

Toll Brothers

1999 ANNUAL REPORT



THE NATION'S LEADING BUILDER OF LUXURY HOMES

*our corporate profile
(at October 31, 1999)*



SOLID PERFORMANCE

*Seven consecutive years of record earnings
Eight consecutive years of record revenues
Eight consecutive years of record year-end backlog
Nine consecutive years of record sales contracts
31% compound average annual earnings growth since 1990
35 consecutive quarterly year-over-year records for sales contracts*

DIVERSIFIED TARGET MARKETS

*Move-up
Empty-nester
Active-adult, age-qualified
Golf course country club communities
Luxury single-family and multi-family product
Build in 18 states in six regions: West Coast, Southwest, Midwest, Southeast, Mid-Atlantic and Northeast*

GROWTH POTENTIAL

*Own or control over 32,000 homesites
Currently selling in 140 communities, up 44% over five years ago
Serve 36 affluent markets (MSAs) with 4.5 million households earning \$100,000 and above
Have identified more than one dozen markets for potential future expansion
Active in 12 of top 15 states for projected population growth – years 1995-2025*
Growing ancillary businesses: mortgage, title insurance, land sales, security, landscape, lawn maintenance, insurance brokerage, cable T.V. and broadband Internet access
Land acquisition, approvals and development capabilities support growing homebuilding and land sales operations
Apartment, office and retail development through Toll Brothers Realty Trust*

*U.S. Census Bureau

BRAND NAME REPUTATION

*Founded in 1967
Public since 1986 (symbol: TOL)
Traded on the New York Stock Exchange and Pacific Exchange
Average delivered home price of \$405,000
Fortune 1000 Company
1996 - **America's Best Builder (NAHB)**
1995 - **National Housing Quality Award (NAHB)**
1988 - **Builder of the Year (Professional Builder)***

FINANCIAL STRENGTH

*Investment grade corporate ratings from Standard & Poor's (BBB-), Moody's (Baa3), Duff & Phelps (BBB)
Backed by a \$440 million, 15-bank credit facility
Stockholders' equity has tripled in the last five years to \$616 million
Book value per share has grown at a 20% compound average annual rate since 1990 to \$16.91*

A LETTER TO OUR SHAREHOLDERS

*continuing expansion across
product lines and into new territories*

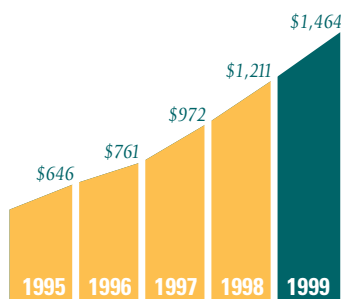
The combination of revenue growth in existing markets, expansion into new geographic areas, increased home sales to both move-up and empty-nester buyers and our entry into the active-adult, age-qualified market all contributed to make fiscal 1999 our best year ever.

We produced our seventh consecutive year of record earnings, our eighth consecutive year of record revenues and backlog, and our ninth consecutive year of record contracts. In our fourth quarter, we achieved our 35th consecutive quarterly year-over-year record for sales contracts, and the highest revenues and earnings for any quarter in our Company's history. This year we earned a spot in the Fortune 1000 and ranked first among the Construction and Engineering Group for net profit margins.

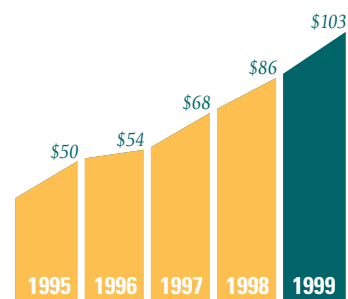
Our results were stellar in all areas except one, the performance of our stock price. Although Wall Street apparently believes that most industries will continue to benefit from a healthy economic cycle, based on the stock prices in our industry, the Street seems to think that the home building cycle will end shortly and be followed by a severe and lengthy recession.

We disagree. While fiscal 1999 was tremendous, fiscal 2000 has started out even better. Our sales are strong, the economy is healthy and the demographics that drive the luxury market are extremely positive. We began fiscal 2000 with a record 140 selling communities and a record backlog of nearly \$1.07 billion, up 31% from the year before. This backlog equates to nearly three-quarters of 1999's record home building revenues. In addition, through the first six weeks of fiscal 2000, our deposits are running 34% ahead of 1999's record pace. Therefore, we believe that fiscal 2000 will be another record year. And, based on current projections, we believe fiscal 2001 will be a record year as well.

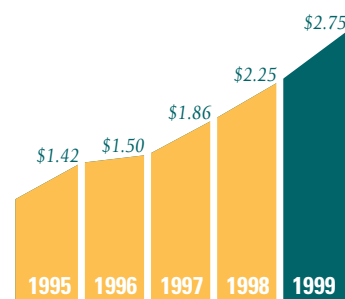
We think that, sooner rather than later, the market will recognize these factors and give our stock a valuation that more accurately reflects our strong growth potential and our track record of 31% compound average annual earnings growth throughout the 1990s.



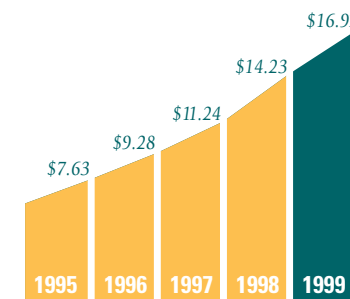
Total Revenues
(in millions)
5-Year Compound Annual Growth - 24%



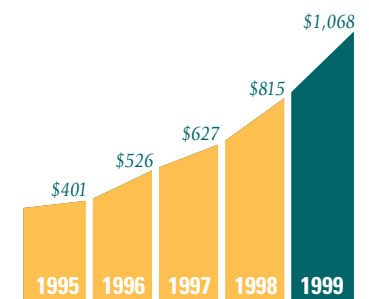
Income (in millions)
Before extraordinary items and change in accounting.
5-Year Compound Annual Growth - 23%



Income per Share (diluted)
Before extraordinary items and change in accounting.
5-Year Compound Annual Growth - 21%



**Book Value per Share
at October 31**
5-Year Compound Annual Growth - 23%



Sales Value of Contract Backlog at Oct. 31
(in millions)
5-Year Compound Annual Growth - 24%

We are very excited about the future. As the only major builder focused primarily on the luxury market, we are well positioned to benefit from the tremendous demographics of the coming decade. The number of households earning \$100,000 or more, in constant 1998 dollars, has grown at triple the rate of total U.S. households over the past 15 years and now totals 10.5 million households. The largest group of baby boomers, the four million born annually from 1954 to 1964, is entering its peak earning and move-up home buying years. The leading edge of the baby boom is moving into the empty-nester market, and the active-adult market is gaining momentum, with the number of 55-64 year-old households projected to grow by 50% in the coming decade.

With these powerful demographic trends as the backdrop, we will continue to pursue our strategic and disciplined growth program. The key elements are:

Growth Through Opportunistic Land Acquisitions and Value-Added Land Development:

We will continue to grow primarily by contracting for land in established, affluent markets; doing the legal and engineering work to gain approvals; taking title to the ground; then overseeing the construction of roads and amenities such as golf courses, clubhouses, pools and tennis courts.

One major reason for our industry-leading profit margins is our ability to gain approvals and permits, and improve our sites in an environment of increasing anti-development sentiment, growing government regulation and lengthy, expensive approval processes. With potential land shortages in many of our markets, the 32,000 lots we control have become a very valuable resource. We estimate we have over \$200 million of value in our land above our cost. Our substantial supply of land under contract in the approval pipeline will fuel our growth well into the next decade.



Left to right: **Douglas C. Yearley, Jr.**, Vice President; **Zvi Barzilay**, President and Chief Operating Officer; **Wayne S. Patterson**, Senior Vice President; **Joel H. Rassman**, Senior Vice President, Treasurer and Chief Financial Officer; **Bruce E. Toll**, Vice Chairman of the Board; **Robert I. Toll**, Chairman of the Board and C.E.O.

Diversification Across the Luxury Market Spectrum: By growing our two main product lines, move-up and empty-nester communities, and expanding into a third, active-adult, age-qualified communities, we'll reach three distinct groups of luxury buyers, each with tremendous growth potential. As we broaden the range of buyers we serve, we'll maximize the value of our brand name and benefit from greater economies of scale in marketing, purchasing and land acquisition efforts.

While the move-up market remains our largest niche, home sales to empty-nesters (50+ year-old buyers) now represent approximately

27% of total deliveries. In fiscal 1999, we entered our third niche, the active-adult market, as we opened our first two age-qualified communities totaling over 900 homesites. We also opened four large master planned, country club communities, with Arnold Palmer Signature golf courses, totaling over 4,000 lots. These master plans, which contain multiple Toll Brothers communities differentiated by product type, allow us to cross-market to all our target groups. We expect to open three more age-qualified communities and four more country club communities, totaling

approximately 5,000 lots, in the next 24 months.

Toll Brothers Realty Trust, the commercial property venture that we operate on behalf of Toll Brothers and co-investors, is developing and acquiring luxury apartment and office projects in our core markets. Retail and assisted living projects are also being planned. Through Toll Trust, Toll Brothers is building equity and generating financing, construction and management fees.

We are growing our ancillary businesses – mortgage, title insurance, land sales, security, insurance brokerage, landscape, lawn service, Internet and cable T.V. By expanding into varied types of housing and home-related services, we are leveraging our brand name for greater profitability.

Increasing Market Share in Current Territories: We have just started to ramp up in many of the the 36 markets where we build. Combined, these territories, which are located in 18 states in six U.S. regions, contain over 4.5 million households earning \$100,000 or more. With this huge reservoir of potential luxury buyers, we view the 3,555 homes we delivered nationally in fiscal 1999 as just the beginning. In our most mature markets of suburban Philadelphia and Central New Jersey, we typically deliver 500 to 700 homes annually. Many of our newer markets have higher numbers of affluent households and more building permits. By growing our market share in these newer territories, we could triple in size. And as we extend our sales to empty-nester and active-adult buyers, we could double again.

Expanding Geographically into New Markets: This year, we built our first homes in San Francisco, San Diego, Chicago and Detroit, and we acquired Silverman Homes, a leader in the Metro Detroit market. And we have identified another dozen markets with very attractive demographics.

Aligning our Financial Structure to

Support our Growth Strategy: In fiscal 1999, we extended the average maturity of our long-term debt to beyond 2007 and increased our bank credit facility to \$440 million. By reinvesting our earnings rather than paying dividends, we grew stockholders' equity by 17% to \$616 million. These steps, coupled with our investment grade ratings from Standard & Poor's, Moody's and Duff & Phelps, give us a solid financial foundation for the future.

Expanding our Brand by Maximizing Choice: Our brand name is associated with choice, quality, service and value. We enable our clients to create their dream homes by selecting from thousands of interior and exterior custom features. Our clients can make major structural additions such as guest suites, conservatories, four-car garages and elevators. By systematizing the process, we maintain big builder efficiencies, which translate into great value and quality for our buyers. Since our primary



competitors in the luxury market are smaller private builders, our financial and production strength gives us a great advantage.

Embracing Technology in all Aspects of our Business: In fiscal 1999, we welcomed the one-millionth visitor to our award-winning web site. Our site now hosts over 4,000 visitors daily who spend, on average, nearly fifteen minutes per visit. The Internet has become a key point of first contact for our clients. It also has revolutionized the way we advertise and market our homes, recruit new employees and communicate with our investors.

Technology drives our production process as well. We have computerized linkages at our architecture company and component manufacturing plants that enable us to manage the design and production of thousands of luxury homes each year.

