093
Stock-based compensation expense	44,319	48,657
Amounts related to unrecognized tax benefits	47,387	55,090
State tax, net operating loss carryforward	18,406	11,159
Federal tax net operating loss carryforward	11,232	
Other	5,382	3,497
Total assets	570,142	552,214
Deferred tax liabilities:		
Capitalized interest	94,129	91,731
Deferred income	(10,553)	(10,097)
Depreciation	32,416	29,334
Deferred marketing	(9,295)	(3,635)
Other	36,074	35,698

Total liabilities	142,771	143,031
Net deferred tax assets before valuation allowances	427,371	409,183
Cumulative valuation allowance state	(74,030)	(45,030)
Cumulative valuation allowance federal	(353,341)	(364,153)
Net deferred tax assets	$	$

On November 6, 2009, the Worker, Homeownership, and Business Assistance Act of 2009 (the Act) was enacted into law. The Act amended Section 172 of the Internal Revenue Code to allow net operating losses realized in a tax year ending after December 31, 2007 and beginning before January 1, 2010 to be carried back for up to five years (such losses were previously limited to a two-year carryback). This change allowed the Company to carry back its fiscal 2010 taxable loss against taxable income reported in fiscal 2006 and receive a federal tax refund in its second quarter of fiscal 2011 of $154.3 million. The tax losses generated in fiscal 2010 were primarily from the recognition for tax purposes of previously recognized book impairments and the recognition of stock option expenses recognized for book purposes in prior years**.**

For federal income tax purposes, the Company carried back tax losses incurred in fiscal 2009 against taxable income it reported in fiscal 2007 and received a tax refund in fiscal 2010 of $152.7 million. The tax losses generated in fiscal 2009 were primarily from the recognition for tax purposes of previously recognized book impairments and the recognition of stock option expenses not recognized for book purposes.

The Company is allowed to carry forward tax losses for 20 years and apply such tax losses to future taxable income to realize federal deferred tax assets. As of October 31, 2011, the Company estimates that it will have approximately $45.0 million of tax loss carryforwards, resulting from losses that it expects to recognize on its fiscal 2011 tax return. In addition, the Company expects to be able to reverse its previously recognized valuation allowances against future tax provisons during any future period in which it reports book income before income taxes. The Company will continue to review its deferred tax assets in accordance with ASC 740.

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 $74.0 million as of October 31, 2011 and $45.0 million as of October 31, 2010. In 2011, the Company took steps to merge a number of entities to better align financial and tax reporting and to reduce administrative complexity going forward. Some of these mergers occurred in higher state tax jurisdictions creating additional state tax deferred assets of $28.9 million, offset entirely by an increase in the state tax valuation allowance. Future valuation allowances in these jurisdictions may continue to be recognized if the Company believes it will not generate sufficient future taxable income to utilize any future state deferred tax assets.

8. Stockholders Equity

The Company s authorized capital stock consists of 400 million shares of common stock, $.01 par value per share and 15 million shares of preferred stock, $.01 par value per share. At October 31, 2011, the Company had 165.7 million shares of common stock issued and outstanding (excluding 2.9 million shares of treasury stock), 13.7 million shares of common stock reserved for outstanding stock options and restricted stock units, 6.7 million shares of common stock reserved for future stock option and award issuances and 0.6 million shares of common stock reserved for issuance under the Company s employee stock purchase plan. As of October 31, 2011, the Company had not issued any shares of preferred stock.

Issuance of Common Stock

In each of fiscal 2011, 2010 and 2009, the Company issued 1,250 shares of restricted common stock pursuant to its stock incentive plans to certain outside directors. The Company is amortizing the fair market value of the awards on the date of grant over the period of time that each award vests. At October 31, 2011, 1,875 shares of the restricted stock awards were unvested.

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 from time to time, in open market transactions or otherwise, for the purpose of providing shares for its various benefit plans.

Information about the Company s share repurchase program for the fiscal years ended October 31, 2011, 2010 and 2009 is in the table below.

	2011	2010	2009
Number of shares purchased (in thousands)	3,068	31	79

Average price per share	$	16.00	$	19.24	$	18.70
Remaining authorization at October 31(in thousands):		8,786		11,855		11,885

Stockholder Rights Plan and Transfer Restriction

In June 2007, the Company adopted a shareholder rights plan (2007 Rights Plan). The rights issued pursuant to the 2007 Rights Plan will become exercisable upon the earlier of (i) ten days following a public announcement that a person or group of affiliated or associated persons has acquired, or obtained the right to acquire, beneficial ownership of 15% or more of the outstanding shares of the Company s common stock or (ii) ten business days following the commencement of a tender offer or exchange offer that would result in a person or group beneficially owning 15% or more of the outstanding shares of common stock. No rights were exercisable at October 31, 2011.

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

9. Stock-Based Benefit Plans

The Company has two active stock incentive plans, one for employees (including officers) and one for non-employee directors. The Company s active stock incentive plans provide for the granting of incentive stock options (solely to employees) and non-qualified stock options with a term of up to ten years at a price not less than the market price of the stock at the date of grant. The Company s active stock incentive plans also provide for the issuance of stock appreciation rights and restricted and unrestricted stock awards and stock units, which may be performance based.

The Company has two additional stock incentive plans for employees, officers and directors that are inactive except for outstanding stock option grants at October 31, 2011. No additional options may be granted under these plans. Stock options granted under these plans were made with a term of up to ten years at a price not less than the market price of the stock at the date of grant and generally vested over a four-year period for employees and a two-year period for non-employee directors.

Stock Options

Stock options granted to employees generally vest over a four-year period, although certain grants may vest over a longer or shorter period, and stock options granted to non-employee directors generally vest over a two-year period. Shares issued upon the exercise of a stock option are either from shares held in treasury or newly issued shares.

The Company used a lattice model for the valuation for all option grants in fiscal 2011, 2010 and 2009. Expected volatilities are based on implied volatilities from traded options on the Company s stock and the historical volatility of the Company s stock. The expected life of options granted is derived from the historical exercise patterns and anticipated future patterns and represents the period of time that options granted are expected to be outstanding; the range given above results from certain groups of employees exhibiting different behavior. 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 fair value used for stock option grants in each of the fiscal years ended October 31, 2011, 2010 and 2009 are set forth below.

	2011	2010	2009
Expected volatility	45.38% - 49.46%	46.74% - 51.41%	46.74% - 50.36%
Weighted-average volatility	47.73%	49.51%	48.06%
Risk-free interest rate	1.64% - 3.09%	2.15% - 3.47%	1.24% - 1.90%
Expected life (years)	4.29 - 8.75	4.44 - 8.69	4.29 - 8.52
Dividends	none	none	none
Weighted-average fair value per share of options granted	$7.94	$7.63	$8.60

Table of Contents

The fair value of stock option grants is recognized evenly over the vesting period of the options or over the period between the grant date and the time the option becomes non-forfeitable by the employee, whichever is shorter. Stock option expense is included in the Company s selling, general and administrative expenses in the accompanying Consolidated Statements of Operations. Information regarding the stock-based compensation for fiscal 2011, 2010 and 2009 is set forth below (amounts in thousands).

