

TOLL BROTHERS INC
Form 10-Q
June 08, 2007

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**UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549**

Form 10-Q

(Mark One)

- QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the quarterly period ended April 30, 2007
- or
- TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the transition period from to

Commission file number 1-9186

TOLL BROTHERS, INC.

(Exact name of registrant as specified in its charter)

Delaware

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

23-2416878

*(I.R.S. Employer
Identification No.)*

250 Gibraltar Road, Horsham, Pennsylvania

(Address of principal executive offices)

19044

(Zip Code)

(215) 938-8000

(Registrant's telephone number, including area code)

Not applicable

(Former name, former address and former fiscal year, if changed since last report)

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

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

Large accelerated filer Accelerated filer Non-accelerated filer

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

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

At June 1, 2007, there were approximately 154,875,000 shares of Common Stock, \$.01 par value, outstanding.

TOLL BROTHERS, INC. AND SUBSIDIARIES

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STATEMENT ON FORWARD-LOOKING INFORMATION

Certain information included herein and in our other reports, SEC filings, verbal or written statements and presentations is forward-looking within the meaning of the Private Securities Litigation Reform Act of 1995, including, but not limited to, information related to our anticipated operating results, financial resources, changes in revenues, changes in profitability, changes in margins, changes in accounting treatment, interest expense, land related write-downs, effects of home buyer cancellations, growth and expansion, anticipated income to be realized from our investments in unconsolidated entities, the ability to acquire land, the ability to gain governmental approvals and to open new communities, the ability to sell homes and properties, the ability to deliver homes from backlog, the expected average delivered prices of homes, the ability to secure materials and subcontractors, the ability to produce the liquidity and capital necessary to expand and take advantage of future opportunities, and stock market valuations. In some cases you can identify those so called forward-looking statements by words such as may, will, should, expect, plan, anticipate, believe, estimate, predict, potential, project, intend, can, appear, could, might, negative of those words or other comparable words. Such forward-looking information involves important risks and uncertainties that could significantly affect actual results and cause them to differ materially from expectations expressed herein and in our other reports, SEC filings, verbal or written statements and presentations. These risks and uncertainties include local, regional and national economic conditions, the demand for homes, domestic and international political events, uncertainties directly or indirectly created by terrorist attacks, the effects of governmental regulation, the competitive environment in which we operate, fluctuations in interest rates, changes in home prices, the availability and cost of land for future growth, adverse market conditions that could result in substantial inventory write-downs, the availability of capital, uncertainties and fluctuations in capital and securities markets, changes in tax laws and their interpretation, legal proceedings, the availability of adequate insurance at reasonable cost, the ability of customers to finance the purchase of homes, the availability and cost of labor and materials, and weather conditions. Additional information concerning potential factors that we believe could cause our actual results to differ materially from expected and historical results is included in Item 1A Risk Factors of our Annual Report on Form 10-K for the fiscal year ended October 31, 2006. Moreover, the revenue guidance contained herein reflects our expectations as of May 24, 2007 and is not being reconfirmed or updated by this Quarterly Report on Form 10-Q.

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

When this report uses the words we, us, and our, they refer to Toll Brothers, Inc. and its subsidiaries, unless the context otherwise requires. Reference herein to fiscal 2007, fiscal 2006, and fiscal 2005, refer to our fiscal year ending October 31, 2007, and our fiscal years ended October 31, 2006 and October 31, 2005, respectively.

Table of Contents**PART I. FINANCIAL INFORMATION****ITEM 1. FINANCIAL STATEMENTS****TOLL BROTHERS, INC. AND SUBSIDIARIES****CONDENSED CONSOLIDATED BALANCE SHEETS**

(Amounts in thousands)

	April 30, 2007 (Unaudited)	October 31, 2006
ASSETS		
Cash and cash equivalents	\$ 553,126	\$ 632,524
Inventory	6,137,473	6,095,702
Property, construction and office equipment, net	93,137	99,089
Receivables, prepaid expenses and other assets	135,531	160,446
Contracts receivable	74,667	170,111
Mortgage loans receivable	145,705	130,326
Customer deposits held in escrow	50,234	49,676
Investments in and advances to unconsolidated entities	234,306	245,667
	\$ 7,424,179	\$ 7,583,541
LIABILITIES AND STOCKHOLDERS EQUITY		
Liabilities:		
Loans payable	\$ 715,066	\$ 736,934
Senior notes	1,141,736	1,141,167
Senior subordinated notes	350,000	350,000
Mortgage company warehouse loan	133,014	119,705
Customer deposits	326,206	360,147
Accounts payable	272,722	292,171
Accrued expenses	750,403	825,288
Income taxes payable	180,838	334,500
Total liabilities	3,869,985	4,159,912
Minority interest	7,763	7,703
Stockholders equity:		
Preferred stock, none issued		
Common stock, 156,292 shares issued at April 30, 2007 and October 31, 2006	1,563	1,563
Additional paid-in capital	233,130	220,783
Retained earnings	3,354,280	3,263,274
	(42,542)	(69,694)