As the decade comes to a close, we are proud of what our team has accomplished. Since 1990, we have grown revenues from \$200 million to \$1.46 billion and earnings from under \$10 million to over \$100 million. Our operating and net profit margins have

remained at the top of the industry and we have expanded from five to 18 states. Our goals for the coming decade are to continue producing outstanding growth in revenues and earnings; to keep expanding with a focus on profitability; and to continue delivering uncompromising quality and value to our homeowners and shareholders.

We thank our shareholders for their patience and support, our home buyers for their confidence in us, and our associates for their outstanding accomplishments of this past year.

ROBERT I. TOLL
Chairman of the Board and
Chief Executive Officer

BRUCE E. TOLL
Vice Chairman
of the Board

ZVI BARZILAY
President and
Chief Operating Officer

December 13, 1999



LAND: THE HEART OF OUR BUSINESS

*growth through opportunistic land acquisitions
and value-added land development*

We are opportunistic land acquisition specialists. We have over 100 employees who devote much of their time to locating sites for new communities. In the markets we have grown up in, large builders take their own sites through complex planning and approval processes, then manage the construction of infrastructure and amenities so they can start building homes. By doing this for over thirty years, we have become land development experts. We have our own land development teams and our own engineering company, Eastern States Engineering, which provide expertise in all our regions and have the capability to manage major projects such as golf course construction, master planned community development and highway construction.

With increasingly expensive and contentious approval processes and greater governmental oversight, builders in many of our markets are facing lot shortages, as not enough new lots are coming on line to meet current or future demand. Since we own or control over 32,000 lots, more than 50% of which are already approved, and we have the financial resources and expertise to persevere through lengthy approval processes, these shortages should benefit our bottom line.

Many builders are reluctant to take land through the approval process or develop it once approvals are in place; instead they pay higher prices to purchase fully approved and improved lots from land developers. With our experience, we prefer to capture the extra profits that come from developing sites ourselves; this is reflected in our industry-leading profit margins. We are not pioneers; we minimize risk because we focus on land in established, affluent markets. And, although we place land under contract before we start the approval process, we generally do not take title to the land until we have secured the approvals.

We can build profitable communities of as few as 25 homes or as many as several thousand homes. We currently are developing eight master planned country club communities, six with Arnold Palmer Signature golf courses, which will total nearly 8,000 homes when complete. These communities are in excellent locations: Orange County, California; Northville, Michigan, an affluent Detroit suburb; Palm Beach, Boca Raton and Naples, Florida; Raleigh, North Carolina, just south of the Research Triangle; and Loudoun and Prince William Counties in Northern Virginia's booming technology corridor.

focus on **NORTHVILLE HILLS GOLF CLUB, WAYNE COUNTY, MICHIGAN**

In the summer of 1997, the County of Wayne, Michigan selected Toll Brothers to be master developer of a 923-acre planned unit development in the Township of Northville, northwest of Detroit. Preparing this site, formerly owned by the County, required, among other things, the demolition of 36 buildings and several miles of concrete tunnels. With the completion of the approvals and land development work, we have now started building the first of 343 luxury homes in three move-up and empty-nester product lines. We are also building Southeastern Michigan's first Arnold Palmer Signature golf course, significant recreational amenities and up to 320 multi-family residences. We are combining the tremendous local knowledge of Silverman Homes, the Metro Detroit builder we recently purchased, with Toll Brothers' brand name expertise in the luxury market.

We opened for sale this November, three years after starting our initial reviews. The time has been well spent. The night before we opened, 40 buyers camped out to ensure they would receive the lots of their choice for homes averaging over \$500,000. Over the next five years, we expect total revenues of approximately \$200 million from Northville Hills.





DIVERSIFYING ACROSS THE LUXURY RESIDENTIAL SPECTRUM

*serving affluent customers with
multiple product lines and businesses*

We now serve three distinct for-sale housing markets. Our largest niche, which we have served for over 30 years, is move-up buyers, typically growing families in their mid-30s to late 40s purchasing a larger home. Our second niche, which we entered in the early 1990s, is empty-nester buyers. These are generally 50+ year-old buyers trading an older house for a new, often smaller, more highly amenitized luxury home or buying a second home in a lifestyle location such as Florida, Nevada or Arizona. Third, and most recently, we have begun to serve the active-adult market. These buyers typically are retirees or pre-retirees purchasing a luxurious, state-of-the-art home designed for one-story living in a maintenance-free, country club-style, age-qualified community.

Toll Brothers is branching out into the commercial property arena as well. We are finalizing a joint venture with a major assisted living company to develop an 86-unit, assisted living residence adjacent to a 355-home Toll Brothers community in Fairfax County, Virginia. Assisted living communities are a logical addition to the array of residential living alternatives we offer.

Through Toll Brothers Realty Trust, Toll Brothers and co-investors will be developing luxury apartment communities in Virginia, Michigan and New Jersey. Dulles Greene, Toll Trust's initial apartment project, in Fairfax County, consists of two phases totaling 806 apartments. The first phase should be completed in Spring 2000. Toll Trust is planning the development of several major retail and office sites attached to larger parcels acquired by Toll Brothers on which it will build for-sale homes. And Toll Trust is making opportunistic acquisitions of existing office buildings in our core markets. These activities generate development, finance and management fees for Toll Brothers and have the potential to build long-term equity through property value appreciation.

Our long-term goal is to develop customers for life by providing a wide range of housing alternatives, real estate and home-related services. We are growing ancillary businesses in mortgage, title insurance, land sales, security, insurance brokerage, lawn maintenance, landscape, Internet and cable T.V. These businesses will generate additional profits as we leverage our purchasing power to provide customers with convenient one-stop shopping for home-related needs at competitive prices.

focus on **BELMONT COUNTRY CLUB, LOUDOUN COUNTY, VIRGINIA**

Imagine a community on 1,200 spectacular rolling acres with an 18-hole, 7,200-yard Arnold Palmer Signature golf course and an elegant country club, located in the heart of the technology boom in Northern Virginia. That's Belmont Country Club, Toll Brothers' flagship community in the Metro D.C. suburb of Loudoun County, the nation's third fastest growing county.

Belmont showcases the broad range of products we offer. When complete, it will include nearly 1,750 homes in 12 distinct move-up and empty-nester product lines, numerous recreational amenities and a new 36,000 square foot clubhouse incorporating the fully restored Belmont Manor House, built in 1790 and listed on the National Historic Register. Based on current projections, Belmont home sales revenues should total more than \$600 million over the next nine years.

Also planned are approximately 200 luxury apartments and 1.85 million square feet of office and retail space, a portion of which will be developed by Toll Brothers Realty Trust. We are actively cross-marketing Toll Brothers' ancillary businesses to the future residents of this community. With strong buyer interest and first home deliveries planned for the early summer of 2000, Belmont Country Club is off to an exciting start.





DEMOGRAPHICS-DRIVEN EXPANSION

*within current and
new geographic markets*

In the coming decade, household formations are projected to increase in numbers comparable to their growth during the booming 1990s. While this should benefit the entire new home market, the luxury sector will enjoy even more attractive demographics. In the coming decade, our target markets – move-up, empty-nester and active-adult, age-qualified buyers – are projected to increase in both size and affluence.

The typical first-time home buyer is now 32 years of age. The largest group of baby boomers, the 4 million born annually between 1954 and 1964, are now 35 to 45 years of age and in their prime move-up home-buying years. The first baby boomers are entering the empty-nester market, which will grow dramatically in the coming decade. And with 55–64 year-old households projected to grow by 50% through 2010, our burgeoning active-adult, age-qualified product should gain momentum.

There are now over 10.5 million U.S. households with incomes of \$100,000 or more, in constant 1998 dollars; 4.5 million of them are

located in our current markets. With this huge pool of potential buyers, we believe we have tremendous room for growth.

In our most mature markets, the Philadelphia suburbs and Central New Jersey, we typically deliver homes totaling about 6% to 7% of all single-family housing permits. If we are able to grow to just 3% of the market in our newer territories, we could triple our current size. We believe this is achievable because many of our newer markets have stronger demographics and more robust housing markets than either Metro Philadelphia or Central New Jersey.

We are getting there in Metro D.C., where our deliveries in the coming year will represent about 2% of the market, and in Scottsdale/Phoenix, where we expect to deliver over 1% of the market. Based on the strong demographics, we are looking forward to significant growth in California, Florida, Texas, Michigan, Illinois and many other markets in the coming decade. As we seek to extend our empty-nester product and our active-adult, age-qualified communities into all our markets around the country, we could double in size again.

focus on **RIVIERA AT WESTLAKE, OCEAN COUNTY, NEW JERSEY**

By 2010, the wave of baby boomers now driving the move-up and empty-nester markets will be heading toward the active-adult market. In anticipation, we are already developing highly amenitized age-qualified communities to serve this niche.

Riviera at Westlake is one of five active-adult, age-qualified Toll Brothers communities, totaling over 2,500 homesites, either already open or expected to open in the next two years. Riviera at Westlake includes 625 single-family homes ranging in size from approximately 1,500 square feet to 2,300 square feet. Based on current sales prices, we project Riviera at Westlake will generate total revenues in excess of \$125 million over the next six years.

The community's amenities, which we are developing jointly with another major builder, will include a 35,000 square foot clubhouse, an 18-hole, 6,400-yard Arthur Hills golf course, tennis and swimming facilities. Having built homes in Central New Jersey for nearly 20 years, our brand name is attracting customers who know of our reputation for quality, luxury and value. Customers are drawn to Riviera at Westlake's maintenance-free lifestyle and the opportunity for luxury customization. In many cases, they are adding custom features equal to 50% of the base cost of their homes. It is clear that, while many buyers may be downsizing in square footage, they are upscaling on luxury.





MAXIMIZING CHOICE: THE TOLL BROTHERS SYSTEM

*customization and service
in the age of choice*

Our customers want the freedom to design and extensively customize their homes without the headaches and time investment required to start from scratch. Over the past 33 years, we have developed a unique homebuilding system to do exactly that for busy luxury buyers. We are the land provider, the architect, the builder, and, to a significant extent, the interior designer. Working with our sales team at our on-site design centers, our buyers not only select from dozens of floor plans and features such as cabinets and flooring, but they can add major structural additions such as spacious guest suites, media rooms, two-story conservatories and elevators.

The luxury market typically has been the domain of smaller private builders with the flexibility and hands-on management style to serve demanding luxury buyers. We have structured our project management system to incorporate the best aspects of a small builder's operation, while retaining the beneficial economies of scale of a large production builder. All team members in our communities

– sales personnel, construction managers, land development experts – report to our project managers (PMs). In consultation with regional vice presidents, PMs make decisions on marketing, pricing, product offerings, community design and a myriad of other issues. In this way a PM can operate with the nimbleness and flexibility of a small builder, controlling all aspects of the community at the ground level.

Our PMs have a significant advantage over the smaller luxury builders with whom we generally compete. Backed by our Fortune 1000 company, they do not have to spend time negotiating commodity purchases, arranging financing or running back-office operations. Toll Brothers purchases appliances, windows, doors and other home components through national contracts with major suppliers. Toll Brothers' financial network delivers reliable, low-cost capital through the public markets and a global team of banks. And Toll Brothers provides PMs with the marketing firepower, management systems and corporate support that frees them to devote their time to satisfying our home buyers.

focus on

THE OAKS AT SAN RAMON HEIGHTS, CONTRA COSTA COUNTY, CALIFORNIA

San Ramon Heights is a beautiful property of rolling hills located east of San Francisco across the Bay Bridge. After a two year approval process, we won the right to build two communities on the property: The Oaks, a community of 78 single-family estate homes, and The Orchards, a community of 74 patio homes. Based on current projections, total revenues from these communities should reach \$85 million over the next two years.