	2011	2010	2009
Stock-based compensation expense recognized	$ 8,626	$ 9,332	$ 10,925
Income tax benefit recognized	(a)	$ 3,266	$ 4,370

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

In fiscal 2010 and 2009, as part of severance plans for certain employees, the Company extended the period in which an option could be exercised on 175,813 options and 46,052 options, respectively. The Company expensed $552,000 and $322,000 of stock option expense related to these extensions in fiscal 2010 and 2009, respectively. These amounts are included in the stock-based compensation in the table above.

At October 31, 2011, total compensation cost related to non-vested awards not yet recognized was approximately $7.4 million and the weighted-average period over which the Company expects to recognize such compensation costs and tax benefit is 2.5 years.

The following table summarizes stock option activity for the Company s plans during each of the fiscal years ended October 31, 2011, 2010 and 2009 (amounts in thousands, except per share amounts):

	2011		2010		2009	
	Number of options	Weighted-average exercise price	Number of options	Weighted-average exercise price	Number of options	Weighted-average exercise price
Balance, beginning	14,339	$ 19.36	16,123	$ 17.73	19,854	$ 14.73
Granted	1,103	19.32	1,015	18.39	1,092	21.68
Exercised	(2,467)	11.07	(2,498)	8.72	(4,436)	5.03
Cancelled	(107)	20.12	(301)	17.03	(387)	20.49
Balance, ending	12,868	$ 20.94	14,339	$ 19.36	16,123	$ 17.73
Options exercisable, at October 31,	10,365	$ 21.24	11,670	$ 19.00	13,171	$ 16.53
Options available for grant at October 31,	6,712		8,038		9,168	

The following table summarizes information about stock options outstanding and exercisable at October 31, 2011:

	Options outstanding			Options exercisable		
Range of	Number	Weighted-average remaining contractual	Weighted-average	Number	Weighted-average remaining contractual	Weighted-average

exercise prices	outstanding (in 000s)	life (in years)	exercise price	exercisable (in 000s)	life (in years)	exercise price
$10.35 - $10.88	2,484	0.8	$ 10.66	2,484	0.8	$ 10.66
$18.38 - $20.21	5,249	5.1	$ 19.36	3,489	3.3	$ 19.57
$20.76 - $22.18	2,376	6.5	$ 21.13	1,648	2.3	$ 21.06
$31.82 - $35.97	2,759	4.0	$ 33.04	2,744	4.0	$ 33.05
	12,868	4.3	$ 20.94	10,365	3.4	$ 21.24

The intrinsic value of options outstanding and exercisable is the difference between the fair market value of the Company s common stock on the applicable date (Measurement Value) and the exercise price of those options that had an exercise price that was less than the Measurement Value. The intrinsic value of options exercised is the difference between the fair market value of the Company s common stock on the date of exercise and the exercise price. Information pertaining to the intrinsic value of options outstanding and exercisable at October 31, 2011, 2010 and 2009 is provided below (amounts in thousands):

	2011	2010	2009
Intrinsic value of options outstanding	$ 16,839	$ 35,214	$ 54,646
Intrinsic value of options exercisable	$ 16,839	$ 35,214	$ 54,646

Information pertaining to the intrinsic value of options exercised and the fair value of options which became vested or modified in each of the fiscal years ended October 31, 2011, 2010 and 2009 is provided below (amounts in thousands):

	2011	2010	2009
Intrinsic value of options exercised	$ 23,573	$ 25,327	$ 74,659
Fair value of options vested	$ 11,027	$ 12,336	$ 15,528

The Company s stock incentive plans permit optionees to exercise stock options using a net exercise method at the discretion of the Executive Compensation Committee of the Board of Directors (Executive Compensation Committee). In a net exercise, the Company withholds from the total number of shares that otherwise would be issued to an optionee upon exercise of the stock option that number of shares having a fair market value at the time of exercise equal to the option exercise price and applicable income tax withholdings and remits the remaining shares to the optionee. Information regarding the use of the net exercise method for fiscal 2011, 2010 and 2009 is set forth below.

	2011	2010	2009
Options exercised	194,000	1,201,372	93,000
Shares withheld	98,918	798,420	21,070
Shares issued	95,082	402,952	71,930
Average market value per share withheld	$ 18.94	$ 17.96	$ 21.29
Aggregate market value of shares withheld (in thousands)	$ 1,873	$ 14,341	$ 400

In addition, pursuant to the provisions of the Company s stock incentive plans, optionees are permitted to use the value of the Company s common stock that they own to pay for the exercise of options (stock swap method). Information regarding the use of the stock swap method for fiscal 2011, 2010 and 2009 is set forth below.

	2011	2010	2009
Options exercised	28,900	29,512	38,379
Shares tendered	14,807	14,459	9,237
Shares issued	14,093	15,053	29,142
Average market value per share withheld	$ 20.53	$ 19.71	$ 21.40
Aggregate market value of shares tendered (in thousands)	$ 304	$ 285	$ 198

Performance Based Restricted Stock Units:

In December 2010, 2009 and 2008, the Executive Compensation Committee of the Company s Board of Directors approved awards of performance-based restricted stock units (Performance-Based RSUs) relating to shares of the Company s common stock. The Performance-Based RSUs will vest and the recipients will be entitled to receive the underlying shares if the average closing price of the Company s common stock on the New York Stock Exchange (NYSE), measured over any 20 consecutive trading days ending on or prior to five years from date of issuance of the Performance-Based RSUs increases 30% or more over the closing price of the Company s common stock on the NYSE on the date of issuance (Target Price); provided the recipients continue to be employed by the Company or serve on the board of directors of the Company (as applicable) as stipulated in the award document. The Company determined the aggregate value of the Performance-Based RSUs using a lattice-based option pricing model.

Table of Contents

The Company used a lattice based option pricing model to determine the fair value of the 2009 and 2008 Performance-Based RSUs. Expenses related to the performance-based RSUs are included in the Company s selling, general and administrative expenses. Information regarding the issuance, valuation assumptions, amortization and unamortized balances of the Company s Performance-Based RSUs in and at the relevant periods and dates in fiscal 2011, 2010 and 2009 is as follows:

	2011	2010	2009
Performance-Based RSUs issued:			
Number issued	306,000	200,000	200,000
Closing price of the Company s common stock on date of issuance	$ 19.32	$ 18.38	$ 21.70
Target price	$ 25.12	$ 23.89	$ 28.21
Volatility	48.22%	49.92%	48.14%
Risk-free interest rate	1.99%	2.43%	1.35%
Expected life	3.0 years	3.0 years	3.0 years
Aggregate fair value of Performance-Based RSUs issued (in thousands)	$ 4,994	$ 3,160	$ 3,642
Performance-Based RSU expense recognized (in thousands):			
Twelve months ended October 31,	$ 3,701	$ 2,121	$ 1,045

	2011	2010	2009
At October 31:			
Aggregate outstanding Performance-Based RSUs	706,000	400,000	200,000
Cumulative unamortized value of Performance- Based RSUs (in thousands)	$ 4,929	$ 3,636	$ 2,597

Non-Performance Based Restricted Stock Units:

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

	2011	2010
Non-Performance-Based RSUs issued:		
Number issued	15,497	19,663
Closing price of the Company s common stock on date of issuance	$ 19.32	$ 18.38
Aggregate fair value of RSUs issued (in thousands)	$ 299	$ 361
Non-Performance-Based RSU expense recognized (in thousands)**:**		
Twelve months ended October 31,	$ 144	$ 138
At October 31:		
Aggregate Non-Performance-Based RSUs outstanding	30,994	19,663
Cumulative unamortized value of Non-Performance-Based RSUs (in thousands)	$ 379	$ 224

