TOLL BROTHERS INC
Form 10-Q
March 03, 2016

UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 10-Q
(Mark One)

| | |
|---|---|
| þ | QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 |

For the quarterly period ended January 31, 2016
or

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

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

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

(215) 938-8000
(Registrant’s telephone number, including area code)
Not applicable
(Former name, former address and former fiscal year, if changed since last report)
Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes þ No o
Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes þ No o
Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or a smaller reporting company. See the definitions of “large accelerated filer,” “accelerated filer” and “smaller reporting company” in Rule 12b-2 of the Exchange Act.

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

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).
Yes o No þ
Indicate the number of shares outstanding of each of the issuer’s classes of common stock, as of the latest practicable date:
At March 1, 2016, there were approximately 168,526,000 shares of Common Stock, $0.01 par value, outstanding.

TOLL BROTHERS, INC.
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STATEMENT ON FORWARD-LOOKING INFORMATION

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

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

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

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

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

PART I. FINANCIAL INFORMATION

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

| | January 31, 2016 (unaudited) | October 31, 2015 |
|---|---|---|
| ASSETS | | |
| Cash and cash equivalents | $336,244 | $918,993 |
| Marketable securities | | 10,001 |
| Restricted cash | 29,350 | 16,795 |
| Inventory | 7,180,050 | 6,997,516 |
| Property, construction, and office equipment, net | 134,746 | 136,755 |
| Receivables, prepaid expenses, and other assets | 293,467 | 284,130 |
| Mortgage loans held for sale | 73,145 | 123,175 |
| Customer deposits held in escrow | 58,302 | 56,105 |
| Investments in unconsolidated entities | 414,864 | 412,860 |
| Investments in foreclosed real estate and distressed loans | 48,576 | 51,730 |
| Deferred tax assets, net of valuation allowances | 194,693 | 198,455 |
| | $8,763,437 | $9,206,515 |
| LIABILITIES AND EQUITY | | |
| Liabilities | | |
| Loans payable | $615,298 | $1,000,439 |
| Senior notes | 2,690,889 | 2,689,801 |
| Mortgage company loan facility | 63,907 | 100,000 |
| Customer deposits | 301,282 | 284,309 |
| Accounts payable | 264,452 | 236,953 |
| Accrued expenses | 607,077 | 608,066 |
| Income taxes payable | 64,567 | 58,868 |
| Total liabilities | 4,607,472 | 4,978,436 |
| Equity | | |
| Stockholders’ equity | | |
| Preferred stock, none issued | — | — |
| Common stock, 177,933 and 177,931 shares issued at January 31, 2016 and October 31, 2015, respectively | 1,779 | 1,779 |
| Additional paid-in capital | 718,412 | 728,125 |
| Retained earnings | 3,668,382 | 3,595,202 |
| Treasury stock, at cost — 7,382 and 3,084 shares at January 31, 2016 and October 31, 2015, respectively | (235,654) | (100,040) |
| Accumulated other comprehensive loss | (2,770) | (2,509) |
| Total stockholders’ equity | 4,150,149 | 4,222,557 |
| Noncontrolling interest | 5,816 | 5,522 |
| Total equity | 4,155,965 | 4,228,079 |
| | $8,763,437 | $9,206,515 |

See accompanying notes.

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

| | Three months ended January 31, | |
|---|---|---|
| | 2016 | 2015 |
| Revenues | $928,566 | $853,452 |
| | | |
| Cost of revenues | 712,311 | 650,032 |
| Selling, general and administrative | 121,796 | 106,314 |
| | 834,107 | 756,346 |
| Income from operations | 94,459 | 97,106 |
| Other: | | |
| Income from unconsolidated entities | 8,638 | 4,901 |
| Other income – net | 13,720 | 22,016 |
| Income before income taxes | 116,817 | 124,023 |
| Income tax provision | 43,637 | 42,698 |
| Net income | $73,180 | $81,325 |
| | | |
| Other comprehensive (loss) income, net of tax: | | |
| Change in pension liability | (288) | (178) |
| Change in fair value of available-for-sale securities | | 2 |
| Change in unrealized income (loss) on derivative held by equity investee | 27 | (7) |
| Other comprehensive loss | (261) | (183) |
| Total comprehensive income | $72,919 | $81,142 |
| | | |
| Income per share: | | |
| Basic | $0.42 | $0.46 |
| Diluted | $0.40 | $0.44 |
| Weighted-average number of shares: | | |
| Basic | 174,205 | 176,076 |
| Diluted | 182,391 | 184,107 |

See accompanying notes.