The Oaks is our first estate home community in Northern California. Buyers have been very enthusiastic about our customization program since California builders do not generally offer customers the opportunity to mix and match homes and homesites. In contrast, our buyers can choose their homesites, then select and extensively customize their dream homes with features such as our popular 1,200 square foot finished lower level that looks out onto the community's lovely hills and oak trees.

At The Oaks, we started selling from a trailer in January 1999. Demand was so strong that we sold one-third of the homes before our models were even open, which is unusual for a builder brand new to the San Francisco market. We have raised prices nearly \$70,000 since opening. Our average home price is now approximately \$725,000, over 20% above our original projections. By introducing California buyers to Toll Brothers' unique customization system, we have already made our entry into the San Francisco Bay area a dramatic success.





EMBRACING TECHNOLOGY

*from design to delivery,
state-of-the-art systems guide the way*

We integrate technology into all aspects of our business. It allows us to achieve better quality, reduce costs, produce more efficiently, market nationally and stay at the forefront of our industry.

Via the Internet, we can serve buyers in California seeking to relocate to Michigan, or Pennsylvania residents searching for a second home in Arizona. This October, we welcomed the one millionth visitor to our web site, www.tollbrothers.com. Not only do we have an average of 4,000 visitors daily, but their average visit lasts nearly fifteen minutes. That's because at our site a visitor can tour our homes and communities across the country. After choosing a specific model, a potential buyer can take an interactive panoramic or video tour of that home, fully furnished, room-by-room.

The Internet has already reduced our marketing and advertising costs. It now outpaces newspapers as our primary recruitment source for potential new employees, driving down our cost per hire. The Internet helps us to monitor lumber shipments on the rails as they cross the country. Through our newest subsidiary, Advanced Broadband

Communications, L.P., we are laying the groundwork for building the technology infrastructure to offer high-quality digital and analog cable T.V. and broadband Internet access to our customers.

Technology is also key to our production and customization program. Through computerization at Toll Architecture, we pre-design thousands of combinations of home types and pre-budgeted options. Once our buyers select their homes and custom features from our hundred-page customization catalogue, we can produce their individual house plans in great detail in very short order. At our manufacturing operation, Toll Integrated Systems (TIS), we then produce the wall panels, roof trusses, floor trusses and other components on computerized production machines to build thousands of our homes in our Northeast and Mid-Atlantic markets. We also export TIS's technology to other markets via subcontracts with local truss plant manufacturers in the Midwest, Southeast and New England. We are well on the way to our goal of developing this capacity in all our markets nationwide.

focus on **ADVANCED BROADBAND COMMUNICATIONS, L.P.**

We have formed a new subsidiary, Advanced Broadband Communications, focused on developing integrated, multi-media services for Toll Brothers' customers nationwide. We have begun installing state-of-the-art broadband fiber optic networks in Toll Brothers' master planned communities. This infrastructure will allow us to offer our home buyers hundreds of digital cable television channels as well as high-speed data and Internet access. Private local area networks within each community will facilitate the addition of numerous other value-added, community-specific services.

Homeowners will have access to an "always-on" high-bandwidth data connection that will enable them to surf the net at extremely high speeds, schedule golf tee-times, arrange for babysitters or make reservations at local restaurants. Intranet users will eventually have access to pay-per-use services such as bandwidth-on-demand Internet access, use of networked software applications and computer gaming. Other planned future services include video conferencing, Internet telephony, streaming video and other such bandwidth-intensive applications. Our high-speed community network will eliminate the infamous, "last-mile" bottleneck, and open the door to a virtually unlimited portfolio of emerging broadband applications and services. With our affluent, sophisticated buyers and the approximately 8,000 new homes we plan to build in our country club communities, we believe that our new telecommunications subsidiary will continue Toll Brothers' tradition of delivering superior quality of life enhancements to our buyers.



FISCAL REGIONAL

*highlights from
we build in*



THE NORTHEAST

New Jersey • New York & Connecticut • Massachusetts

With a booming economy, demand in our Northeast markets is very strong. We have enjoyed significant price increases and now have our first community, Armonk Ridge, in Westchester County, New York, with base home prices above \$1 million. We have entered the Hartford, Connecticut market and expect to be in Rhode Island soon. In New Jersey, we are serving move-up, empty-nester and active-adult buyers. Demand is exceeding supply in many local markets, so housing prices continue to rise. Our year-end backlog in New Jersey was up 20% compared to one year ago, which bodes well for solid revenue growth in fiscal 2000.

| | NJ | NY/CT | MA |
|---|-------|-------|-------|
| Revenues (in millions) | \$279 | \$86 | \$36 |
| Contracts (in millions) | \$315 | \$128 | \$40 |
| Lots Owned or Controlled | 6,343 | 725 | 503 |
| Year-end Backlog (in millions) | \$210 | \$104 | \$32 |
| Average Price in Backlog (in thousands) | \$432 | \$605 | \$497 |

THE MID-ATLANTIC

Pennsylvania & Delaware • Maryland • Virginia

In Metro Philadelphia and Delaware, rising home prices and attractive land positions resulted in 27% revenue growth in fiscal 1999. We are the dominant luxury builder in the Metro D.C. market. Our Northern Virginia properties include Belmont Country Club, Loudoun County, and Dominion Valley Country Club, Prince William County. Dominion, which will have an Arnold Palmer Signature golf course and 2,700 homes, will begin sales in late 2000. In March 1999, we purchased the remaining approximately 3,500 homesites and commercial sites at South Riding, Loudoun County's largest master planned community. Since then, we have delivered 363 homesites to other builders and are building our own homes as well.

| | PA/DE | MD | VA |
|---|-------|-------|-------|
| Revenues (in millions) | \$336 | \$72 | \$141 |
| Contracts (in millions) | \$321 | \$85 | \$176 |
| Lots Owned or Controlled | 3,989 | 1,006 | 7,596 |
| Year-end Backlog (in millions) | \$156 | \$47 | \$109 |
| Average Price in Backlog (in thousands) | \$449 | \$448 | \$453 |

THE SOUTHEAST

North Carolina • Tennessee • Florida

In Florida, our Arnold Palmer Signature golf courses are now open at both Mizner Country Club near Boca Raton and Naples Lakes Country Club in Naples, communities of 496 homes and 731 homes, respectively. Home deliveries for both of these multi-product communities should begin in mid-2000. In North Carolina, Brier Creek Country Club, located five minutes from Raleigh's Research Triangle, is open for sale. Our Arnold Palmer Signature golf course there will open for play in late 2000 and the first of over 1,000 homes in multiple move-up and empty-nester product lines will be delivered beginning in late 2000.

| | NC | TN | FL |
|---|-------|-------|-------|
| Revenues (in millions) | \$34 | \$5 | \$74 |
| Contracts (in millions) | \$46 | \$7 | \$71 |
| Lots Owned or Controlled | 1,335 | 326 | 2,097 |
| Year-end Backlog (in millions) | \$21 | \$5 | \$50 |
| Average Price in Backlog (in thousands) | \$379 | \$450 | \$532 |



L 1999 ROUND-UP

*the six regions
nationwide*

THE SOUTHWEST

Arizona • Nevada • Texas

In Arizona in fiscal 1999, our revenues nearly doubled to \$167 million. We currently have 14 Scottsdale/Phoenix communities selling as "Geoffrey H. Edmunds & Associates – a Toll Brothers Company." In Texas, where we build in Dallas and Austin, revenues grew by 55%. In Las Vegas, Nevada, we continue to open communities in Summerlin, the area's largest master planned community, and will soon open at MacDonald Highlands. Since purchasing Coleman Homes in 1997, we have repositioned the operation to focus on the luxury niche for which Toll Brothers is known. The average price of our Las Vegas homes in backlog has increased from \$170,000 in fiscal 1998 to over \$300,000 in fiscal 1999.

| | AZ | NV | TX |
|--|--------------|--------------|--------------|
| Revenues (in millions) | \$167 | \$34 | \$45 |
| Contracts (in millions) | \$162 | \$42 | \$59 |
| Lots Owned or Controlled | 1,275 | 526 | 907 |
| Year-end Backlog (in millions) | \$110 | \$17 | \$43 |
| Average Price in Backlog (in thousands) | \$421 | \$302 | \$421 |

THE MIDWEST

Ohio • Illinois • Michigan

With operations now in Detroit, Chicago and Columbus, we are building our brand name in the Midwest. In Detroit, we have 13 selling communities including Northville Hills Golf Club and Heritage in the Hills, an active-adult community in Auburn Hills. Soon to open is Harbor Lake of Novi, a unique 570-home master planned community centered around a 175-acre lake with beachfront parks, swimming, boating and other water recreation. In Chicago, sales prices are averaging nearly \$700,000 at our first two communities, located north of the city in affluent Lake County. One of our first models, the Claridge, recently won top awards from the Home Builders Association of Greater Chicago.

| | OH | IL | MI |
|--|--------------|--------------|--------------|
| Revenues (in millions) | \$11 | na | \$57 |
| Contracts (in millions) | \$14 | \$14 | \$64 |
| Lots Owned or Controlled | 258 | 102 | 3,213 |
| Year-end Backlog (in millions) | \$12 | \$14 | \$57 |
| Average Price in Backlog (in thousands) | \$414 | \$695 | \$297 |

THE WEST COAST

Los Angeles, San Francisco, San Diego & Palm Springs

We opened our first six San Francisco Bay area communities in fiscal 1999. In Metro Los Angeles' Orange County, at Coto de Caza, our estate line homes are selling for over \$900,000. This summer, we look forward to opening Vista del Verde, the Orange County golf course community we are developing with Shell and Mobil's Aera Energy LLC. Toll Brothers will build up to 256 homes and the joint venture will offer approximately 490 lots to other builders. At Rancho Carrillo in Carlsbad, San Diego County, our homes are averaging \$650,000. In the Palm Springs market, we just acquired our first 302 lots, around a beautiful Gary Player golf course.

| | CA |
|--|--------------|
| Revenues (in millions) | \$60 |
| Contracts (in millions) | \$98 |
| Lots Owned or Controlled | 1,895 |
| Year-end Backlog (in millions) | \$81 |
| Average Price in Backlog (in thousands) | \$560 |





Toll Brothers' Eleven-Year Financial Summary

Summary Consolidated Income Statement Data (Amounts in thousands, except per share amounts)

| Year ended October 31 | 1999 | 1998 | 1997 | 1996 | 1995 | 1994 | 1993 | 1992 | 1991 | 1990 | 1989 |
|--|-------------|-------------|------------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|
| Revenues | \$1,464,115 | \$1,210,816 | \$ 971,660 | \$760,707 | \$646,339 | \$504,064 | \$395,261 | \$281,471 | \$177,418 | \$200,031 | \$178,683 |
| Income before income taxes, extraordinary items and change in accounting | \$ 162,750 | \$ 134,293 | \$ 107,646 | \$ 85,793 | \$ 79,439 | \$ 56,840 | \$ 43,928 | \$ 28,864 | \$ 6,248 | \$ 14,964 | \$ 21,520 |
| Income before extraordinary items and change in accounting | \$ 103,027 | \$ 85,819 | \$ 67,847 | \$ 53,744 | \$ 49,932 | \$ 36,177 | \$ 27,419 | \$ 17,354 | \$ 3,717 | \$ 8,904 | \$ 13,127 |
| Net income | \$ 101,566 | \$ 84,704 | \$ 65,075 | \$ 53,744 | \$ 49,932 | \$ 36,177 | \$ 28,058 | \$ 16,538 | \$ 5,013 | \$ 9,988 | \$ 13,127 |
| Income per share | | | | | | | | | | | |
| Basic: | | | | | | | | | | | |
| Income before extraordinary items and change in accounting | \$ 2.81 | \$ 2.35 | \$ 1.99 | \$ 1.59 | \$ 1.49 | \$ 1.08 | \$ 0.83 | \$ 0.53 | \$ 0.12 | \$ 0.30 | \$ 0.44 |
| Net income | \$ 2.77 | \$ 2.32 | \$ 1.91 | \$ 1.59 | \$ 1.49 | \$ 1.08 | \$ 0.84 | \$ 0.50 | \$ 0.16 | \$ 0.34 | \$ 0.44 |
| Weighted average number of shares | 36,689 | 36,483 | 34,127 | 33,865 | 33,510 | 33,398 | 33,231 | 33,022 | 31,248 | 29,714 | 29,944 |
| Diluted: | | | | | | | | | | | |
| Income before extraordinary items and change in accounting | \$ 2.75 | \$ 2.25 | \$ 1.86 | \$ 1.50 | \$ 1.42 | \$ 1.05 | \$ 0.82 | \$ 0.52 | \$ 0.12 | \$ 0.30 | \$ 0.44 |
| Net income | \$ 2.71 | \$ 2.22 | \$ 1.78 | \$ 1.50 | \$ 1.42 | \$ 1.05 | \$ 0.84 | \$ 0.50 | \$ 0.16 | \$ 0.34 | \$ 0.44 |
| Weighted average number of shares | 37,436 | 38,360 | 37,263 | 36,879 | 36,360 | 35,655 | 33,467 | 33,234 | 31,412 | 29,714 | 29,970 |