Restricted Stock Units in Lieu of Compensation

In December 2008, the Company issued restricted stock units (RSUs) relating to 62,051 shares of the Company s common stock to a number of employees in lieu of a portion of the employees bonuses and in lieu of a portion of one employee s 2009 salary. These RSUs, although not subject to forfeiture, will vest in annual installments over a four-year period, unless accelerated due to death, disability or termination of employment, as more fully described in the RSU award document. Because the RSUs are non-forfeitable, 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

Table of Contents

the RSUs, multiplied by $21.70, the closing price of the Company s common stock on the NYSE on December 19, 2008, the date the RSUs were awarded. The amount applicable to employee bonuses was charged to the Company s accrual for bonuses that it made in fiscal 2008 and the amount applicable to salary deferral ($130,000) was charged to selling, general and administrative expense in the three-month period ended January 31, 2009. The Company s stock incentive plan permits the Company to withhold from the total number of shares that otherwise would be issued to a RSU recipient upon distribution that number of shares having a fair value at the time of distribution equal to the applicable income tax withholdings due and remit the remaining shares to the RSU participant. Information relating to the distribution of shares and the withholding of taxes on the RSUs for fiscal 2011, 2010 and 2009 is set forth below.

	2011	2010	2009
Shares withheld	741	924	836
Shares issued	8,975	2,749	1,509
Value of shares withheld (in thousands)	$ 15	$ 17	$ 15

Employee Stock Purchase Plan

The Company s employee stock purchase plan enables substantially all employees to purchase the Company s common stock at 95% of the market price of the stock on specified offering dates without restriction, or at 85% of the market price of the stock on specified offering dates subject to restrictions. The plan, which terminates in December 2017, provides that 1.2 million shares be reserved for purchase. At October 31, 2011, 612,000 shares were available for issuance.

Information regarding the Company s employee stock purchase plan for fiscal 2011, 2010 and 2009 is set forth below.

	2011	2010	2009
Shares issued	23,079	23,587	25,865
Average price per share	$ 15.59	$ 16.20	$ 16.49
Compensation expense recognized (in thousands)	$ 54	$ 57	$ 64

10. Income (Loss) Per Share Information

Information pertaining to the calculation of income (loss) per share for each of the fiscal years ended October 31, 2011, 2010 and 2009 is as follows (amounts in thousands):

	2011	2010	2009
Basic weighted-average shares	167,140	165,666	161,549
Common stock equivalents	1,241		
Diluted weighted-average shares	168,381	165,666	161,549
Common stock equivalents excluded from diluted weighted-average shares due to anti-dilutive effect (a)		1,968	3,936
Weighted average number of anti-dilutive options (b)	7,936	8,401	7,604
Shares issued under stock incentive and employee stock purchase plans	2,390	1,712	4,442

(a) Common stock equivalents represent the dilutive effect of outstanding in-the-money stock options using the treasury stock method. For fiscal 2010 and 2009, there were no incremental shares attributed to outstanding options to purchase common stock because the Company had a net loss in fiscal 2010 and fiscal 2009 and any incremental shares would be anti-dilutive.

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

Table of Contents

11. Fair Value Disclosures

A summary of assets and (liabilities) at October 31, 2011 and October 31, 2010 related to the Company s financial instruments, measured at fair value on a recurring basis, is set forth below (amounts in thousands).

Financial Instrument	Fair value hierarchy	Fair value October 31, 2011	Fair value October 31, 2010
Corporate Securities	Level 1	$ 233,572	
U.S. Treasury Securities	Level 1		$ 175,370
U.S. Agency Securities	Level 1		$ 22,497
Residential Mortgage Loans Held for Sale	Level 2	$ 63,175	$ 93,644
Forward Loan Commitments Residential Mortgage Loans Held for Sale	Level 2	$ 218	$ (459)
Interest Rate Lock Commitments (IRLCs)	Level 2	$ (147)	$ 130
Forward Loan Commitments IRLCs	Level 2	$ 147	$ (130)

At October 31, 2011 and 2010, the carrying value of cash and cash equivalents and restricted cash approximated fair value.

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

	Aggregate unpaid principal balance	Fair value	Excess
At October 31, 2011	$ 62,765	$ 63,175	$ 410
At October 31, 2010	$ 92,082	$ 93,644	$ 1,562

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 nonperformance of investors regarding the Forward Commitments, the Company assesses the credit worthiness of the investors on a periodic basis.

As of October 31, 2011 and 2010, the amortized cost, gross unrealized holding gains, gross unrealized holding losses, and fair value of marketable securities were as follows (in thousands):

	October 31, 2011	October 31, 2010
Amortized cost	$ 233,852	$ 197,699
Gross unrealized holding gains	28	180
Gross unrealized holding losses	(308)	(12)
Fair value	$ 233,572	$ 197,867

The remaining contractual maturities of marketable securities as of October 31, 2011 ranged from less than one month to 12 months.

Table of Contents

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. See Note 1, Significant Accounting Policies, Inventory for additional information regarding the Company s methodology on determining fair value. The table below provides, for the periods indicated, the fair value of inventory whose carrying value was adjusted and the amount of impairment charges recognized (amounts in thousands).

Three months ended:	Fair value of communities, net of impairment charges	Impairment charges
Fiscal 2011:		
January 31	$ 56,105	$ 5,475
April 30	$ 40,765	10,725
July 31	$ 4,769	16,175
October 31	$ 5,718	1,710
		$ 34,085
Fiscal 2010:		
January 31	$ 82,509	$ 31,750
April 30	$ 64,964	41,770
July 31	$ 40,071	12,450
October 31	$ 67,850	23,219
		$ 109,189

Gibraltar s portfolio of non-performing loans was recorded at fair value at inception based on the acquisition price as determined by Level 3 inputs. The carrying amount and estimated fair value of the non-performing loan portfolios, as of October 31, 2011, is $63.2 million and $65.8 million, respectively. The estimated fair value was determined using Level 3 inputs and was based on discounted future cash flows generated by the loans discounted at the rates used to value the portfolios at the acquisition dates.

The book value and estimated fair value of the Company s debt at October 31, 2011 and October 31, 2010 was as follows (amounts in thousands):

	October 31, 2011		October 31, 2010	
	Book value	Estimated fair value	Book value	Estimated fair value
Loans payable (a)	$ 106,556	$ 98,950	$ 94,491	$ 87,751
Senior notes (b)	1,499,371	1,614,010	1,554,460	1,679,052
Mortgage company warehouse loan (c)	57,409	57,409	72,367	72,367
	$ 1,663,336	$ 1,770,369	$ 1,721,318	$ 1,839,170

(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 loan borrowings approximates their fair value.