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Treasury stock, at cost 1,506 shares and 2,393 shares at April 30, 2007 and
October 31, 2006, respectively

Total stockholders' equity	3,546,431	3,415,926
	\$ 7,424,179	\$ 7,583,541

See accompanying notes

Table of Contents**TOLL BROTHERS, INC. AND SUBSIDIARIES****CONDENSED CONSOLIDATED STATEMENTS OF INCOME****(Amounts in thousands, except per share data)**

	Six Months Ended April 30,		Three Months Ended	
	2007	2006	April 30,	2006
	(Unaudited)			
Revenues:				
Home sales completed contract	\$ 2,178,395	\$ 2,679,187	\$ 1,124,259	\$ 1,400,478
Percentage of completion	81,522	97,524	48,437	39,955
Land sales	5,371	6,778	1,981	2,100
	2,265,288	2,783,489	1,174,677	1,442,533
Cost of revenues:				
Home sales completed contract	1,788,169	1,860,634	941,766	976,543
Percentage of completion	63,260	78,524	37,363	31,178
Land sales	2,764	5,939	1,727	2,103
Interest	49,137	58,629	26,494	29,875
	1,903,330	2,003,726	1,007,350	1,039,699
Selling, general and administrative	264,577	281,224	130,367	142,046
Goodwill impairment	8,973			
Income from operations	88,408	498,539	36,960	260,788
Other:				
Equity earnings from unconsolidated entities	11,527	29,393	4,735	12,824
Interest and other	46,758	22,293	17,798	10,966
Income before income taxes	146,693	550,225	59,493	284,578
Income taxes	55,687	211,438	22,803	109,641
Net income	\$ 91,006	\$ 338,787	\$ 36,690	\$ 174,937
Earnings per share:				
Basic	\$ 0.59	\$ 2.19	\$ 0.24	\$ 1.13
Diluted	\$ 0.55	\$ 2.04	\$ 0.22	\$ 1.06
Weighted average number of shares:				
Basic	154,464	154,919	154,716	154,763
Diluted	164,171	166,377	164,294	165,727

See accompanying notes

Table of Contents**TOLL BROTHERS, INC. AND SUBSIDIARIES****CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS**

(Amounts in thousands)

	Six Months Ended April 30,	
	2007	2006
	(Unaudited)	
Cash flow from operating activities:		
Net income	\$ 91,006	\$ 338,787
Adjustments to reconcile net income to net cash used in operating activities:		
Depreciation and amortization	15,772	14,227
Amortization of initial benefit obligation	885	952
Stock-based compensation	18,290	16,402
Excess tax benefits from stock-based compensation	(170)	(2,560)
Equity earnings from unconsolidated entities	(11,527)	(29,393)
Distributions from unconsolidated entities	10,176	4,383
Deferred tax (benefit) provision	(72,105)	15,250
Provision for inventory write-downs/write-offs	216,612	13,145
Goodwill impairment charge	8,973	
Gain on sale of ancillary business	(9,565)	
Changes in operating assets and liabilities		
Increase in inventory	(238,411)	(683,553)
Origination of mortgage loans	(648,663)	(405,317)
Sale of mortgage loans	633,284	445,569
Decrease (increase) in contracts receivable	95,444	(97,524)
Decrease in receivables, prepaid expenses and other assets	13,929	13,647
(Decrease) increase in customer deposits	(34,499)	11,927
Decrease in accounts payable and accrued expenses	(102,526)	(29,451)
Decrease in current income taxes payable	(75,136)	(3,812)
Net cash used in operating activities	(88,231)	(377,321)
Cash flow from investing activities:		
Purchase of property, construction and office equipment	(11,872)	(26,221)
Proceeds from sale of ancillary business	15,755	
Purchases of marketable securities	(2,117,690)	(1,571,420)
Sale of marketable securities	2,117,690	1,571,420
Investments in and advances to unconsolidated entities	(8,825)	(77,433)
Acquisition of joint venture interest		(40,751)
Distributions from unconsolidated entities	16,965	6,772
Net cash provided by (used in) investing activities	12,023	(137,633)
Cash flow from financing activities:		
Proceeds from loans payable	694,084	913,566
Principal payments of loans payable	(702,517)	(643,162)

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Proceeds from stock-based benefit plans	4,099	9,594
Proceeds from restricted stock award	1,800	
Excess tax benefits from stock-based compensation	170	2,560
Purchase of treasury stock	(886)	(61,756)
Change in minority interest	60	3,043
Net cash (used in) provided by financing activities	(3,190)	223,845
Net decrease in cash and cash equivalents	(79,398)	(291,109)
Cash and cash equivalents, beginning of period	632,524	689,219
Cash and cash equivalents, end of period	\$ 553,126	\$ 398,110