Summary Consolidated Balance Sheet Data (Amounts in thousands, except per share amounts)

| As of October 31 | 1999 | 1998 | 1997 | 1996 | 1995 | 1994 | 1993 | 1992 | 1991 | 1990 | 1989 |
|---|-------------|-------------|-------------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|
| Inventory | \$1,443,282 | \$1,111,223 | \$ 921,595 | \$772,471 | \$623,830 | \$506,347 | \$402,515 | \$287,844 | \$222,775 | \$240,155 | \$256,934 |
| Total assets | \$1,668,062 | \$1,254,468 | \$1,118,626 | \$837,926 | \$692,457 | \$586,893 | \$475,998 | \$384,836 | \$312,424 | \$316,534 | \$348,163 |
| Debt | | | | | | | | | | | |
| Loans payable | \$ 213,317 | \$ 182,292 | \$ 189,579 | \$132,109 | \$ 59,057 | \$ 17,506 | \$ 24,779 | \$ 25,756 | \$ 49,943 | \$ 71,707 | \$ 95,508 |
| Subordinated debt | 469,418 | 269,296 | 319,924 | 208,415 | 221,226 | 227,969 | 174,442 | 128,854 | 55,513 | 61,474 | 69,681 |
| Collateralized mortgage obligations payable | 1,145 | 1,384 | 2,577 | 2,816 | 3,912 | 4,686 | 10,810 | 24,403 | 39,864 | 45,988 | 52,617 |
| Total | \$ 683,880 | \$ 452,972 | \$ 512,080 | \$343,340 | \$284,195 | \$250,161 | \$210,031 | \$179,013 | \$145,320 | \$179,169 | \$217,806 |
| Stockholders' equity | \$ 616,334 | \$ 525,756 | \$ 385,252 | \$314,677 | \$256,659 | \$204,176 | \$167,006 | \$136,412 | \$117,925 | \$ 94,599 | \$ 85,400 |
| Number of shares outstanding | 36,454 | 36,935 | 34,275 | 33,919 | 33,638 | 33,423 | 33,319 | 33,087 | 32,812 | 29,684 | 29,913 |
| Book value per share | \$ 16.91 | \$ 14.23 | \$ 11.24 | \$ 9.28 | \$ 7.63 | \$ 6.11 | \$ 5.01 | \$ 4.12 | \$ 3.59 | \$ 3.19 | \$ 2.85 |
| Return on beginning stockholders' equity | 19.3% | 22.0% | 20.7% | 20.9% | 24.5% | 21.7% | 20.6% | 14.0% | 5.3% | 11.7% | 18.0% |

Home Data

| Year ended October 31 | 1999 | 1998 | 1997 | 1996 | 1995 | 1994 | 1993 | 1992 | 1991 | 1990 | 1989 |
|---|-------------|-------------|-------------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|
| Number of homes closed | 3,555 | 3,099 | 2,517 | 2,109 | 1,825 | 1,583 | 1,324 | 1,019 | 676 | 727 | 676 |
| Sales value of homes closed <i>(in thousands)</i> | \$1,438,171 | \$1,206,290 | \$ 968,253 | \$759,303 | \$643,017 | \$501,822 | \$392,560 | \$279,841 | \$175,971 | \$198,336 | \$176,864 |
| Number of homes contracted | 3,845 | 3,387 | 2,701 | 2,398 | 1,846 | 1,716 | 1,595 | 1,202 | 863 | 612 | 704 |
| Sales value of homes contracted <i>(in thousands)</i> | \$1,640,990 | \$1,383,093 | \$1,069,279 | \$884,677 | \$660,467 | \$586,941 | \$490,883 | \$342,811 | \$230,324 | \$163,975 | \$185,255 |
| Number of homes in backlog | 2,381 | 1,892 | 1,551 | 1,367 | 1,078 | 1,025 | 892 | 621 | 438 | 251 | 366 |
| Sales value of homes in backlog <i>(in thousands)</i> | \$1,067,685 | \$ 814,714 | \$ 627,220 | \$526,194 | \$400,820 | \$370,560 | \$285,441 | \$187,118 | \$124,148 | \$ 69,795 | \$104,156 |
| Average number of selling communities | 133 | 120 | 104 | 97 | 86 | 72 | 61 | 48 | 40 | 38 | 30 |

Management's Discussion and Analysis

Results of Operations

The following table sets forth comparisons of certain income statement items related to the Company's operations (dollars in millions):

| Year Ended October 31 | 1999 | | 1998 | | 1997 | |
|--|----------------|-------------|----------------|-------------|--------------|-------------|
| | \$ | % | \$ | % | \$ | % |
| Home sales | | | | | | |
| Revenues | 1,438.2 | | 1,206.3 | | 968.3 | |
| Costs | 1,117.9 | 77.7 | 933.9 | 77.4 | 748.3 | 77.3 |
| Land sales | | | | | | |
| Revenues | 17.3 | | | | | |
| Costs | 13.4 | 77.1 | | | | |
| Interest and other | 8.6 | | 4.5 | | 3.4 | |
| Total revenues | 1,464.1 | | 1,210.8 | | 971.7 | |
| Selling, general and administrative expenses | 130.2 | 8.9 | 106.7 | 8.8 | 86.3 | 8.9 |
| Interest expense | 39.9 | 2.7 | 35.9 | 3.0 | 29.4 | 3.0 |
| Total costs and expenses | 1,301.4 | 88.9 | 1,076.5 | 88.9 | 864.0 | 88.9 |
| Operating income | 162.7 | 11.1 | 134.3 | 11.1 | 107.7 | 11.1 |

Note: Percentages for selling, general and administrative expenses, interest expense, and total costs and expenses are based on total revenues.

Fiscal 1999 Compared to Fiscal 1998

Home Sales

Revenues from home sales for fiscal 1999 as compared to 1998 increased by approximately \$232 million, or 19%. The increase in revenues was attributable to a 15% increase in the number of homes delivered and a 4% increase in the average price of the homes delivered. The increased number of homes delivered was due to the greater number of communities from which the Company was delivering homes in fiscal 1999 as compared to fiscal 1998, the larger backlog of homes at the beginning of 1999 as compared to the beginning of 1998, and an increase in the number of homes sold during fiscal 1999 over the number sold in fiscal 1998. Part of the increase in the number of communities was attributable to the acquisition of the homebuilding operations of the Silverman Companies in March 1999.

The increase in the average selling price per home delivered in fiscal 1999 as compared to fiscal 1998 was the result of a shift in the location of homes delivered to more expensive areas, changes in product mix to larger homes and increases in selling prices, offset in part by the delivery of lower priced products of the Silverman Companies.

The value of new sales contracts signed in fiscal 1999 amounted to \$1.64 billion (3,845 homes) compared to \$1.38 billion (3,387 homes) in fiscal 1998. The increase in the value of new contracts signed was primarily attributable to an increase in the number of communities in which the Company was offering homes for sale, an increase in the number of contracts signed per community and an increase in the average selling price of the homes (due primarily to the location, size and increase in base selling prices).

As of October 31, 1999, the backlog of homes under contract was \$1.07 billion (2,381 homes), approximately 31% higher than the \$815 million (1,892 homes) backlog as of October 31, 1998. The

increase in backlog at October 31, 1999 was primarily attributable to the increase in the number of new contracts signed and price increases, as previously discussed.

Home costs as a percentage of home revenues increased in 1999 as compared to 1998. The increase was the result of the higher percentage of closings from some of the Company's newer markets (Arizona, Florida, Nevada, North Carolina, Texas and Michigan) in 1999, which generally had higher costs as a percentage of revenues as compared to the Company's more established markets. The Company also had higher inventory write-offs in 1999 (\$5.1 million) as compared to 1998 (\$2.0 million). These cost increases were partially offset by lower costs as a percentage of revenues in the Company's more established markets resulting from increased selling prices and lower overhead costs.

Land Sales

In March 1999, the Company acquired land for homes, apartments, retail, office and industrial space in the master planned community of South Riding, located in Loudoun County, Virginia. The Company will use some of the property for its own homebuilding operations and also will sell homesites and commercial parcels to other builders. Land sales revenues from South Riding, which amounted to \$17.3 million in fiscal 1999, should continue for the next several years.

Interest and Other Income

The increase in interest and other income in fiscal 1999 as compared to fiscal 1998 was primarily the result of the Company's expansion of its ancillary businesses such as title insurance, mortgage operations and construction management.

Selling, General and Administrative Expenses ("SG&A")

SG&A expenses for fiscal 1999 increased by \$23.5 million over 1998. The increased spending was primarily attributable to the increased number of communities in which the Company was operating, the geographic expansion of the Company's homebuilding operations, the increase in the number of homes sold and the expansion of the Company's ancillary businesses. As a percentage of revenues, SG&A in fiscal 1999 was slightly higher than in fiscal 1998.

Fiscal 1998 Compared to Fiscal 1997

Home Sales

Revenues from home sales of \$1.2 billion for fiscal 1998 exceeded fiscal 1997 revenues by \$238 million, or 25%. The increase was primarily due to a 23% increase in the number of homes delivered. The increase in the number of homes delivered was the result of the higher backlog of homes at the beginning of fiscal 1998 as compared to the beginning of fiscal 1997 and an increase in the number of homes sold during fiscal 1998 over the number of homes sold in fiscal 1997. The Company signed \$1.38 billion (3,387 homes) of new sales contracts in fiscal 1998, a 29% increase over the \$1.07 billion (2,701 homes) of new sales contracts signed in fiscal 1997. The increase in new sales contracts signed in fiscal 1998 was the result of an increase in the average number of selling communities in 1998 compared to 1997, an increase in the number of homes sold per community and an increase in the average sales price per home. The increase in the number of selling communities was the result of the Company's expansion in its newer markets and its entry into the Las Vegas market in November 1997. The increase in the average sales price per home was the result of the shift in the location of homes sold to more expensive areas, a change in product mix to larger homes, an increase in base selling prices and an increase in the total price of options that homebuyers selected.

Home costs were higher as a percentage of home revenues in fiscal 1998 as compared to fiscal 1997 due to increased material costs and increased costs in the Company's newer markets resulting from generally higher construction costs as a percentage of selling price, and the relatively less efficient construction and construction-related activities, in these markets. Although, the Company became more efficient in its newer markets during fiscal 1998, as compared to fiscal 1997, the increase in revenues from these

newer markets as a percentage of total revenues resulted in the increase in the overall percentage of land and construction costs as a percentage of revenues. These increases were partially offset by decreased land and land development costs and decreased overhead costs.