12. Employee Retirement and Deferred Compensation Plans

The Company has two unfunded defined benefit retirement plans. Retirement benefits generally vest when the participant has completed 20 years of service with the Company and reaches normal retirement age (age 62). Unrecognized prior service costs are being amortized over the period from the date participants enter the plans until their interests are fully vested. The Company used a 4.06%, 4.99% and 5.30% discount rate in its calculation of the present value of its projected benefit obligations at October 31, 2011, 2010 and 2009, respectively, which represented the approximate long-term investment rate at October 31 of the fiscal year for which the present value was calculated. Information related to the plans is based on actuarial information calculated as of October 31, 2011, 2010 and 2009. Information related to the Company s defined benefit retirement plans for each of the fiscal years ended October 31, 2011, 2010 and 2009 is as follows (amounts in thousands):

	2011	2010	2009
Plan costs:			
Service cost	$ 305	$ 270	$ 132
Interest cost	1,290	1,396	1,366
Amortization of prior service cost	694	1,248	1,076
Acceleration of benefits		72	
Amortization of unrecognized gains			(1,272)
	$ 2,289	$ 2,986	$ 1,302
Projected benefit obligation:			
Beginning of year	$ 26,037	$ 25,161	$ 19,005
Plan amendments adopted during year		202	
Service cost	305	270	132
Interest cost	1,290	1,396	1,366
Benefit payments	(504)	(125)	(125)
Change in unrecognized gain/loss	2,638	(867)	4,783
Projected benefit obligation, end of year	$ 29,766	$ 26,037	$ 25,161
Unamortized prior service cost:			
Beginning of year	$ 4,027	$ 5,145	$ 6,221
Plan amendments adopted during year		130	
Amortization of prior service cost	(694)	(1,248)	(1,076)
Unamortized prior service cost, end of year	$ 3,333	$ 4,027	$ 5,145
Accumulated unrecognized (loss) gain, October 31	$ (1,064)	$ 1,574	$ 707
Accumulated benefit obligation, October 31	$ 29,766	$ 26,037	$ 25,161
Accrued benefit obligation, October 31	$ 29,766	$ 26,037	$ 25,161

The table below provides, based upon the estimated retirement dates of the participants in the unfunded defined benefit retirement plans, the amounts of benefits the Company would be required to pay in each of the next five fiscal years and for the five fiscal years ended October 31, 2021 in the aggregate (in thousands).

Year ending October 31,		Amount
2012	$	641
2013	$	1,551
2014	$	1,638
2015	$	1,645
2016	$	1,761
November 1, 2016 - October 31, 2021	$	11,522

The Company maintains salary deferral savings plans covering substantially all employees. The plans provide for discretionary Company contributions of up to 2% of all eligible compensation, plus 2% of eligible compensation above the Social Security wage base, plus matching contributions of up to 2% of eligible compensation of employees electing to contribute via salary deferrals. During the first quarter of fiscal 2009, due to the continued downturn in the Company s business, the Company suspended its matching contributions and discretionary contributions to one of the plans. In fiscal 2011, the Company elected to make a discretionary contribution for the plans year ended December 31, 2010, and beginning in the third quarter of fiscal 2011, to resume a matching contribution of eligible compensation of employees electing to contribute via salary deferrals. The Company recognized an expense, net of plan forfeitures, with respect to the plans of $2.7 million and $0.5 million for the fiscal years ended October 31, 2011 and 2009, respectively. The Company recognized $38,000 of expense for one plan in fiscal 2010.

The Company has an unfunded, non-qualified deferred compensation plan that permits eligible employees to defer a portion of their compensation. The deferred compensation, together with certain Company contributions, earns various rates of return depending upon when the compensation was deferred and the length of time that it has been deferred. A portion of the deferred compensation and interest earned may be forfeited by a participant if he or she elects to withdraw the compensation prior to the end of the deferral period. At October 31, 2011 and 2010, the Company had accrued $19.1 million and $18.4 million, respectively, for its obligations under the plan.

13. Accumulated Other Comprehensive Loss and Total Comprehensive Income (Loss)

Accumulated other comprehensive loss at October 31, 2011 and 2010 was $2.9 million and $0.6 million, respectively, and was primarily related to employee retirement plans.

The table below provides, for each of the fiscal years ended October 31, 2011, 2010 and 2009, the components of total comprehensive income (loss) (amounts in thousands):

	2011	2010	2009
Net income (loss) per consolidated statements of operations	$ 39,795	$ (3,374)	$ (755,825)
Changes in pension liability, net of tax benefit provision	(1,934)	1,986	(2,988)
Change in fair value of available-for-sale securities, net of tax provision	(192)	74	26
Total comprehensive income (loss)	$ 37,669	$ (1,314)	$ (758,787)
Tax benefit recognized in total comprehensive loss			$ 1,975

14. Legal Proceedings

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

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

On November 4, 2008, a shareholder derivative action was filed in the Chancery Court of Delaware by Milton Pfeiffer against Robert I. Toll, Zvi Barzilay, Joel H. Rassman, Bruce E. Toll, Paul E. Shapiro, Robert S. Blank, Carl B. Marbach, and Richard J. Braemer. The plaintiff purports to bring his claims on behalf of Toll Brothers, Inc. and alleges that the director and officer defendants breached their fiduciary duties to the Company and its stockholders with respect to their sales of shares of the Company s common stock during the period beginning on December 9, 2004 and ending on November 8, 2005. The plaintiff alleges that such stock sales were made while in possession of non-public, material information about the Company. The plaintiff seeks contribution and indemnification from the individual director and officer defendants for costs and expenses incurred by us in connection with defending a now-settled related class action. In addition, again purportedly on the Company s behalf, the plaintiff seeks disgorgement of the defendants profits from their stock sales.

On March 4, 2009, a second shareholder derivative action was brought by Oliverio Martinez in the U.S. District Court for the Eastern District of Pennsylvania. The case was brought against the eleven then-current members of the

Company s board of directors and its Chief Accounting Officer. This complaint alleges breaches of fiduciary duty, waste of corporate assets, and unjust enrichment during the period from February 2005 to November 2006. The complaint further alleges that certain of the defendants sold the Company s stock during this period while in possession of allegedly non-public, material information and plaintiff seeks disgorgement of profits from these sales. The complaint also asserts a claim for equitable indemnity for costs and expenses incurred by the Company in connection with a now-settled related class action lawsuit.

Table of Contents

On April 1, 2009, a third shareholder derivative action was filed by William Hall, also in the U.S. District Court for the Eastern District of Pennsylvania, against the eleven then-current members of the Company s board of directors and its Chief Accounting Officer. This complaint is identical to the previous shareholder complaint filed in Philadelphia and, on July 14, 2009, the two cases were consolidated. On April 30, 2010, the plaintiffs filed an amended consolidated complaint. The Company s Certificate of Incorporation and Bylaws provide for indemnification of its directors and officers. The Company has also entered into individual indemnification agreements with each of its directors.

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

15. Commitments and Contingencies

Generally, the Company s option and purchase agreements to acquire land parcels do not require the Company to purchase those land parcels, although the Company may, in some cases, forfeit any deposit balance outstanding if and when it terminates an option and purchase agreement. If market conditions are weak, approvals needed to develop the land are uncertain or other factors exist that make the purchase undesirable, the Company may not expect to acquire the land. Whether an option and purchase agreement is legally terminated or not, the Company reviews the amount recorded for the land parcel subject to the option and purchase agreement to determine if the amount is recoverable. While the Company may not have formally terminated the option and purchase agreements for those land parcels that it does not expect to acquire, it has written off any non-refundable deposits and costs previously capitalized to such land parcels in the periods that it determined such costs were not recoverable.

Information regarding the Company s purchase commitments at October 31, 2011 and 2010 is provided in the table below (amounts in thousands).