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

| | Three months ended January 31, | |
|---|---|---|
| | 2016 | 2015 |
| Cash flow used in operating activities: | | |
| Net income | $73,180 | $81,325 |
| Adjustments to reconcile net income to net cash used in operating activities: | | |
| Depreciation and amortization | 5,533 | 5,809 |
| Stock-based compensation | 9,223 | 7,446 |
| Excess tax benefits from stock-based compensation | (297) | (1,866) |
| Income from unconsolidated entities | (8,638) | (4,901) |
| Distributions of earnings from unconsolidated entities | 3,870 | 4,393 |
| Income from foreclosed real estate and distressed loans | (1,553) | (2,345) |
| Deferred tax provision | 587 | (1,433) |
| Change in deferred tax valuation allowances | 148 | (207) |
| Inventory impairments and write-offs | 1,281 | 1,144 |
| Other | 658 | 555 |
| Changes in operating assets and liabilities | | |
| Increase in inventory | (173,440) | (114,416) |
| Origination of mortgage loans | (215,674) | (167,063) |
| Sale of mortgage loans | 265,703 | 212,356 |
| (Increase) decrease in restricted cash | (12,555) | 880 |
| Increase in receivables, prepaid expenses, and other assets | (9,546) | (255) |
| Increase in customer deposits | 14,776 | 14,039 |
| Increase (decrease) in accounts payable and accrued expenses | 17,523 | (10,147) |
| Increase (decrease) in income taxes payable | 5,996 | (58,362) |
| Net cash used in operating activities | (23,225) | (33,048) |
| Cash flow provided by (used in) investing activities: | | |
| Purchase of property and equipment — net | (1,593) | (2,884) |
| Sale and redemption of marketable securities | 10,000 | 2,000 |
| Investments in unconsolidated entities | (11,838) | (18,684) |
| Return of investments in unconsolidated entities | 14,804 | 6,340 |
| Investment in foreclosed real estate and distressed loans | (694) | (1,468) |
| Return of investments in foreclosed real estate and distressed loans | 5,321 | 6,592 |
| Net cash provided by (used in) investing activities | 16,000 | (8,104) |
| Cash flow used in financing activities: | | |
| Debt issuance costs for senior notes | (64) | |
| Proceeds from loans payable | 339,854 | 214,624 |
| Principal payments of loans payable | (770,539) | (272,334) |
| Proceeds from stock-based benefit plans | 4,769 | 17,773 |
| Excess tax benefits from stock-based compensation | 297 | 1,866 |
| Purchase of treasury stock | (150,135) | (6,242) |
| Receipts related to noncontrolling interest, net | 294 | 50 |
| Net cash used in financing activities | (575,524) | (44,263) |
| Net decrease in cash and cash equivalents | (582,749) | (85,415) |
| Cash and cash equivalents, beginning of period | 918,993 | 586,315 |
| Cash and cash equivalents, end of period | $336,244 | $500,900 |

See accompanying notes.

TOLL BROTHERS, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

1. Significant Accounting Policies

Basis of Presentation

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

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with the rules and regulations of the Securities and Exchange Commission ("SEC") for interim financial information. The October 31, 2015 balance sheet amounts and disclosures included herein have been derived from our October 31, 2015 audited financial statements. Since the accompanying condensed consolidated financial statements do not include all the information and footnotes required by U.S. generally accepted accounting principles ("GAAP") for complete financial statements, we suggest that they be read in conjunction with the consolidated financial statements and notes thereto included in our Annual Report on Form 10-K for the fiscal year ended October 31, 2015 ("2015 Form 10-K"). In the opinion of management, the accompanying unaudited condensed consolidated financial statements include all adjustments, which are of a normal recurring nature, necessary to present fairly our financial position as of January 31, 2016; the results of our operations for the three-month periods ended January 31, 2016 and 2015; and our cash flows for the three-month periods ended January 31, 2016 and 2015. The results of operations for such interim periods are not necessarily indicative of the results to be expected for the full year.