SG&A amounted to \$106.7 million in fiscal 1998, a 24% increase over the \$86.3 million spent in fiscal 1997. The increase in spending was primarily attributable to the increase in number of homes delivered, the increased number of selling communities and the Company's continued geographic expansion. As a percentage of revenues, SG&A declined slightly in fiscal 1998 as compared to fiscal 1997 due to revenues increasing at a faster rate than spending.

Interest Expense

The Company determines interest expense on a specific lot-by-lot basis for its homebuilding operations and on a parcel-by-parcel basis for its land sales. As a percentage of total revenues, interest expense will vary depending on many factors including the period of time that the land was owned, the length of time that the homes delivered during the period were under construction, and the interest rates and the amount of debt carried by the Company in proportion to the amount of its inventory during those periods. As a percentage of total revenues, interest expense was lower in fiscal 1999 as compared to 1998 and 1997.

Income Taxes

Income taxes for fiscal 1999, 1998 and 1997 were provided at effective rates of 36.7%, 36.1% and 37.0%, respectively.

Extraordinary Loss From Extinguishment of Debt

In January 1999, the Company called for redemption of all its outstanding 9 1/2% Senior Subordinated Notes due 2003 at 102% of principal amount plus accrued interest. The redemption resulted in the recognition of an extraordinary loss in 1999 of \$1,461,000, net of \$857,000 of income tax benefit. The loss represented the redemption premium and a write-off of unamortized deferred issuance costs.

In February 1998, the Company entered into a five-year bank credit facility. The Company recognized an extraordinary charge in 1998 of \$1,115,000, net of \$655,000 of income tax benefit, related to the retirement of its previous revolving credit agreement and prepayment of \$62 million of fixed rate long-term bank loans.

In January 1997, the Company called for redemption of all of its outstanding 10 1/2% Senior Subordinated Notes due 2002 at 103% of principal amount plus accrued interest. The redemption resulted in an extraordinary loss in 1997 of \$2,772,000, net of \$1,659,000 of income tax benefit.

Capital Resources and Liquidity

Funding for the Company's operations has been principally provided by cash flows from operations, unsecured bank borrowings and, from time to time, the public debt and equity markets.

Cash flow from operations, before inventory additions, has improved as operating results have improved. The Company anticipates that the cash flow from operations, before inventory additions, will continue to improve as a result of an increase in revenues from the delivery of homes from its existing backlog as well as from new sales contracts and land sales. The Company has used the cash flow from operations, bank borrowings and public debt to acquire additional land for new communities, to fund additional expenditures for land development and construction costs needed to meet the requirements of the increased backlog and continuing expansion of the number of communities in which the Company is offering homes for sale, and to reduce debt. The Company expects that inventories will continue to increase and is currently negotiating and searching for additional opportunities to obtain control of land for future communities.

The Company has a \$440 million unsecured revolving credit facility with 15 banks which extends through February 2003. As of October 31, 1999, the Company had \$80 million of loans and approximately \$34 million of letters of credit outstanding under the facility.

The Company believes that it will be able to fund its activities through a combination of existing cash reserves, operating cash flow and other sources of credit similar in nature to those the Company has accessed in the past.

Inflation

The long-term impact of inflation on the Company is manifested in increased land, land development, construction and overhead costs, as well as in increased sales prices. The Company generally contracts for land significantly before development and sales efforts begin. Accordingly, to the extent land acquisition costs are fixed, increases or decreases in the sales prices of homes may affect the Company's profits. Since the sales prices of homes are fixed at the time of sale and the Company generally sells its homes prior to commencement of construction, any inflation of costs in excess of those anticipated may result in lower gross margins. The Company generally attempts to minimize that effect by entering into fixed-price contracts with its subcontractors and material suppliers for specified periods of time, which generally do not exceed one year.

Housing demand, in general, is adversely affected by increases in interest costs, as well as in housing costs. Interest rates, the length of time that land remains in inventory, and the proportion of inventory that is financed affect the Company's interest costs. If the Company is unable to raise sales prices enough to compensate for higher costs or if mortgage interest rates increase significantly, affecting prospective buyers' ability to adequately finance home purchases, the Company's revenues, gross margins and net income would be adversely affected. Increases in sales prices, whether the result of inflation or demand, may affect the ability of prospective buyers to afford a new home.

Year 2000 Readiness Disclosure

The Company has assessed its operating systems, computer software applications, computer equipment and other equipment with embedded electronic circuits ("Programs") that it currently uses, to identify whether they are Year 2000 compliant and, if not, what steps are needed to bring them into compliance. The Company expects that all material Programs will be Year 2000 compliant by the end of calendar 1999.

The costs incurred and expected to be incurred regarding Year 2000 compliance have been, and are expected to be, immaterial to the results of operations and financial position of the Company. Costs related to Year 2000 compliance are expensed as incurred.

The Company has been reviewing whether its significant subcontractors, suppliers, financial institutions and other providers of goods and services ("Providers") are Year 2000 compliant. The Company is not aware of any Providers that do not expect to be compliant; however, the Company has no means of ensuring that its Providers will be Year 2000 ready. The inability of Providers to be Year 2000 ready in a timely fashion could have an adverse impact on the Company. The Company plans to respond to any such contingency involving any of its Providers by seeking to utilize alternative sources for such goods and services, where practicable. In addition, widespread disruptions in the national or international economy, including, for example, disruptions affecting financial markets, commercial and investment banks, governmental agencies and utility services, such as heat, light, power and telephones, could also have an adverse impact on the Company. The likelihood and effects of such disruptions are not determinable at this time.

Financial Statements

Consolidated Statements of Income

(Amounts in thousands, except per share data)

| Year Ended October 31 | 1999 | 1998 | 1997 |
|---|-------------------|------------------|------------------|
| Revenues: | | | |
| Home sales | \$1,438,171 | \$1,206,290 | \$968,253 |
| Land sales | 17,345 | | |
| Interest and other | 8,599 | 4,526 | 3,407 |
| | <u>1,464,115</u> | <u>1,210,816</u> | <u>971,660</u> |
| Costs and expenses: | | | |
| Home sales | 1,117,872 | 933,853 | 748,323 |
| Land sales | 13,375 | | |
| Selling, general and administrative | 130,213 | 106,729 | 86,301 |
| Interest | 39,905 | 35,941 | 29,390 |
| | <u>1,301,365</u> | <u>1,076,523</u> | <u>864,014</u> |
| Income before income taxes and extraordinary loss | 162,750 | 134,293 | 107,646 |
| Income taxes | 59,723 | 48,474 | 39,799 |
| Income before extraordinary loss | 103,027 | 85,819 | 67,847 |
| Extraordinary loss | (1,461) | (1,115) | (2,772) |
| Net income | \$ 101,566 | \$ 84,704 | \$ 65,075 |
| Earnings per share | | | |
| Basic: | | | |
| Income before extraordinary loss | \$ 2.81 | \$ 2.35 | \$ 1.99 |
| Extraordinary loss | (.04) | (.03) | (.08) |
| Net income | \$ 2.77 | \$ 2.32 | \$ 1.91 |
| Diluted:* | | | |
| Income before extraordinary loss | \$ 2.75 | \$ 2.25 | \$ 1.86 |
| Extraordinary loss | (.04) | (.03) | (.07) |
| Net income | \$ 2.71 | \$ 2.22 | \$ 1.78 |
| Weighted average number of shares: | | | |
| Basic | 36,689 | 36,483 | 34,127 |
| Diluted | 37,436 | 38,360 | 37,263 |

See accompanying notes.

* Due to rounding, amounts may not add.

Consolidated Balance Sheets

(Amounts in thousands)

| October 31 | 1999 | 1998 |
|---|--------------------|--------------------|
| Assets | | |
| Cash and cash equivalents | \$ 96,484 | \$ 80,143 |
| Inventory | 1,443,282 | 1,111,223 |
| Property, construction and office equipment, net | 19,633 | 14,425 |
| Receivables, prepaid expenses and other assets | 87,469 | 42,676 |
| Investments in unconsolidated entities | 21,194 | 6,001 |
| | \$1,668,062 | \$1,254,468 |
| Liabilities and Stockholders' Equity | | |
| Liabilities | | |
| Loans payable | \$ 213,317 | \$ 182,292 |
| Subordinated notes | 469,418 | 269,296 |
| Customer deposits on sales contracts | 82,495 | 69,398 |
| Accounts payable | 84,777 | 58,081 |
| Accrued expenses | 141,835 | 98,833 |
| Income taxes payable | 59,886 | 50,812 |
| Total liabilities | 1,051,728 | 728,712 |
| Stockholders' equity | | |
| Preferred stock, none issued | | |
| Common stock, 37,035 and 37,011 shares issued at October 31, 1999 and 1998, respectively | 365 | 369 |
| Additional paid-in capital | 105,239 | 106,099 |
| Retained earnings | 522,665 | 421,099 |
| Treasury stock, at cost – 581 shares and 76 shares at October 31, 1999 and 1998, respectively | (11,935) | (1,811) |
| Total stockholders' equity | 616,334 | 525,756 |
| | \$1,668,062 | \$1,254,468 |

See accompanying notes.

Consolidated Statements of Cash Flows

(Amounts in thousands)

| Year Ended October 31 | 1999 | 1998 | 1997 |
|--|------------------|------------------|------------------|
| Cash Flows From Operating Activities | | | |
| Net income | \$101,566 | \$ 84,704 | \$ 65,075 |
| Adjustments to reconcile net income to net cash used in operating activities: | | | |
| Depreciation and amortization | 6,594 | 5,611 | 4,055 |
| Extraordinary loss from extinguishment of debt | 2,318 | 1,770 | 4,431 |
| Deferred tax provision | 1,569 | 324 | 3,332 |
| Changes in operating assets and liabilities, net of assets and liabilities acquired: | | | |
| Increase in inventory | (282,764) | (179,132) | (120,280) |
| Increase in receivables, prepaid expenses and other assets | (32,524) | (11,862) | (3,750) |
| Increase in customer deposits on sales contracts | 11,557 | 16,700 | 9,311 |
| Increase in accounts payable and accrued expenses | 62,769 | 35,265 | 25,259 |
| Increase in current income taxes payable | 8,045 | 5,912 | 5,722 |
| Net cash used in operating activities | (120,870) | (40,708) | (6,845) |
| Cash Flows From Investing Activities | | | |
| Purchase of property and equipment, net | (8,331) | (2,834) | (5,329) |
| Acquisition of company, net of cash acquired | (11,090) | | |
| Investment in unconsolidated entities | (15,193) | (6,001) | |
| Net cash used in investing activities | (34,614) | (8,835) | (5,329) |
| Cash Flows From Financing Activities | | | |
| Proceeds from loans payable | 177,500 | 55,000 | 145,000 |
| Principal payments of loans payable | (187,551) | (74,416) | (116,613) |
| Net proceeds from issuance of subordinated notes | 267,716 | | 195,700 |
| Redemption of subordinated notes | (71,359) | | (90,434) |
| Proceeds from stock-based benefit plans | 2,223 | 4,874 | 3,205 |
| Purchase of treasury stock | (16,704) | (3,347) | |
| Net cash provided by (used in) financing activities | 171,825 | (17,889) | 136,858 |
| Net increase (decrease) in cash and cash equivalents | 16,341 | (67,432) | 124,684 |
| Cash and cash equivalents, beginning of year | 80,143 | 147,575 | 22,891 |
| Cash and cash equivalents, end of year | \$ 96,484 | \$ 80,143 | \$147,575 |

See accompanying notes.