	2011	2010
Aggregate purchase commitments		
Unrelated parties	$ 551,905	$ 419,194
Unconsolidated entities that the Company has investments in	12,471	131,217
Total	$ 564,376	$ 550,411
Deposits against aggregate purchase commitments	$ 37,987	$ 47,111
Credits to be received from unconsolidated entities		37,272
Additional cash required to acquire land	526,389	466,028
Total	$ 564,376	$ 550,411
Amount of additional cash required to acquire land included in accrued expenses	$ 44	$ 77,618

The Company has additional land parcels under option that have been excluded from the aforementioned aggregate purchase amounts since it does not believe that it will complete the purchase of these land parcels and no additional funds will be required from the Company to terminate these contracts.

At October 31, 2011, the Company had investments in and advances to a number of unconsolidated entities, was committed to invest or advance additional funds and had guaranteed a portion of the indebtedness and/or loan commitments of these entities. See Note 3, Investments in and Advances to Unconsolidated Entities, for more information regarding the Company s commitments to these entities.

At October 31, 2011, the Company had outstanding surety bonds amounting to $367.2 million, primarily related to its obligations to various governmental entities to construct improvements in the Company s various communities. The Company estimates that $202.5 million of work remains on these improvements. The Company has an additional $73.6 million of surety bonds outstanding that guarantee other obligations of the Company. The Company does not believe it is probable that any outstanding bonds will be drawn upon.

Table of Contents

At October 31, 2011, the Company had outstanding letters of credit of $113.2 million, including $100.3 million under its New Credit Facility and $13.0 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.

At October 31, 2011, the Company had agreements of sale outstanding to deliver 1,667 homes with an aggregate sales value of $981.1 million.

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

Information regarding the Company s mortgage commitments at October 31, 2011 and 2010 is provided in the table below (amounts in thousands).

	2011	2010
Aggregate mortgage loan commitments		
IRLCs	$ 129,553	$ 169,525
Non-IRLCs	306,722	263,477
Total	$ 436,275	$ 433,002
Investor commitments to purchase:		
IRLCs	$ 129,553	$ 169,525
Mortgage loans receivable	60,680	91,689
Total	$ 190,233	$ 261,214

The Company leases certain facilities and equipment under non-cancelable operating leases. Rental expense incurred by the Company under these operating leases were (amounts in thousands):

Year ending October 31,	Amount
2011	$ 12,059
2010	$ 13,972
2009	$ 14,923

Table of Contents

At October 31, 2011, future minimum rent payments under the Company s operating leases were (amounts in thousands):

Year ending October 31,	Amount
2012	$ 10,444
2013	8,355
2014	7,107
2015	6,024
2016	3,838
Thereafter	8,973
	$ 44,741

16. Subsequent Event

In November 2011, the Company acquired substantially all of the assets of CamWest Development LLC (CamWest) for approximately $143.7 million in cash. The assets acquired were primarily inventory. As part of the acquisition, the Company assumed contracts to deliver approximately 29 homes with an aggregate value of $13.7 million. The average price of the homes in backlog was approximately $471,000. The assets the Company acquired included approximately 1,245 home sites owned and 254 home sites controlled through land purchase agreements. This acquisition increased the Company s selling community count by 15 communities.

17. Interest and Other Income

Interest and other income includes the activity of the Company s non-core ancillary businesses which include its mortgage, title, landscaping, security monitoring, golf course and country club operations and Gibraltar. Revenues and expenses for the years ended October 31, 2011, 2010 and 2009 were as follows (amounts in thousands):

	2011	2010	2009
Revenue	$ 66,224	$ 51,458	$ 53,619
Expense	$ 60,967	$ 46,059	$ 46,296

18. Information on Geographic Segments

The table below summarizes revenue and (loss) income before income taxes for each of the Company s geographic segments for each of the fiscal years ended October 31, 2011, 2010 and 2009 (amounts in millions):

	Revenues			(Loss) income before income taxes		
	2011	2010	2009	2011	2010	2009
North	$ 381.6	$ 407.7	$ 585.3	$ 42.5	$ (2.3)	$ (103.3)
Mid-Atlantic	499.7	488.4	492.7	57.6	33.9	(25.0)
South	285.0	264.3	288.2	(25.9)	(35.2)	(49.4)
West	309.6	334.4	389.1	(27.1)	(11.9)	(209.0)
Corporate and other				(76.5)	(101.7)	(109.8)
Total	$ 1,475.9	$ 1,494.8	$ 1,755.3	$ (29.4)	$ (117.2)	$ (496.5)

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

Total assets for each of the Company s geographic segments at October 31, 2011 and 2010 are shown in the table below (amounts in millions):

	2011	2010
North	$ 1,060.2	$ 961.3
Mid-Atlantic	1,235.9	1,161.5
South	760.1	693.8
West	650.8	712.4
Corporate and other	1,348.2	1,642.6
Total	$ 5,055.2	$ 5,171.6

Corporate and other is comprised principally of cash and cash equivalents, marketable securities, income tax refund recoverable and the assets of the Company s manufacturing facilities and mortgage subsidiary.

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) for the years ended October 31, 2011, 2010 and 2009 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 at October 31, 2011 and 2010 is also shown (amounts in millions).

	Net Carrying Value At October 31,		Impairments Year ended October 31,		
	2011	2010	2011	2010	2009
Inventory:					
Land controlled for future communities:					
North	$ 19.4	$ 3.6	$ 0.9	$ 4.0	$ 17.3
Mid-Atlantic	21.6	14.8	0.3	(0.1)	7.8
South	3.8	11.0	0.3	(0.2)	0.4
West	1.8	2.5	16.2	2.4	3.0
	46.6	31.9	17.7	6.1	28.5
Land owned for future communities:					
North	231.1	208.5		$ 15.9	51.0
Mid-Atlantic	455.8	452.9	$ 0.3	9.0	23.8
South	125.4	119.8	16.7	14.0	1.2
West	166.8	142.8		16.8	93.5
	979.1	924.0	17.0	55.7	169.5
Operating communities:					
North	738.5	685.3	$ 2.9	$ 9.6	77.1
Mid-Atlantic	659.1	662.4	3.7	2.1	28.0
South	539.6	443.3	3.8	23.4	51.2
West	453.8	494.8	6.7	18.4	111.1
	2,391.0	2,285.8	17.1	53.5	267.4
Total	$ 3,416.7	$ 3,241.7	$ 51.8	$ 115.3	$ 465.4
Investments in and advances to unconsolidated entities:					
North	$ 40.8	$ 47.6			$ 6.0
South	32.0	51.7	$ 15.2		
West	17.1	58.5	25.7		5.3
Corporate	36.5	40.6			
Total	$ 126.4	$ 198.4	$ 40.9	$	$ 11.3

F-41

19. Supplemental Disclosure to Statements of Cash Flows

The following are supplemental disclosures to the statements of cash flows for each of the fiscal years ended October 31, 2011, 2010 and 2009 (amounts in thousands):