Recent Accounting Pronouncements

In January 2014, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") No. 2014-04, "Receivables—Troubled Debt Restructurings by Creditors" ("ASU 2014-04"), which clarifies when an in substance repossession or foreclosure of residential real estate property collateralizing a consumer mortgage loan has occurred. By doing so, this guidance helps determine when the creditor should derecognize the loan receivable and recognize the real estate property. We adopted ASU 2014-04 on November 1, 2015, and the adoption did not have a material effect on our condensed consolidated financial statements or disclosures.

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

In February 2015, the FASB issued ASU No. 2015-02, "Consolidation (Topic 810): Amendments to the Consolidation Analysis" ("ASU 2015-02"), which eliminates the deferral granted to investment companies from applying the variable interest entities ("VIEs") guidance and makes targeted amendments to the current consolidation guidance. The new guidance applies to all entities involved with limited partnerships or similar entities and will require re-evaluation of these entities under the revised guidance which may change previous consolidation conclusions. ASU 2015-02 is effective for us beginning February 1, 2016. Upon adoption of ASU 2015-02, we expect that one unconsolidated joint venture, not previously identified as a VIE, will be determined to be a VIE, which will result in a modification of our current disclosures. However, the adoption of ASU 2015-02 is not expected to have a material effect on our condensed consolidated financial statements.

In May 2014, the FASB issued ASU No. 2014-09, "Revenue from Contracts with Customers" ("ASU 2014-09"), which provides guidance for revenue recognition. ASU 2014-09 affects any entity that either enters into contracts with customers to transfer goods or services or enters into contracts for the transfer of nonfinancial assets and supersedes the revenue recognition requirements in Accounting Standards Codification ("ASC") Topic 605, "Revenue Recognition," and most industry-specific guidance. ASU 2014-09 also supersedes some cost guidance included in ASC Subtopic 605-35, "Revenue Recognition—Construction-Type and Production-Type Contracts." The standard's core principle is that a company will recognize revenue when it transfers promised goods or services to customers in an amount that reflects the consideration to which a company expects to be entitled in exchange for those goods or services. In doing so, companies will need to use more judgment and make more estimates than under the current guidance. These judgments and estimates include identifying performance obligations in the contract, estimating the amount of variable consideration to include in the transaction price, and allocating the transaction price to each separate performance obligation. In August 2015, the FASB issued ASU 2015-14 “Revenue from Contracts with Customers” (“ASU 2015-14”), which delays the effective date of ASU 2014-09 by one year. ASU 2014-09, as amended by ASU 2015-14, is effective for us beginning November 1, 2018, and, at that time, we may adopt the new standard under the full retrospective approach or the modified retrospective approach. We are currently evaluating the method of adoption and the impact that the adoption of ASU 2014-09 may have on our condensed consolidated financial statements and disclosures.

2. Inventory

Inventory at January 31, 2016 and October 31, 2015 consisted of the following (amounts in thousands):

| | January 31, 2016 | October 31, 2015 |
|---|---|---|
| Land controlled for future communities | $78,191 | $75,214 |
| Land owned for future communities | 1,913,008 | 2,033,447 |
| Operating communities | 5,188,851 | 4,888,855 |
| | $7,180,050 | $6,997,516 |

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 nonavailability of improved home sites and that are expected to reopen within 12 months of the end of the fiscal period being reported on, and communities preparing to open for sale. The carrying value attributable to operating communities includes the cost of homes under construction, land and land development costs, the carrying cost of home sites in current and future phases of these communities, and the carrying cost of model homes.

Communities that were previously offering homes for sale but are temporarily closed due to business conditions and that do not have any remaining backlog and are not expected to reopen within 12 months of the end of the fiscal period being reported on have been classified as land owned for future communities. Backlog consists of homes under contract but not yet delivered to our home buyers ("backlog").

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

| | January 31, 2016 | October 31, 2015 |
|---|---|---|
| Land owned for future communities: | | |
| Number of communities | 21 | 15 |
| Carrying value (in thousands) | $144,979 | $119,138 |
| Operating communities: | | |
| Number of communities | 7 | 11 |
| Carrying value (in thousands) | $39,901 | $63,668 |

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

| | Three months ended January 31, | |
|---|---|---|
| | 2016 | 2015 |
| Land controlled for future communities | $381 | $244 |
| Land owned for future communities | 300 | |
| Operating communities | 600 | 900 |
| | $1,281 | $1,144 |

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

See Note 14, "Commitments and Contingencies," for information regarding land purchase commitments.