Summary Consolidated Quarterly Financial Data (Unaudited)

(Amounts in thousands, except per share data)

| Three Months Ended | Oct. 31 | July 31 | April 30 | Jan. 31 |
|---|-----------|-----------|-----------|-----------|
| Fiscal 1999 | | | | |
| Revenues | \$442,884 | \$405,694 | \$342,671 | \$272,866 |
| Income before income taxes and extraordinary loss | \$ 52,919 | \$ 47,541 | \$ 34,721 | \$ 27,569 |
| Income before extraordinary loss | \$ 33,436 | \$ 30,073 | \$ 22,080 | \$ 17,438 |
| Net income | \$ 33,436 | \$ 30,073 | \$ 22,080 | \$ 15,977 |
| Earnings per share | | | | |
| Basic: | | | | |
| Income before extraordinary loss | \$.92 | \$.82 | \$.60 | \$.47 |
| Net income | \$.92 | \$.82 | \$.60 | \$.43 |
| Diluted: | | | | |
| Income before extraordinary loss | \$.90 | \$.80 | \$.59 | \$.46 |
| Net income | \$.90 | \$.80 | \$.59 | \$.42 |
| Weighted average number of shares: | | | | |
| Basic | 36,462 | 36,614 | 36,717 | 36,963 |
| Diluted | 36,971 | 37,400 | 37,339 | 38,033 |
| Fiscal 1998 | | | | |
| Revenues | \$374,345 | \$342,133 | \$249,623 | \$244,715 |
| Income before income taxes and extraordinary loss | \$ 43,525 | \$ 40,728 | \$ 24,724 | \$ 25,316 |
| Income before extraordinary loss | \$ 27,855 | \$ 25,722 | \$ 15,687 | \$ 16,555 |
| Net income | \$ 27,855 | \$ 25,722 | \$ 14,572 | \$ 16,555 |
| Earnings per share | | | | |
| Basic: | | | | |
| Income before extraordinary loss* | \$.75 | \$.70 | \$.42 | \$.47 |
| Net income* | \$.75 | \$.70 | \$.39 | \$.47 |
| Diluted: | | | | |
| Income before extraordinary loss | \$.73 | \$.67 | \$.41 | \$.44 |
| Net income | \$.73 | \$.67 | \$.38 | \$.44 |
| Weighted average number of shares: | | | | |
| Basic | 36,965 | 37,005 | 36,976 | 34,983 |
| Diluted | 38,145 | 38,495 | 38,673 | 38,127 |

*Due to rounding, the sum of the quarterly earnings per share does not equal the total.



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.

Certain amounts reported in prior years have been reclassified for comparative purposes.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles 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.

Income Recognition

The Company is primarily engaged in the development, construction and sale of residential homes. Revenues and cost of sales are recorded at the time each home sale is closed and title and possession have been transferred to the buyer. Closing normally occurs shortly after construction is substantially completed.

Cash and Cash Equivalents

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

Property, Construction and Office Equipment

Property, construction and office equipment are recorded at cost and are stated net of accumulated depreciation of \$25,761,000 and \$21,938,000 at October 31, 1999 and 1998, respectively. Depreciation is recorded by using the straight-line method over the estimated useful lives of the assets.

Inventories

Inventories are stated at the lower of cost or fair value. In addition to direct land acquisition, land development and home construction costs, costs include interest, real estate taxes and direct overhead costs related to development and construction, which are capitalized to inventories during the period beginning with the commencement of development and ending with the completion of construction.

Land, land development and related costs are amortized to cost of homes closed based upon the total number of homes to be constructed in each community. Home construction and related costs are charged to cost of homes closed under the specific identification method.

The Company capitalizes certain project marketing costs and charges them against income as homes are closed.

Treasury Stock

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

Acquisition

In March 1999, the Company acquired the homebuilding operations of the Silverman Companies, a Detroit, Michigan homebuilder and developer of luxury apartments, for cash and the assumption of debt. The Silverman Companies owned or controlled approximately 1,800 homesites and interests in over 1,000 existing and prospective apartments. The acquisition of the Silverman apartment assets is expected to be completed during the first half of fiscal 2000. The acquisition price is not material to the financial position of the Company.

Segment Reporting

Statement of Financial Accounting Standards No. 131, "Disclosures about Segments of an Enterprise and Related Information," establishes standards for the manner in which public enterprises report information about operating segments. The Company has determined that its operations primarily involve one reportable segment, homebuilding.

2. Inventory

Inventory consisted of the following (amounts in thousands):

| October 31 | 1999 | 1998 |
|---|--------------------|--------------------|
| Land and land development costs | \$ 506,869 | \$ 298,948 |
| Construction in progress | 794,599 | 693,971 |
| Sample homes | 57,995 | 47,520 |
| Land deposits and costs of future development | 55,575 | 50,174 |
| Deferred marketing costs | 28,244 | 20,610 |
| | \$1,443,282 | \$1,111,223 |

Construction in progress includes the cost of homes under construction, land and land development costs and the carrying cost of lots that have been substantially improved.

For the years ended October 31, 1999, 1998 and 1997, the Company provided for inventory writedowns and the expensing of costs which it believed not to be recoverable of \$5,092,000, \$2,010,000 and \$2,048,000, respectively.

Interest capitalized in inventories is charged to interest expense when the related inventories are closed. Changes in capitalized interest for the three years ended October 31, 1999 were as follows (amounts in thousands):

| | 1999 | 1998 | 1997 |
|--|------------------|-----------------|-----------------|
| Interest capitalized, beginning of year | \$53,966 | \$51,687 | \$46,191 |
| Interest incurred | 51,396 | 38,331 | 35,242 |
| Interest expensed | (39,905) | (35,941) | (29,390) |
| Write-off to cost and expenses | (473) | (111) | (356) |
| Interest capitalized, end of year | \$ 64,984 | \$53,966 | \$51,687 |

3. Loans Payable and Subordinated Notes

Loans payable consisted of the following (amounts in thousands):

| October 31 | 1999 | 1998 |
|---|------------------|------------------|
| Revolving credit facility due Feb. 2003 | \$ 80,000 | \$ 50,000 |
| Term loan due July 2001 | 56,000 | 56,000 |
| Term loan due March 2002 | 50,000 | 50,000 |
| Other | 27,317 | 26,292 |
| | \$213,317 | \$182,292 |

The Company has a \$440,000,000 unsecured revolving credit facility with 15 banks which extends through February 2003. Interest is payable on borrowings at .575% above the Eurodollar rate or at other specified variable rates as selected by the Company from time to time. The Company fixed the interest rate on \$20,000,000 of borrowings at 6.39% until March 2002 through an interest rate swap with a bank. Had the Company not entered into the interest rate swap, the interest rate on this borrowing would have been 6% at October 31, 1999. As of October 31, 1999, letters of credit and obligations under escrow agreements of \$34,444,000 were outstanding. The agreement contains various covenants, including financial covenants related to consolidated stockholders' equity, indebtedness and inventory. The agreement requires the Company to maintain a minimum consolidated stockholders' equity which restricts the payment of cash dividends and the repurchase of Company stock to approximately \$206,865,000 as of October 31, 1999.

The Company has borrowed \$56,000,000 from six banks at a fixed interest rate of 7.91% repayable in July 2001. The Company has borrowed \$50,000,000 from three banks at a fixed rate of 7.72% repayable in March 2002. Both loans are unsecured and the agreements contain substantially the same financial covenants as the Company's revolving credit facility.

The carrying value of the loans payable approximates their estimated fair value.

Subordinated notes consisted of the following (amounts in thousands):

| October 31 | 1999 | 1998 |
|--|------------------|------------------|
| 9 1/2% Senior Subordinated Notes, due March 15, 2003 | | \$ 69,960 |
| 8 3/4% Senior Subordinated Notes, due November 15, 2006 | \$100,000 | 100,000 |
| 7 3/4% Senior Subordinated Notes, due September 15, 2007 | 100,000 | 100,000 |
| 8 1/8% Senior Subordinated Notes, due February 1, 2009 | 170,000 | |
| 8% Senior Subordinated Notes due May 1, 2009 | 100,000 | |
| Bond discount | (582) | (664) |
| | \$469,418 | \$269,296 |

All issues of senior subordinated notes are subordinated to all senior indebtedness of the Company. The indentures restrict certain payments by the Company including cash dividends and the repurchase of Company stock. The notes are redeemable in whole or in part at the option of the Company at various prices on or after November 15, 2001 with regard to the 8 3/4% notes, on or after September 15, 2002 with regard to the 7 3/4% notes, on or after February 1, 2004 with regard to the 8 1/8% notes and on or after May 1, 2004 with regard to the 8% notes.

As of October 31, 1999, the aggregate fair value of all the outstanding subordinated notes, based upon their quoted market prices, was approximately \$440,150,000.

The annual aggregate maturities of the Company's loans and notes during the next five fiscal years are: 2000 - \$12,453,000; 2001 - \$66,767,000; 2002 - \$52,065,000; 2003 - \$82,032,000; and 2004 - \$0.

4. Income Taxes

The Company's estimated combined federal and state tax rate before providing for the effect of permanent book-tax differences ("Base Rate") was 37% in 1999 and 1998 and 37.5% in 1997. The decrease in the Base Rate was due to a decrease in the Company's estimated effective state tax rate. The effective tax rates in 1999, 1998 and 1997 were 36.7%, 36.1% and 37.0%, respectively. The primary differences between the Company's Base Rate and effective tax rate were tax-free income, and in 1998, an adjustment due to the recomputation of the Company's deferred tax liability resulting from the change in the Company's estimated Base Rate and the deductibility of certain expenses at a higher basis for tax purposes than for book purposes.

The provisions for income taxes for each of the three years ended October 31, 1999 were as follows (amounts in thousands):

| | 1999 | 1998 | 1997 |
|----------|-----------------|------------------|-----------------|
| Federal | \$54,874 | \$ 44,865 | \$ 35,812 |
| State | 4,849 | 3,609 | 3,987 |
| | \$59,723 | \$ 48,474 | \$39,799 |
| Current | \$58,154 | \$ 48,150 | \$36,467 |
| Deferred | 1,569 | 324 | 3,332 |
| | \$59,723 | \$ 48,474 | \$39,799 |

The components of income taxes payable consisted of the following (amounts in thousands):

| October 31 | 1999 | 1998 |
|------------|-----------------|-----------------|
| Current | \$40,772 | \$33,267 |
| Deferred | 19,114 | 17,545 |
| | \$59,886 | \$50,812 |

The components of net deferred taxes payable consisted of the following (amounts in thousands):

| October 31 | 1999 | 1998 |
|---------------------------------------|-----------------|-----------------|
| Deferred tax liabilities: | | |
| Capitalized interest | \$21,204 | \$ 18,915 |
| Deferred expenses | 7,640 | 6,299 |
| Total | 28,844 | 25,214 |
| Deferred tax assets: | | |
| Inventory valuation reserves | 2,193 | 2,292 |
| Inventory valuation differences | 1,763 | 1,727 |
| Accrued expenses deductible when paid | 271 | 342 |
| Other | 5,503 | 3,308 |
| Total | 9,730 | 7,669 |
| Net deferred tax liability | \$19,114 | \$17,545 |

5. Stockholders' Equity

The Company's authorized capital stock consists of 45,000,000 shares of Common Stock, \$.01 par value per share, and 1,000,000 shares of Preferred Stock, \$.01 par value per share. The Company's Certificate of Incorporation, as amended, authorizes the Board of Directors to increase the number of authorized shares of Common Stock to 100,000,000 shares and the number of shares of authorized Preferred Stock to 15,000,000 shares.