	2011	2010	2009
Cash flow information:			
Interest paid, net of amount capitalized	$ 18,666	$ 34,333	$ 33,003
Income taxes paid		$ 3,994	$ 144,753
Income taxes refunded	$ 154,524	$ 152,770	$ 105,584
Non-cash activity:			
Cost of inventory acquired through seller financing, municipal bonds or recorded due to VIE criteria, net	$ 29,320	$ 41,276	$ 6,263
Cost of inventory acquired under specific performance contracts		$ (4,889)	$ 14,889
Miscellaneous changes in inventory	$ 1,781	$ 1,725	$ 431
Reclassification of inventory to property, construction and office equipment	$ 20,005	$ 18,711	
Increase in inventory for reclassification of minority interest contribution			$ 5,283
Reduction in inventory related to debt cancellation			$ 16,150
Increase (decrease) in unrecognized gains in defined benefit plans	$ (2,638)	$ 867	$ (4,783)
Defined benefit retirement plan amendment		$ 202	
Income tax benefit related to exercise of employee stock options		$ 27,150	$ 2,672
Reduction of investment in unconsolidated entities due to reduction of letters of credit or accrued liabilities	$ 13,423	$ 7,679	$ 20,489
Reversal of litigation costs previously accrued		$ 10,981	
Reclassification of stock-based compensation from accrued liabilities to additional paid in capital	$ 4,233		
Reclassification of accrued liabilities to loans payable			$ 7,800
Miscellaneous increases (decreases) to investments in unconsolidated entities	$ (2,212)	$ 2,495	$ 1,759
Stock awards	$ 24	$ 22	$ 27

20. Supplemental Guarantor Information

A 100% owned subsidiary of the Company, Toll Brothers Finance Corp. (the Subsidiary Issuer), issued $300 million of 6.875% Senior Notes due 2012 on November 22, 2002; $250 million of 5.95% Senior Notes due 2013 on September 3, 2003; $300 million of 4.95% Senior Notes due 2014 on March 16, 2004; $300 million of 5.15% Senior Notes due 2015 on June 2, 2005; $400 million of 8.91% Senior Notes due 2017 on April 13, 2009; and $250 million of 6.75% Senior Notes due 2019 on September 22, 2009. Through October 31, 2011, the Subsidiary Issuer has redeemed $160.2 million of its 6.875% Senior Notes due 2012, $108.4 million of its 5.95% Senior Notes due 2013 and $32.0 million of its 4.95% Senior Notes due 2014. The obligations of the Subsidiary Issuer to pay principal, premiums, if any, and interest is guaranteed jointly and severally on a senior basis by the Company and substantially all of the Company s 100% owned home building subsidiaries (the Guarantor Subsidiaries). The guarantees are full and unconditional.

Table of Contents

The Company s non-home building subsidiaries and several of its home building subsidiaries (the Non-Guarantor Subsidiaries) do not guarantee the debt. Separate financial statements and other disclosures concerning the Guarantor Subsidiaries are not presented because management has determined that such disclosures would not be material to investors. Prior to the above described senior debt issuances, the Subsidiary Issuer did not have any operations. Supplemental consolidating financial information of Toll Brothers, Inc., the Subsidiary Issuer, the Guarantor Subsidiaries, the Non-Guarantor Subsidiaries and the eliminations to arrive at Toll Brothers, Inc. on a consolidated basis is presented below ($ amounts in thousands).

Consolidating Balance Sheet at October 31, 2011

	Toll Brothers, Inc.	Subsidiary Issuer	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Consolidated
ASSETS						
Cash and cash equivalents			775,300	131,040		906,340
Marketable securities			233,572			233,572
Restricted cash			19,084	676		19,760
Inventory			2,911,211	505,512		3,416,723
Property, construction and office equipment, net			77,001	22,711		99,712
Receivables, prepaid expenses and other assets		6,768	74,980	26,067	(2,239)	105,576
Mortgage loans receivable				63,175		63,175
Customer deposits held in escrow			10,682	4,177		14,859
Investments in and advances to unconsolidated entities			86,481	39,874		126,355
Investments in non-performing loan portfolios				69,174		69,174
Investments in and advances to consolidated entities	2,694,419	1,508,550	(727,258)	(467,395)	(3,008,316)	
	2,694,419	1,515,318	3,461,053	395,011	(3,010,555)	5,055,246
LIABILITIES AND EQUITY						
Liabilities:						
Loans payable			61,994	44,562		106,556
Senior notes		1,490,972				1,490,972
Mortgage company warehouse loan				57,409		57,409
Customer deposits			71,388	12,436		83,824
Accounts payable			96,645	172		96,817
Accrued expenses		24,346	320,021	178,965	(2,281)	521,051
Income taxes payable	108,066			(2,000)		106,066

Total liabilities	108,066	1,515,318	550,048	291,544	(2,281)	2,462,695
Equity:						
Stockholders equity:						
Common stock	1,687			2,003	(2,003)	1,687
Additional paid-in capital	400,382		4,420	2,734	(7,154)	400,382
Retained earnings	2,234,251		2,909,487	92,532	(3,002,019)	2,234,251
Treasury stock, at cost	(47,065)					(47,065)
Accumulated other comprehensive loss	(2,902)		(2,902)		2,902	(2,902)
Total stockholders equity	2,586,353		2,911,005	97,269	(3,008,274)	2,586,353
Noncontrolling interest				6,198		6,198
Total equity	2,586,353		2,911,005	103,467	(3,008,274)	2,592,551
	2,694,419	1,515,318	3,461,053	395,011	(3,010,555)	5,055,246

F-43

Table of Contents

Consolidating Balance Sheet at October 31, 2010

	Toll Brothers, Inc.	Subsidiary Issuer	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Consolidated
ASSETS						
Cash and cash equivalents			930,387	108,673		1,039,060
Marketable securities			197,867			197,867
Restricted cash			60,906			60,906
Inventory			2,862,796	378,929		3,241,725
Property, construction and office equipment, net			79,516	400		79,916
Receivables, prepaid expenses and other assets	27	8,104	66,280	24,565	(1,937)	97,039
Mortgage loans receivable				93,644		93,644
Customer deposits held in escrow			13,790	7,576		21,366
Investments in and advances to unconsolidated entities			116,247	82,195		198,442
Income tax refund recoverable	141,590					141,590
Investments in and advances to consolidated entities	2,578,195	1,562,109	(871,125)	(315,074)	(2,954,105)	
	2,719,812	1,570,213	3,456,664	380,908	(2,956,042)	5,171,555
LIABILITIES AND EQUITY						
Liabilities:						
Loans payable			63,442	31,049		94,491
Senior notes		1,544,110				1,544,110
Mortgage company warehouse loan				72,367		72,367
Customer deposits			72,819	4,337		77,156
Accounts payable			91,498	240		91,738
Accrued expenses		26,103	242,793	303,413	(1,988)	570,321
Income taxes payable	164,359			(2,000)		162,359
Total liabilities	164,359	1,570,213	470,552	409,406	(1,988)	2,612,542
Equity:						
Stockholders equity:						
Common stock	1,664			2,003	(2,003)	1,664

Additional paid-in capital	360,006		4,420	2,734	(7,154)	360,006
Retained earnings	2,194,456		2,982,269	(36,795)	(2,945,474)	2,194,456
Treasury stock, at cost	(96)					(96)
Accumulated other comprehensive loss	(577)		(577)		577	(577)
Total stockholders equity	2,555,453		2,986,112	(32,058)	(2,954,054)	2,555,453
Noncontrolling interest				3,560		3,560
Total equity	2,555,453		2,986,112	(28,498)	(2,954,054)	2,559,013
	2,719,812	1,570,213	3,456,664	380,908	(2,956,042)	5,171,555