At January 31, 2016, we evaluated our land purchase contracts to determine whether any of the selling entities were VIEs and, if they were, whether we were the primary beneficiary of any of them. Under these land purchase contracts, we do not possess legal title to the land. Our risk is generally limited to deposits paid to the sellers and predevelopment costs incurred, and the creditors of the sellers generally have no recourse against us. At January 31, 2016, we determined that 59 land purchase contracts, with an aggregate purchase price of $640.5 million, on which we had made aggregate deposits totaling $41.0 million, were VIEs, and that we were not the primary beneficiary of any VIE related to our land purchase contracts. At October 31, 2015, we determined that 61 land purchase contracts, with an aggregate purchase price of $663.6 million, on which we had made aggregate deposits totaling $45.0 million, were VIEs, and that we were not the primary beneficiary of any VIE related to our land purchase contracts.

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

| | Three months ended January 31, 2016 | 2015 |
|---|---|---|
| Interest capitalized, beginning of period | $373,128 | $356,180 |
| Interest incurred | 40,107 | 40,504 |
| Interest expensed to cost of revenues | (32,023) | (28,377) |
| Write-off against other income | (275) | (1,328) |
| Interest capitalized on investments in unconsolidated entities | (1,007) | (2,751) |
| Interest capitalized, end of period | $379,930 | $364,228 |

3. Investments in Unconsolidated Entities

We have investments in various unconsolidated entities. These joint ventures (i) develop land for the joint venture participants and, in other cases, for sale to other third-party builders ("Land Development Joint Ventures"); (ii) develop for-sale homes and condominiums ("Home Building Joint Ventures"); (iii) develop luxury for-rent residential apartments, commercial space, and a hotel ("Rental Property Joint Ventures"), which includes our investments in Toll Brothers Realty Trust (the "Trust"); and (iv) invest in a portfolio of distressed loans and real estate ("Structured Asset Joint Venture").

The table below provides information as of January 31, 2016, regarding active joint ventures that we are invested in, by joint venture category ($ amounts in thousands):

| | Land Development Joint Ventures | Home Building Joint Ventures | Rental Property Joint Ventures | Structured Asset Joint Venture | Total |
|---|---|---|---|---|---|
| Number of unconsolidated entities | 7 | 3 | 10 | 1 | 21 |
| Investment in unconsolidated entities | $211,965 | $76,972 | $116,338 | $9,589 | $414,864 |
| Number of unconsolidated entities with funding commitments by the Company | 5 | 2 | 2 | — | 9 |
| Company's remaining funding commitment to unconsolidated entities (a) | $251,607 | $18,768 | $4,439 | $— | $274,814 |

(a) The remaining funding commitment for our Land Development Joint Ventures includes $90.0 million, which one of the joint ventures expects to fund through outside financing.

Certain joint ventures in which we have investments obtained debt financing to finance a portion of their activities. The table below provides information at January 31, 2016, regarding the debt financing obtained by category ($ amounts in thousands):

| | Land Development Joint Ventures | Home Building Joint Ventures | Rental Property Joint Ventures | Total |
|---|---|---|---|---|
| Number of joint ventures with debt financing | 4 | 2 | 9 | 15 |
| Aggregate loan commitments | $470,000 | $222,000 | $779,902 | $1,471,902 |
| Amounts borrowed under commitments | $429,056 | $126,869 | $562,546 | $1,118,471 |

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

Land Development Joint Ventures

See Note 14, “Commitments and Contingencies,” for information regarding land purchase agreements that we have with our Land Development Joint Ventures.

In the fourth quarter of fiscal 2015, we entered into a joint venture with an unrelated party to purchase and develop a parcel of land located in Irvine, California. The joint venture expects to develop approximately 840 home sites on this land in multiple phases. We have a 50% interest in this joint venture. The joint venture intends to develop the property and sell approximately 50% of the value of the home sites to each of the members of the joint venture. At January 31, 2016, we had an investment of $77.0 million in this joint venture and were committed to make additional contributions to this joint venture of up to $220.3 million. To finance a portion of the land purchase, the joint venture entered into a $320.0 million purchase money mortgage with the seller.