Changes in stockholders' equity for the three years ended October 31, 1999 were as follows (amounts in thousands):

| | Common Stock | | Additional | Retained | Treasury | Total |
|--------------------------------------|---------------|--------------|------------------|------------------|-------------------|------------------|
| | Shares | Amount | Paid-In Capital | Earnings | Stock | |
| Balance, November 1, 1996 | 33,919 | \$339 | \$ 43,018 | \$271,320 | \$ — | \$314,677 |
| Net income | | | | 65,075 | | 65,075 |
| Exercise of stock options | 218 | 2 | 3,121 | | | 3,123 |
| Executive bonus awards | 134 | 2 | 2,293 | | | 2,295 |
| Employee stock plan purchases | 4 | | 82 | | | 82 |
| Balance, October 31, 1997 | 34,275 | 343 | 48,514 | 336,395 | — | 385,252 |
| Net income | | | | 84,704 | | 84,704 |
| Purchase of treasury stock | (133) | (1) | | | (3,346) | (3,347) |
| Exercise of stock options | 285 | 3 | 3,240 | | 1,405 | 4,648 |
| Executive bonus award | 161 | 1 | 3,563 | | | 3,564 |
| Employee stock plan purchases | 10 | | 93 | | 130 | 223 |
| Conversion of debt | 2,337 | 23 | 50,689 | | | 50,712 |
| Balance, October 31, 1998 | 36,935 | 369 | 106,099 | 421,099 | (1,811) | 525,756 |
| Net income | | | | 101,566 | | 101,566 |
| Purchase of treasury stock | (801) | (8) | | | (16,696) | (16,704) |
| Exercise of stock options | 177 | 2 | (1,143) | | 3,699 | 2,558 |
| Executive bonus award | 106 | 1 | 342 | | 2,119 | 2,462 |
| Employee stock plan purchases | 12 | | (15) | | 221 | 206 |
| Contribution to employee 401(k) Plan | 25 | 1 | (44) | | 533 | 490 |
| Balance, October 31, 1999 | 36,454 | \$365 | \$105,239 | \$522,665 | \$(11,935) | \$616,334 |

Stockholder Rights Plan

The Company's stockholder rights plan, as amended, provides for a dividend of one right for each share of Common Stock of the Company to all stockholders of record at the close of business on July 11, 1997. The rights are not currently exercisable, but would become exercisable if certain events occurred relating to a person or a group acquiring or attempting to acquire beneficial ownership of 15% or more of the Common Stock of the Company subsequent to July 11, 1997. If any person acquires 15% or more of the Common Stock of the Company, each right will entitle the holder to acquire, upon payment of the exercise price of the right (presently \$100), Common Stock of the Company having a market value equal to twice the right's exercise price. If, after a person has acquired 15% or more of the outstanding Common Stock of the Company, the Company is acquired in a merger or other business combination, or 50% or more of its assets or earning power is sold or transferred in one transaction or a series of related transactions, each right becomes a right to acquire common shares of the other party

to the transaction having a value equal to twice the exercise price of the right. Rights are redeemable at \$.001 per right by action of the Board of Directors at any time prior to the tenth day following the public announcement that a person or group, has acquired beneficial ownership of 15% or more of the Common Stock of the Company. Unless earlier redeemed, the rights will expire on July 11, 2007.

Redemption of Common Stock

In order to help provide for an orderly market in the Company's Common Stock in the event of the death of either Robert I. Toll or Bruce E. Toll (the "Tolls"), or both of them, the Company and the Tolls have entered into agreements in which the Company has agreed to purchase from the estate of each of the Tolls \$10,000,000 of the Company's Common Stock (or a lesser amount under certain circumstances) at a price equal to the greater of fair market value (as defined) or book value (as defined). Further, the Tolls have agreed to allow the Company to purchase \$10,000,000 of life insurance on each of their lives. In addition, the Tolls granted the Company an option to purchase up to an additional \$30,000,000 (or a lesser amount under certain circumstances) of the Company's Common Stock from each of their estates. The agreements expire in October 2005.

In April 1997, the Company's Board of Directors authorized the repurchase of up to 3,000,000 shares of its Common Stock, par value \$.01, from time to time, in open market transactions or otherwise, for the purpose of providing shares for its various employee benefit plans. As of October 31, 1999, the Company had repurchased 935,000 shares of which 354,000 shares have been re-issued under its various employee benefit plans.

6. Stock-Based Benefit Plans

Stock-Based Compensation Plans

The Company accounts for its stock option plans according to Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees" ("APB 25"). Accordingly, no compensation costs are recognized upon issuance or exercise of stock options.

Statement of Financial Accounting Standards No. 123, "Accounting for Stock-Based Compensation" ("FAS 123"), requires the disclosure of the estimated value of employee option grants and their impact on net income using option pricing models which are designed to estimate the value of options which, unlike employee stock options, can be traded at any time and are transferable. In addition to restrictions on trading, employee stock options 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. Therefore, in management's opinion, the existing models do not provide a reliable single measure of the value of employee stock options.

At October 31, 1999, the Company's stock-based compensation plans consisted of its four stock option plans. Net income and net income per share as reported in these consolidated financial statements and on a pro forma basis, as if the fair-value-based method described in FAS 123 had been adopted, were as follows (in thousands, except per share amounts):

| | 1999 | | 1998 | | 1997 | |
|---|-------------|-----------|-------------|-----------|-------------|-----------|
| | As Reported | Pro Forma | As Reported | Pro Forma | As Reported | Pro Forma |
| Net income | \$101,566 | \$93,402 | \$84,704 | \$72,841 | \$65,075 | \$60,068 |
| Basic net income per share | \$ 2.77 | \$ 2.55 | \$ 2.32 | \$ 2.00 | \$ 1.91 | \$ 1.76 |
| Diluted net income per share | \$ 2.71 | \$ 2.50 | \$ 2.22 | \$ 1.91 | \$ 1.78 | \$ 1.65 |
| Weighted-average grant date fair value per share of options granted | \$ 10.98 | | \$ 12.01 | | \$ 9.37 | |

For the purposes of providing the pro forma disclosures, the fair value of options granted was estimated using the Black-Scholes option pricing model with the following weighted average assumptions used for grants in each of the three fiscal years ended October 31, 1999.

| | 1999 | 1998 | 1997 |
|-------------------------|-----------|-----------|---------|
| Risk-free interest rate | 6.14% | 4.68% | 5.87% |
| Expected life | 7.1 years | 7.2 years | 7 years |
| Volatility | 34.9% | 35.1% | 37.5% |
| Dividends | none | none | none |

The effects of applying FAS 123 for the purposes of providing pro forma disclosures may not be indicative of the effects on reported net income and net income per share for future years, as the pro forma disclosures include the effects of only those awards granted on or after November 1, 1995.

Stock Option Plans

The Company's four stock option plans for employees, officers and non-employee directors provide for the granting of incentive stock options and non-statutory 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 Stock Option and Incentive Stock Plan (1995) provides for automatic increases each January 1 in the number of shares available for grant by 2% of the number of shares outstanding (including treasury shares). The Company's Stock Incentive Plan (1998) provides for automatic increases each November 1 in the number of shares available for grant by 2.5% of the number of shares outstanding (including treasury shares). The 1995 Plan and the 1998 Plan restrict the number of options available for grant in a year to a maximum of 2,500,000 shares and the number of options that may be granted in a calendar year in each plan to the lesser of the number of shares available for grant or 2,500,000 shares. No additional options may be granted under the Company's Stock Option Plan (1986).

The following summarizes stock option activity for the four plans during the three years ended October 31, 1999:

| | 1999 | | 1998 | | 1997 | |
|----------------------------------|-------------------|---------------------------------|-------------------|---------------------------------|-------------------|---------------------------------|
| | Number of Options | Weighted-Average Exercise Price | Number of Options | Weighted-Average Exercise Price | Number of Options | Weighted-Average Exercise Price |
| Outstanding, beginning of year | 4,942,518 | \$ 19.53 | 3,684,175 | \$ 16.03 | 2,871,825 | \$ 14.52 |
| Granted | 1,252,800 | 22.81 | 1,720,575 | 26.41 | 1,090,400 | 19.30 |
| Exercised | (176,470) | 11.39 | (293,015) | 14.04 | (218,601) | 11.54 |
| Cancelled | (127,255) | 22.97 | (169,217) | 22.85 | (59,449) | 19.64 |
| Outstanding, end of year | <u>5,891,593</u> | \$ 20.40 | <u>4,942,518</u> | \$ 19.53 | <u>3,684,175</u> | \$ 16.03 |
| Exercisable, end of year | <u>3,736,905</u> | \$ 18.93 | <u>3,286,706</u> | \$ 17.90 | <u>2,336,186</u> | \$ 13.99 |
| Available for grant, end of year | <u>3,188,657</u> | | <u>3,893,663</u> | | <u>2,412,372</u> | |

The following table summarizes information about stock options outstanding at October 31, 1999:

| Range of Exercise Prices | Options Outstanding | | Options Exercisable | |
|--------------------------|---------------------|--|---------------------|---------------------------------|
| | Number Outstanding | Weighted-Average Remaining Contractual Life (in years) | Number Exercisable | Weighted-Average Exercise Price |
| \$ 9.94 - \$15.88 | 1,339,050 | 3.5 | 1,339,050 | \$ 12.41 |
| 17.13 - 20.25 | 1,788,768 | 6.5 | 1,338,293 | 19.23 |
| 22.31 - 25.56 | 2,066,275 | 8.7 | 362,062 | 24.45 |
| 27.44 - 29.50 | <u>697,500</u> | 8.2 | <u>697,500</u> | 28.01 |
| \$ 9.94 - \$29.50 | <u>5,891,593</u> | 6.8 | <u>3,736,905</u> | \$ 18.93 |

Bonus Award Shares

Under the terms of the Company's Cash Bonus Plan covering Robert I. Toll, Mr. Toll is entitled to receive cash bonus awards based upon the pretax earnings and stockholders' equity of the Company. In December 1998, Mr. Toll and the Board of Directors agreed that any bonus payable for each of the three fiscal years ended October 31, 2001 will be made (except for specified conditions) in shares of the Company's Common Stock using the value of the stock as of the date of the agreement (\$24.25 per share). The stockholders approved the plan at the Company's 1999 Annual Meeting. The Company recognized compensation expense in 1999 of \$1,395,000 which represented the fair market value of the shares issued to Robert I. Toll (79,686 shares). On October 31, 1999, the closing price of the Company's Common Stock on the New York Stock Exchange was \$17.50.

In May 1996, the Board of Directors, Robert I. Toll and Bruce E. Toll agreed to a similar type of plan and payment arrangement for each of the three fiscal years ended October 31, 1998 based upon the value of the Company's Common Stock on the date of the agreement (\$17.125 per share). The stockholders approved the plan at the Company's 1997 Annual Meeting. In March 1998, in connection with Bruce E. Toll's withdrawal from the day-to-day operations of the business, the Board of Directors and Bruce E. Toll agreed to modify his cash bonus award whereby his 1998 cash bonus would be paid in cash and the amount would be calculated based upon 50% of the estimated bonus that would have been earned. The Company recognized \$3,944,000 as compensation expense in 1998 which represented the fair market value of the shares issued to Robert I. Toll (106,186 shares) and the cash bonus paid to Bruce E. Toll. Robert I. Toll and Bruce E. Toll received 80,547 shares each for their 1997 bonus award. The 1997 award had a fair market value of \$3,564,000, which the Company recognized as compensation expense in 1997.

Employee Stock Purchase Plan

The Company's Employee Stock Purchase Plan enables substantially all employees to purchase the Company's Common Stock for 95% of the market price of the stock on specified offering dates or at 85% of the market price of the stock on specified offering dates subject to restrictions. The plan, which terminates in December 2001, provides that 100,000 shares be reserved for purchase. As of October 31, 1999, a total of 39,551 shares were available for issuance.