Table of Contents

Consolidating Statement of Operations for the fiscal year ended October 31, 2011

	Toll Brothers, Inc.	Subsidiary Issuer	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Consolidated
Revenues			1,418,883	56,998		1,475,881
Cost of revenues			1,203,435	64,847	(7,512)	1,260,770
Selling, general and administrative	137	1,345	270,710	42,026	(52,863)	261,355
Interest expense		103,604	1,504		(103,604)	1,504
	137	104,949	1,475,649	106,873	(163,979)	1,523,629
Loss from operations	(137)	(104,949)	(56,766)	(49,875)	163,979	(47,748)
Other:						
(Loss) income from unconsolidated entities			6,129	(7,323)		(1,194)
Interest and other income		108,776	21,408	44,699	(151,480)	23,403
Expenses related to early retirement of debt		(3,827)				(3,827)
Loss from consolidated subsidiaries	(29,229)				29,229	
Loss before income tax benefit	(29,366)		(29,229)	(12,499)	41,728	(29,366)
Income tax benefit	(69,161)		(68,837)	(29,436)	98,273	(69,161)
Net income	39,795		39,608	16,937	(56,545)	39,795

Consolidating Statement of Operations for the fiscal year ended October 31, 2010

	Toll Brothers, Inc.	Subsidiary Issuer	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Consolidated
Revenues			1,441,773	52,998		1,494,771
Cost of revenues			1,311,709	69,521	(4,672)	1,376,558
Selling, general and administrative	77	1,365	261,236	22,661	(22,115)	263,224
Interest expense		106,411	22,751		(106,411)	22,751
	77	107,776	1,595,696	92,182	(133,198)	1,662,533
Loss from operations	(77)	(107,776)	(153,923)	(39,184)	133,198	(167,762)
Other:						
			5,905	17,565		23,470

Income from unconsolidated entities						
Interest and other income		108,520	31,372	31,460	(143,039)	28,313
Expenses related to early retirement of debt		(744)	(464)			(1,208)
Loss from consolidated subsidiaries	(117,110)				117,110	
Loss before income tax benefit	(117,187)		(117,110)	9,841	107,269	(117,187)
Income tax (benefit) provision	(113,813)		(124,695)	9,596	115,099	(113,813)
Net (loss) income	(3,374)		7,585	245	(7,830)	(3,374)

Table of Contents

Consolidating Statement of Operations for the fiscal year ended October 31, 2009

	Toll Brothers, Inc.	Subsidiary Issuer	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Consolidated
Revenues			1,596,491	158,819		1,755,310
Cost of revenues			1,767,228	181,825	2,259	1,951,312
Selling, general and administrative	47	1,033	320,019	25,028	(32,918)	313,209
Interest expense		87,501	7,949		(87,501)	7,949
	47	88,534	2,095,196	206,853	(118,160)	2,272,470
Loss from operations	(47)	(88,534)	(498,705)	(48,034)	118,160	(517,160)
Other:						
Loss from unconsolidated entities			(2,218)	(5,300)		(7,518)
Interest and other income		100,160	6,572	27,776	(92,602)	41,906
Expenses related to early retirement of debt		(11,626)	(2,067)			(13,693)
Loss from consolidated subsidiaries	(496,418)				496,418	
Loss before income tax benefit	(496,465)		(496,418)	(25,558)	521,976	(496,465)
Income tax provision (benefit)	259,360		(259,329)	(13,351)	272,680	259,360
Net loss	(755,825)		(237,089)	(12,207)	249,296	(755,825)

Table of Contents

Consolidating Statement of Cash Flows for the fiscal year ended October 31, 2011

	Toll Brothers, Inc.	Subsidiary Issuer	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Consolidated
Cash flow provided by (used in) operating activities:						
Net income	39,795		39,608	16,937	(56,545)	39,795
Adjustments to reconcile net income to net cash provided by (used in) operating activities:						
Depreciation and amortization		3,210	19,343	589		23,142
Stock-based compensation	12,768					12,768
Impairments of investments in unconsolidated entities			15,170	25,700		40,870
Income from unconsolidated entities			(21,299)	(18,377)		(39,676)
Distributions of earnings from unconsolidated entities			12,747	(666)		12,081
Income from non-performing loan portfolios				(5,113)		(5,113)
Change in deferred tax asset	(18,188)					(18,188)
Deferred tax valuation allowance	18,188					18,188
Inventory impairments			51,837			51,837
Change in fair value of mortgage loans receivable and derivative instruments				475		475
Expenses related to early retirement of debt		3,827				3,827
Changes in operating assets and liabilities:						
Increase in inventory			(89,869)	(125,869)		(215,738)
Origination of mortgage loans				(630,294)		(630,294)
Sale of mortgage loans				659,610		659,610
Decrease (increase) in restricted cash			41,822	(676)		41,146
(Increase) decrease in receivables, prepaid expenses and other assets	(116,644)	53,557	(267,889)	264,496	54,959	(11,521)
Increase in customer deposits			1,677	11,498		13,175
(Decrease) increase in accounts payable and	2,287	(1,757)	80,257	(111,272)	1,586	(28,899)

accrued expenses						
Decrease in income tax refund recoverable	141,590					141,590
Decrease in current income taxes payable	(56,225)					(56,225)
Net cash provided by (used in) operating activities	23,571	58,837	(116,596)	87,038		52,850
Cash flow used in investing activities:						
Purchase of property and equipment, net			(6,658)	(2,895)		(9,553)
Purchase of marketable securities			(452,864)			(452,864)
Redemption of marketable securities			408,831			408,831
Investments in and advances to unconsolidated entities			(70)	(62)		(132)
Return of investment in unconsolidated entities			23,859	19,450		43,309
Investment in non-performing loan portfolio and foreclosed real estate				(66,867)		(66,867)
Return of investment in non-performing loan portfolio and foreclosed real estate				2,806		2,806
Net cash used in investing activities			(26,902)	(47,568)		(74,470)
Cash flow used in financing activities:						
Proceeds from loans payable				921,251		921,251
Principal payments of loans payable			(11,589)	(941,032)		(952,621)
Redemption of senior notes		(58,837)				(58,837)
Proceeds from stock-based benefit plans	25,531					25,531
Purchase of treasury stock	(49,102)					(49,102)
Change in noncontrolling interest				2,678		2,678
Net cash used in financing activities	(23,571)	(58,837)	(11,589)	(17,103)		(111,100)
			(155,087)	22,367		(132,720)

Net (decrease) increase in cash and cash equivalents			
Cash and cash equivalents, beginning of year	930,387	108,673	1,039,060
Cash and cash equivalents, end of year	775,300	131,040	906,340

Table of Contents

Consolidating Statement of Cash Flows for the fiscal year ended October 31, 2010

	Toll Brothers, Inc.	Subsidiary Issuer	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Consolidated
Cash flow (used in) provided by operating activities:						
Net loss	(3,374)		7,585	245	(7,830)	(3,374)
Adjustments to reconcile net loss to net cash provided by (used in) operating activities:						
Depreciation and amortization	28	3,262	15,961	793		20,044
Stock-based compensation	11,677					11,677
Excess tax benefit from stock-based compensation	(4,954)					(4,954)
Loss from unconsolidated entities			(5,773)	(17,697)		(23,470)
Distributions of earnings from unconsolidated entities			10,297			10,297
Change in deferred tax asset	60,697					60,697
Deferred tax valuation allowance	(60,697)					(60,697)
Inventory impairments			107,508	7,750		115,258
Change in fair value of mortgage loans receivable and derivative instruments				(970)		(970)
Expenses related to early retirement of debt		744	464			1,208
Changes in operating assets and liabilities:						
Decrease in inventory			(16,730)	(123,614)		(140,344)
Origination of mortgage loans				(628,154)		(628,154)
Sale of mortgage loans				579,221		579,221
Increase in restricted cash			(60,906)			(60,906)
(Increase) decrease in receivables, prepaid expenses and other assets	(50,136)	36,330	(143,435)	144,502	9,624	(3,115)
Decrease in customer deposits			(9,713)	(5,469)		(15,182)
(Decrease) increase in accounts payable and accrued expenses	(274)	5,778	(133,422)	91,114	(1,794)	(38,598)
Decrease in income tax refund recoverable	20,250					20,250
	14,828					14,828