Home Building Joint Ventures

In the first quarter of fiscal 2015, we entered into a joint venture with an unrelated party to complete the development of a high-rise luxury condominium project in New York City on property that we owned. We contributed $15.9 million as our initial contribution for a 25% interest in this joint venture. We sold the property to the joint venture for $78.5 million, and we were reimbursed for development and construction costs incurred by us prior to the sale. The gain of $9.3 million that we realized on the sale was deferred and will be recognized in our results of operations as units are sold and delivered to the ultimate home buyer. At January 31, 2016, we had an investment of $17.0 million in this joint venture. The joint venture entered into a construction loan agreement of $124.0 million to fund the land purchase and a portion of the cost of the development of the property. At January 31, 2016, the joint venture had $79.8 million borrowed under the construction loan.

We have an investment in a joint venture in which we have a 50% interest to develop a high-rise luxury condominium project in conjunction with a luxury hotel in New York City being developed by a related joint venture, discussed below in Rental Property Joint Ventures. At January 31, 2016, we had invested $40.2 million in this joint venture and expect to make additional investments of approximately $10.5 million for the development of this project. In the first quarter of fiscal 2015, this joint venture, along with the related hotel joint venture, entered into a $160.0 million construction loan agreement to complete the construction of the condominiums and the hotel, of which we allocated $98.0 million to the condominium project. At January 31, 2016, this joint venture had $47.1 million of outstanding borrowings under the construction loan agreement.

Rental Property Joint Ventures

In the second quarter of fiscal 2015, we entered into two joint ventures with an unrelated party to develop luxury for-rent residential apartment buildings. Prior to the formation of these joint ventures, we acquired the properties, through two 100%-owned entities, and incurred $18.8 million of land and land development costs. Our partner acquired a 75% interest in each of these entities for $14.5 million. At January 31, 2016, we had a combined investment of $10.1 million in these ventures. In addition, in fiscal 2015, these joint ventures entered into construction loan agreements with several banks to provide up to $87.0 million of financing for the development of their respective apartment buildings. At January 31, 2016, these joint ventures had $0.9 million of borrowings under the construction loan agreements.

We have an investment in a joint venture in which we have a 50% interest to develop a luxury hotel in conjunction with a high-rise luxury condominium project in the urban New York market being developed by a related joint venture, discussed in Home Building Joint Ventures above. At January 31, 2016, we had invested $27.0 million in this joint venture and expect to make additional investments of approximately $4.0 million for the development of the luxury hotel. In the first quarter of fiscal 2015, this joint venture, along with the related condominium joint venture, entered into a $160.0 million construction loan agreement to complete the construction of the condominiums and the hotel, of which we allocated $62.0 million to the hotel project. At January 31, 2016, this joint venture had $27.5 million of outstanding borrowings under the construction loan agreement.

In 1998, we formed the Trust to invest in commercial real estate opportunities. The Trust is effectively owned one-third by us; one-third by Robert I. Toll, Bruce E. Toll (and members of his family), Douglas C. Yearley, Jr., and former members of our senior management; and one-third by an unrelated party. As of January 31, 2016, our investment in the Trust was zero as cumulative distributions received from the Trust have been in excess of the carrying amount of our net investment. We provide development, finance, and management services to the Trust and recognized fees under the terms of various agreements in the amounts of $0.4 million and $0.6 million in the three-month periods ended January 31, 2016 and 2015, respectively. In each of the three months ended January 31, 2016 and 2015, we received a $2.0 million distribution from the Trust, which is included in “Income from unconsolidated entities” in our Condensed Consolidated Statements of Operations and Comprehensive Income.

Guarantees

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

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

We believe that, as of January 31, 2016, in the event we become legally obligated to perform under a guarantee of the obligation of an unconsolidated entity due to a triggering event, the collateral in such entity should be sufficient to repay all or a significant portion of the obligation. If it is not, we and our partners would need to contribute additional capital to the venture. At January 31, 2016, the unconsolidated entities that have guarantees related to debt had loan commitments aggregating $945.2 million and had borrowed an aggregate of $591.8 million. The terms of these guarantees generally range from 10 months to 51 months. We estimate that the maximum potential exposure under these guarantees, if the full amount of the loan commitments were borrowed, would be $945.2 million, without taking into account any recoveries from the underlying collateral or any reimbursement from our partners. Of this maximum potential exposure, $85.8 million is related to repayment and carry cost guarantees. Based on the amounts borrowed at January 31, 2016, our maximum potential exposure under all guarantees is estimated to be approximately $591.8 million, without taking into account any recoveries from the underlying collateral or any reimbursement from our partners. Of the estimated $591.8 million, $59.9 million is related to repayment and carry cost guarantees.