The number of shares and the average prices per share issued under this plan during each of the fiscal years ended October 31, 1999, 1998 and 1997 were 12,182 shares and \$16.97, 9,916 shares and \$22.48 and 4,131, shares and \$19.98, respectively. No compensation expense was recognized by the Company under this plan.

7. Earnings Per Share Information

Information pertaining to the calculation of earnings per share for each of the three years ended October 31, 1999 is as follows (amounts in thousands):

| | 1999 | 1998 | 1997 |
|--|---------------|---------------|---------------|
| Basic weighted average shares | 36,689 | 36,483 | 34,127 |
| Common stock equivalents | 747 | 1,437 | 791 |
| Convertible subordinated notes | | 440 | 2,345 |
| Diluted weighted average shares | 37,436 | 38,360 | 37,263 |
| Earnings addback related to interest on convertible subordinated notes, net of income tax benefits | — | \$315 | \$1,512 |

8. Employee Retirement Plan

The Company maintains a salary deferral savings plan covering substantially all employees. The plan provides for Company contributions totaling 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. Company contributions with respect to the plan totaled \$1,876,000, \$1,591,000 and \$1,399,000 for the years ended October 31, 1999, 1998 and 1997, respectively.

9. Extraordinary Loss From Extinguishment of Debt

In January 1999, the Company called for redemption of all of its outstanding 9 1/2% Senior Subordinated Notes due 2003 at 102% of principal amount plus accrued interest. The redemption resulted in an extraordinary loss in fiscal 1999 of \$1,461,000, net of \$857,000 of income tax benefit. The loss represented the redemption premium and a write-off of unamortized deferred issuance costs.

In February 1998, the Company entered into a five-year bank credit facility. The Company recognized an extraordinary charge in fiscal 1998 of \$1,115,000, net of \$655,000 of income tax benefit, related to the retirement of its previous revolving credit agreement and prepayment of \$62 million of fixed rate long-term bank loans.

In January 1997, the Company called for redemption of all of its outstanding 10 1/2% Senior Subordinated Notes due 2002 at 103% of principal amount plus accrued interest. The redemption resulted in an extraordinary loss in fiscal 1997 of \$2,772,000, net of \$1,659,000 of income tax benefit. The loss represented the redemption premium and the write-off of unamortized deferred issuance costs.

10. Commitments and Contingencies

As of October 31, 1999, the Company had agreements to purchase land and improved homesites for future development with purchase prices aggregating approximately \$512,904,000 of which \$30,020,000 had been paid or deposited. Purchase of the properties is contingent upon satisfaction of certain requirements by the Company and the sellers.

As of October 31, 1999, the Company had agreements of sale outstanding to deliver 2,381 homes with an aggregate sales value of approximately \$1,067,685,000. As of that date, the Company had arranged, through a number of outside mortgage lenders, approximately \$400,819,000 of mortgages related to those sales agreements.

The Company is involved in various claims and litigation arising in the ordinary course of business. The Company believes that the disposition of these matters will not have a material effect on the business or on the financial condition of the Company.

11. Related Party Transaction

In 1998, the Company formed a group of entities (collectively, the "Real Estate Group") to take advantage of commercial real estate opportunities which may present themselves from time to time. These opportunities may involve commercial parcels, attached to larger properties that the Company has acquired or may acquire for its homebuilding operations, or from the direct acquisition of unrelated land or operating properties. In November 1998, Robert I. Toll, Bruce E. Toll, Zvi Barzilay, Joel Rassman, all of whom are officers and directors of the Company, and other Company officers (the "Partners") contributed their partnership interests in an apartment complex under construction in exchange for a 50% ownership interest in the Real Estate Group. Based upon independent valuations obtained by the Company and reviewed by the Board of Directors, the Board of Directors believes that the value of the assets received, net of liabilities assumed, was at least equal to the consideration given to the Partners. In December 1998, the Pennsylvania State Employee Retirement System ("PASERS") acquired a one-third interest in the Real Estate Group for \$10,000,000.

In fiscal 1999, the Company, the Partners and PASERS made additional cash contributions to acquire several office buildings. As of October 31, 1999, the Company had an investment of \$7,285,000 which represented its one-third interest in the Real Estate Group. This investment is accounted for on the equity method.

The Company provides development, finance and management services to the Real Estate Group and received fees under the terms of various agreements in the amount of \$2,524,000 in fiscal 1999.

12. Supplemental Disclosure to Statements of Cash Flows

The following are supplemental disclosures to the statements of cash flows for each of the three years ended October 31, 1999 (amounts in thousands):

| | 1999 | 1998 | 1997 |
|---|-----------|-----------|-----------|
| Supplemental disclosures of cash flow information: | | | |
| Interest paid, net of amount capitalized | \$ 17,469 | \$ 13,430 | \$ 9,385 |
| Income taxes paid | \$ 49,250 | \$ 40,835 | \$ 28,485 |
| Supplemental disclosures of noncash activities: | | | |
| Cost of residential inventories acquired through seller financing | \$ 7,504 | \$ 13,500 | \$ 28,844 |
| Income tax benefit relating to exercise of employee stock options | \$ 541 | \$ 748 | \$ 601 |
| Stock bonus awards | \$ 2,462 | \$ 3,564 | \$ 2,295 |
| Contributions to employee retirement plan | \$ 490 | | |
| Conversion of subordinated debt | | \$ 50,712 | |
| Acquisition of company: | | | |
| Fair value of assets acquired | \$ 56,026 | | |
| Liabilities assumed | \$ 44,934 | | |
| Cash paid | \$ 11,092 | | |



Report of Independent Auditors

The Board of Directors and Stockholders Toll Brothers, Inc.

We have audited the accompanying consolidated balance sheets of Toll Brothers, Inc. and subsidiaries at October 31, 1999 and 1998, and the related consolidated statements of income and cash flows for each of the three years in the period ended October 31, 1999. 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 generally accepted auditing standards. 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. and subsidiaries at October 31, 1999 and 1998, and the consolidated results of their operations and their cash flows for each of the three years in the period ended October 31, 1999, in conformity with generally accepted accounting principles.

Ernst & Young LLP

Philadelphia, Pennsylvania
December 13, 1999



Corporate Information

Board of Directors and Executive Officers

| | |
|--------------------|--|
| Robert I. Toll* | Chairman of the Board and Chief Executive Officer |
| Bruce E. Toll | Vice Chairman of the Board |
| Zvi Barzilay* | President and Chief Operating Officer |
| Robert S. Blank | Partner - Whitcom Partners |
| Richard J. Braemer | Partner - Ballard, Spahr, Andrews & Ingersoll, LLP, Attorneys at Law |
| Roger S. Hillas | Retired Chairman - Meritor Savings Bank |
| Carl B. Marbach | President - Internetwork Publishing Corp. |
| Joel H. Rassman* | Senior Vice President, Treasurer and Chief Financial Officer |
| Paul E. Shapiro | Chief Administrative Officer - Sunbeam Corp. |

*Executive Officer of the Company

Officers

Senior Vice President

Wayne S. Patterson

Vice President and General Counsel

Kenneth J. Gary

Vice Presidents - Operations

| | |
|------------------------|-------------------------|
| Thomas Anhut | Douglas C. Heppe |
| Thomas A. Argyris, Jr. | Webb A. Koschene |
| James W. Boyd | John G. Mangano |
| Barry A. Depew | Richard C. McCormick |
| Cory DeSpain | Walter A. Music |
| Michael J. Donnelly | Robert Parahus |
| Kevin D. Duermit | Douglas C. Shipe |
| John P. Elcano | James A. Smith |
| William J. Gilligan | Edward D. Weber |
| Richard T. Hartman | Douglas C. Yearley, Jr. |

Vice Presidents - Administration

| | |
|---------------------|--|
| Bernard P. Anderson | Westminster Mortgage |
| Frederick N. Cooper | Finance |
| Jonathan C. Downs | Human Resources |
| Evan G. Ernest | Taxation |
| Kevin F. McAndrews | Commercial Development |
| Kira McCarron | Marketing |
| Robert N. McCarron | Land Development |
| Kevin J. McMaster | Controller |
| Joseph J. Palka | Eastern States Engineering |
| Joseph R. Sicree | Chief Accounting Officer |
| Michael I. Snyder | Corporate Planning and Corporate Secretary |
| Werner Thiessen | Acquisitions |
| Steven A. Turbyfill | Product Development |

Subsidiary Operations

| | |
|--------------------|---|
| Wayne S. Patterson | President, Westminster Security Company |
| Thomas M. Coleman | President, Coleman-Toll Limited Partnership |
| Charles E. Moscony | President, Westminster Abstract Company |
| Donald L. Salmon | President, Westminster Mortgage Corporation |
| Gilbert Silverman | President, Silverman-Toll Limited Partnership |

Listings are as of 11/1/99.

Employees

As of October 31, 1999, the Company employed 2,208 full-time persons.

Shareholders

As of October 31, 1999, the Company had 741 shareholders of record.

Stock Listing

The common stock of Toll Brothers, Inc. is traded on the New York Stock Exchange and Pacific Exchange (symbol "TOL").

Information Requests

The Form 10-K Annual Report, filed with the SEC, the Company's quarterly reports to stockholders, Forms 10-Q and other Company information are available upon request from Frederick N. Cooper or Joseph R. Sicree, Co-Directors of Investor Relations, at the Corporate Office.

Corporate Office

Toll Brothers, Inc.
3103 Philmont Avenue
Huntingdon Valley, Pennsylvania 19006
(215) 938-8000
Internet address: www.tollbrothers.com

Transfer Agent & Registrar

Chase Mellon Shareholder Services, L.L.C.
Ridgefield Park, New Jersey

Independent Auditors

Ernst & Young LLP
Philadelphia, Pennsylvania

Securities Counsel

Wolf, Block, Schorr and Solis-Cohen LLP
Philadelphia, Pennsylvania

Common Stock Price Range – New York Stock Exchange

| Quarter Ended | High | Low |
|---------------|-----------|------------|
| 1999 | | |
| October 31 | \$21 1/2 | \$15 5/8 |
| July 31 | \$23 7/16 | \$19 13/16 |
| April 30 | \$23 1/4 | \$17 1/2 |
| January 31 | \$25 7/16 | \$21 5/8 |

| | | |
|------------|----------|-----------|
| 1998 | | |
| October 31 | \$30 1/2 | \$17 3/8 |
| July 31 | \$30 1/4 | \$23 3/4 |
| April 30 | \$31 5/8 | \$26 7/16 |
| January 31 | \$29 | \$22 1/8 |

Statement on Forward-Looking Information

Certain information included herein and in other Company reports and SEC filings is forward-looking within the meaning of the Private Litigation Reform Act of 1995, including, but not limited to, statements concerning the Company's anticipated operating results, financial resources, increases in revenues, increased profitability, interest expense, growth and expansion, ability to acquire land, ability to sell homes and properties, ability to deliver homes from backlog, ability to secure materials and subcontractors and Year 2000 readiness, and the effect on the Company if the Company or significant third parties are not Year 2000 compliant. 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 other Company reports and SEC filings. These risks and uncertainties include local, regional and national economic conditions, the effect of governmental regulation, the competitive environment in which the Company operates, fluctuations in interest rates, changes in home prices, the availability and cost of land for future growth, the availability of capital, the availability and cost of labor and materials, and weather conditions.

Demographic data: The sources for the demographic data included in this annual report are the U.S. Census Bureau, the Joint Center for Housing Studies of Harvard University and Claritas.

Photography: James B. Abbott, Mark Boisclair, Robert Brantley, Rob Ikeler, Robb Miller, Opulence Studios, Kim Sargent, Evan Schiller, Peter Tata, Bill Taylor, Greg Wilson

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Toll Brothers
Quality Homes by Design®

3103 Philmont Avenue • Huntingdon Valley • Pennsylvania 19006
www.tollbrothers.com