Decrease in current income taxes payable						
Net cash (used in) provided by operating activities	(11,955)	46,114	(228,164)	47,721		(146,284)
Cash flow used in investing activities:						
Purchase of property and equipment, net			(4,750)	(80)		(4,830)
Purchase of marketable securities			(157,962)			(157,962)
Redemption of marketable securities			60,000			60,000
Investments in and advances to unconsolidated entities			(28,493)	(29,793)		(58,286)
Return of investment in unconsolidated entities			9,696			9,696
Net cash used in investing activities			(121,509)	(29,873)		(151,382)
Cash flow (used in) provided by financing activities:						
Proceeds from issuance of senior notes						
Proceeds from loans payable				927,233		927,233
Principal payments of loans payable			(372,419)	(944,095)		(1,316,514)
Redemption of senior subordinated notes			(47,872)			(47,872)
Redemption of senior notes		(46,114)				(46,114)
Proceeds from stock-based benefit plans	7,589					7,589
Excess tax benefit from stock-based compensation	4,954					4,954
Purchase of treasury stock	(588)					(588)
Change in noncontrolling interest				320		320
Net cash (used in) provided by financing activities	11,955	(46,114)	(420,291)	(16,542)		(470,992)
Net (decrease) increase in cash and cash equivalents			(769,964)	1,306		(768,658)
Cash and cash equivalents, beginning of year			1,700,351	107,367		1,807,718
Cash and cash equivalents, end of year			930,387	108,673		1,039,060

Consolidating Statement of Cash Flows for the fiscal year ended October 31, 2009

	Toll Brothers, Inc.	Subsidiary Issuer	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Consolidated
Cash flow provided by (used in) operating activities:						
Net loss	(755,825)		(237,089)	(11,327)	248,416	(755,825)
Adjustments to reconcile net loss to net cash provided by (used in) operating activities:						
Depreciation and amortization	28	2,652	20,363	882		23,925
Stock-based compensation	10,987					10,987
Excess tax benefit from stock-based compensation	(24,817)					(24,817)
Impairment of investment in unconsolidated entities			6,000	5,300		11,300
(Loss) earnings from unconsolidated entities			1,518	(5,300)		(3,782)
Distributions of earnings from unconsolidated entities			816			816
Change in deferred tax asset	(52,577)					(52,577)
Deferred tax valuation allowance	458,280					458,280
Inventory impairments			419,311	46,100		465,411
Expenses related to early retirement of debt		11,626	2,067			13,693
Changes in operating assets and liabilities:						
Decrease in inventory			377,146	112,067		489,213
Origination of mortgage loans				(571,158)		(571,158)
Sale of mortgage loans				577,263		577,263
Decrease (increase) in receivables, prepaid expenses and other assets	508,224	(439,154)	185,744	16,228	(250,997)	20,045
Decrease in customer deposits			(22,842)	(22,864)		(45,706)
Decrease in accounts payable and accrued expenses	(4,979)	(249)	(111,030)	(35,388)	2,581	(149,065)
Increase in income tax refund recoverable	(161,840)					(161,840)
	(22,972)					(22,972)

Decrease in current income taxes payable					
Net cash provided by (used in) operating activities	(45,491)	(425,125)	642,004	111,803	283,191
Cash flow used in investing activities:					
Purchase of property and equipment, net			(2,719)	7	(2,712)
Purchase of marketable securities			(101,324)		(101,324)
Investments in and advances to unconsolidated entities			(31,342)		(31,342)
Return of investment in unconsolidated entities			3,205		3,205
Net cash used in investing activities			(132,180)	7	(132,173)
Cash flow provided by (used in) financing activities:					
Proceeds from issuance of senior notes		635,765			635,765
Proceeds from loans payable				636,975	636,975
Principal payments of loans payable			(28,587)	(757,296)	(785,883)
Redemption of senior subordinated notes			(296,503)		(296,503)
Redemption of senior notes		(210,640)			(210,640)
Proceeds from stock-based benefit plans	22,147				22,147
Excess tax benefit from stock-based compensation	24,817				24,817
Purchase of treasury stock	(1,473)				(1,473)
Change in noncontrolling interest				(2,000)	(2,000)
Net cash provided by (used in) financing activities	45,491	425,125	(325,090)	(122,321)	23,205
Net increase (decrease) in cash and cash equivalents			184,734	(10,511)	174,223
Cash and cash equivalents, beginning of year			1,515,617	117,878	1,633,495

Cash and cash equivalents, end of year	1,700,351	107,367	1,807,718

Table of Contents

21. Summary Consolidated Quarterly Financial Data (Unaudited)
The table below provides summary income statement data for each quarter of fiscal 2011 and 2010 (amounts in thousands, except per share data).

	Three Months Ended,			
	October 31	July 31	April 30	January 31
Fiscal 2011				
Revenue	$ 427,785	$ 394,305	$ 319,675	$ 334,116
Gross profit	$ 65,281	$ 54,358	$ 43,321	$ 52,151
Income (loss) before income taxes	$ 15,277	$ 3,888	$ (31,484)	$ (17,047)
Net income (loss)	$ 15,043	$ 42,108	$ (20,773)	$ 3,417
Income (loss) per share (1)				
Basic	$ 0.09	$ 0.25	$ (0.12)	$ 0.02
Diluted	$ 0.09	$ 0.25	$ (0.12)	$ 0.02
Weighted-average number of shares				
Basic	166,896	168,075	166,910	166,677
Diluted (2)	167,525	169,338	166,910	168,121
Fiscal 2010				
Revenue	$ 402,600	$ 454,202	$ 311,271	$ 326,698
Gross profit	$ 38,617	$ 64,697	$ 5,688	$ 9,211
(Loss) income before income taxes	$ (9,467)	$ 823	$ (51,789)	$ (56,754)
Net income (loss)	$ 50,479	$ 27,302	$ (40,401)	$ (40,754)
Income (loss) per share (1)				
Basic	$ 0.30	$ 0.16	$ (0.24)	$ (0.25)
Diluted	$ 0.30	$ 0.16	$ (0.24)	$ (0.25)
Weighted-average number of shares				
Basic	166,269	165,752	165,407	165,237
Diluted (2)	167,777	167,658	165,407	165,237

(1) Due to rounding, the sum of the quarterly earnings per share amounts may not equal the reported earnings per share for the year.

(2) For the three months ended April 30, 2011, April 30, 2010 and January 31, 2010, there were no incremental shares attributed to outstanding options to purchase common stock because the Company reported a net loss for each period, and any incremental shares would be anti-dilutive.