In addition, we have guaranteed approximately $10.2 million of ground lease payments and insurance deductibles for three joint ventures.

As of January 31, 2016, the estimated aggregate fair value of the guarantees provided by us related to debt and other obligations of certain unconsolidated entities was approximately $4.8 million. We have not made payments under any of the guarantees, nor have we been called upon to do so.

Variable Interest Entities

At January 31, 2016 and October 31, 2015, we determined that one of our joint ventures was a VIE under the guidance of ASC 810, “Consolidation.” However, we have concluded that we were not the primary beneficiary of the VIE because the power to direct the activities of such VIE that most significantly impact its performance was shared by us and such VIE’s other partners. Business plans, budgets, and other major decisions are required to be unanimously approved by all members. Management and other fees earned by us are nominal and believed to be at market rates, and there is no significant economic disproportionality between us and the other members. The information presented below regarding the investments, commitments, and guarantees in unconsolidated entities deemed to be VIEs is also included in the information provided above.

At January 31, 2016 and October 31, 2015, our investment in the unconsolidated joint venture deemed to be a VIE, which is included in “Investments in unconsolidated entities” in the accompanying Condensed Consolidated Balance Sheets, totaled $6.5 million and $6.7 million, respectively. At January 31, 2016 and October 31, 2015, the maximum exposure of loss to our investment in the unconsolidated joint venture that is a VIE is limited to our investment in the unconsolidated VIE, except with regard to $89.8 million of loan guarantees and $0.4 million of additional commitments to the VIE. Of our potential exposure for these loan guarantees, $14.3 million is related to repayment and carry cost guarantees.

Joint Venture Condensed Financial Information

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

Condensed Balance Sheets:

| | January 31, 2016 | | | | |
|---|---|---|---|---|---|
| | Land Development Joint Ventures | Home Building Joint Ventures | Rental Property Joint Ventures | Structured Asset Joint Venture | Total |
| Cash and cash equivalents | $35,054 | $7,830 | $27,710 | $37,785 | $108,379 |
| Inventory | 713,254 | 338,853 | | | 1,052,107 |
| Non-performing loan portfolio | | | | 17,976 | 17,976 |
| Rental properties | | | 361,191 | | 361,191 |
| Rental properties under development | | | 381,411 | | 381,411 |
| Real estate owned (“REO”) | | | | 98,372 | 98,372 |
| Other assets | 75,522 | 68,576 | 11,976 | 2,469 | 158,543 |
| Total assets | $823,830 | $415,259 | $782,288 | $156,602 | $2,177,979 |
| Debt (1) | $430,143 | $132,430 | $562,546 | | $1,125,119 |
| Other liabilities | 31,673 | 75,017 | 29,145 | 4,125 | 139,960 |
| Members’ equity | 362,014 | 207,812 | 190,597 | 61,004 | 821,427 |
| Noncontrolling interest | | | | 91,473 | 91,473 |
| Total liabilities and equity | $823,830 | $415,259 | $782,288 | $156,602 | $2,177,979 |
| Company’s net investment in unconsolidated entities (2) | $211,965 | $76,972 | $116,338 | $9,589 | $414,864 |

| | October 31, 2015 | | | | |
|---|---|---|---|---|---|
| | Land Development Joint Ventures | Home Building Joint Ventures | Rental Property Joint Ventures | Structured Asset Joint Venture | Total |
| Cash and cash equivalents | $29,281 | $11,203 | $44,310 | $10,469 | $95,263 |
| Inventory | 701,527 | 322,630 | | | 1,024,157 |
| Non-performing loan portfolio | | | | 27,572 | 27,572 |
| Rental properties | | | 278,897 | | 278,897 |
| Rental properties under development | | | 390,399 | | 390,399 |
| Real estate owned (“REO”) | | | | 117,758 | 117,758 |
| Other assets (1) | 70,799 | 61,144 | 12,199 | 80,475 | 224,617 |
| Total assets | $801,607 | $394,977 | $725,805 | $236,274 | $2,158,663 |
| Debt (1) | $417,025 | $117,251 | $514,895 | $77,950 | $1,127,121 |
| Other liabilities | 29,772 | 70,078 | 30,329 | 136 | 130,315 |
| Members’ equity | 354,810 | 207,648 | 180,581 | 63,288 | 806,327 |
| Noncontrolling interest | | | | 94,900 | 94,900 |
| Total liabilities and equity | $801,607 | $394,977 | $725,805 | $236,274 | $2,158,663 |
| Company’s net investment in unconsolidated entities (2) | $214,060 | $76,120 | $110,454 | $12,226 | $412,860 |

(1) Included in other assets of the Structured Asset Joint Venture at October 31, 2015 is $78.0 million of restricted cash held in a defeasance account that was used to repay debt of the Structured Asset Joint Venture in December

2015.

(2) Differences between our net investment in unconsolidated entities and our underlying equity in the net assets of the entities are primarily a result of the acquisition price of an investment in a land development joint venture in fiscal 2012 that was in excess of our pro rata share of the underlying equity; impairments related to our investment in unconsolidated entities; interest capitalized on our investment; the estimated fair value of the guarantees provided to the joint ventures; and distributions from entities in excess of the carrying amount of our net investment.

Condensed Statements of Operations and Comprehensive Income:

| | For the three months ended January 31, 2016 | | | | |
|---|---|---|---|---|---|
| | Land Development Joint Ventures | Home Building Joint Ventures | Rental Property Joint Ventures | Structured Asset Joint Venture | Total |
| Revenues | $12,622 | $16,042 | $12,884 | $938 | $42,486 |
| Cost of revenues | 7,159 | 13,476 | 7,691 | 7,187 | 35,513 |
| Other expenses | 1,029 | 1,522 | 6,190 | 566 | 9,307 |
| Total expenses | 8,188 | 14,998 | 13,881 | 7,753 | 44,820 |
| Gain on disposition of loans and REO | | | | 25,983 | 25,983 |
| Income (loss) from operations | 4,434 | 1,044 | (997) | 19,168 | 23,649 |
| Other income (loss) | 821 | (73) | 75 | 182 | 1,005 |
| Net income (loss) | 5,255 | 971 | (922) | 19,350 | 24,654 |
| Less: income attributable to noncontrolling interest | | | | (11,610) | (11,610) |
| Net income (loss) attributable to controlling interest | 5,255 | 971 | (922) | 7,740 | 13,044 |
| Other comprehensive income | | | 87 | | 87 |
| Total comprehensive income (loss) | $5,255 | $971 | $(835) | $7,740 | $13,131 |
| Company’s equity in earnings of unconsolidated entities (3) | $5,006 | $343 | $1,742 | $1,547 | $8,638 |

| | For the three months ended January 31, 2015 | | | | |
|---|---|---|---|---|---|
| | Land Development Joint Ventures | Home Building Joint Ventures | Rental Property Joint Ventures | Structured Asset Joint Venture | Total |
| Revenues | $18,276 | $19,294 | $7,611 | $889 | $46,070 |
| Cost of revenues | 9,630 | 16,913 | 3,269 | 6,074 | 35,886 |
| Other expenses | 135 | 1,575 | 4,388 | 326 | 6,424 |
| Total expenses | 9,765 | 18,488 | 7,657 | 6,400 | 42,310 |
| Gain on disposition of loans and REO | | | | 7,631 | 7,631 |
| Income (loss) from operations | 8,511 | 806 | (46) | 2,120 | 11,391 |
| Other income | | 72 | | 586 | 658 |
| Net income (loss) | 8,511 | 878 | (46) | 2,706 | 12,049 |
| Less: income attributable to noncontrolling interest | | | | (1,623) | (1,623) |
| Net income (loss) attributable to controlling interest | 8,511 | 878 | (46) | 1,083 | 10,426 |
| Other comprehensive loss | | | (22) | | (22) |
| Total comprehensive income (loss) | $8,511 | $878 | $(68) | $1,083 | $10,404 |
| Company’s equity in earnings of unconsolidated entities (3) | $2,442 | $542 | $1,700 | $217 | $4,901 |

(3) Differences between our equity in earnings of unconsolidated entities and the underlying net income (loss) of the entities are primarily a result of a basis difference of an acquired joint venture interest, distributions from entities in excess of the carrying amount of our net investment, recoveries of previously incurred charges, and our share of the

entities' profits related to home sites purchased by us, which reduces our cost basis of the home sites acquired.

4. Investments in Foreclosed Real Estate and Distressed Loans

Investments in REO and distressed loans consisted of the following, as of the dates indicated (amounts in thousands):

| | January 31, 2016 | October 31, 2015 |
| --- | --- | --- |
| Investment in REO: | | |