

Toll Brothers

2000 Annual Report



A DECADE OF GROWTH

Toll Brothers is the nation's leading builder of luxury homes, serving move-up, empty-nester and active-adult buyers in over 140 communities in twenty states.

The past decade has been a time of tremendous growth for us. We began the 1990s building in five states: Pennsylvania, Delaware, New Jersey, Massachusetts and Maryland. Expansion in the early 1990s into New York, Connecticut and Virginia established us as the dominant luxury builder in the Boston to Washington, D.C. corridor. Beginning in 1994, we expanded to California, then into the Southeast, Southwest and Midwest regions of the United States.

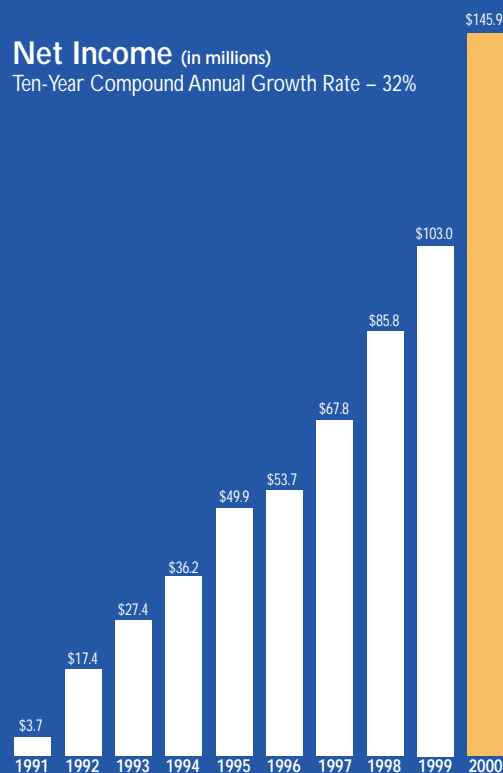
In tandem with geographic expansion, we began diversifying our product offerings. After focusing exclusively on move-up communities from 1967 through the 1980s, we began building our first empty-nester and mixed-age, master planned communities in the early 1990s. We have subsequently expanded both product lines into full-scale operations. We entered the active-adult market in 1999 and have age-qualified communities in New Jersey, Michigan and Connecticut.

Driven by geographic and product diversification, in the past decade our revenues have grown from \$177 million to \$1.81 billion, earnings from \$3.7 million to \$145.9 million, contracts from \$230 million to \$2.15 billion and year-end backlog from \$124 million to \$1.43 billion. In each year, we surpassed the previous year's results in all categories. With this growth came increased stability. As shareholders' equity grew from \$118 million to \$745 million, our credit ratings continued to improve until we became one of just three home builders rated investment grade by Standard & Poor's and Moody's.

Over the past ten years, we created an award-winning web site, won design awards in all our regions and became the only national builder to win all three of our industry's highest honors: *Builder of the Year*, *America's Best Builder* and the *National Housing Quality Award*. We built our brand, honed our systems and maintained industry-leading profit margins while managing rapid, profitable growth and nationwide geographic expansion. We view this as just a beginning. As the following pages will illustrate, we believe the best is yet to come.

Net Income (in millions)

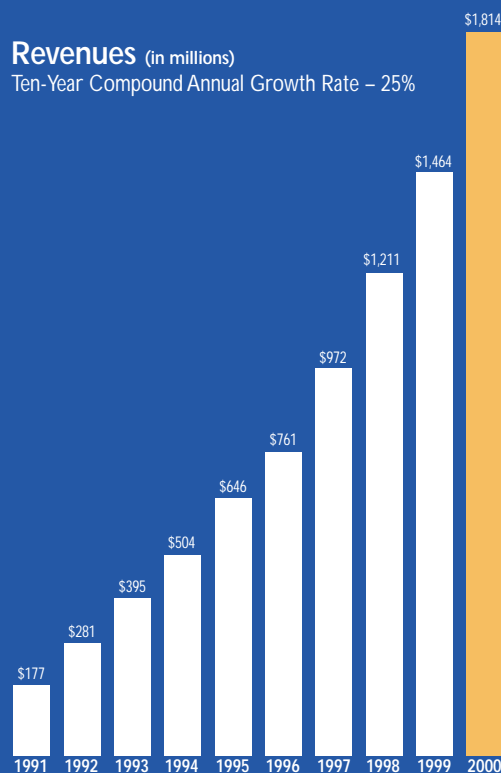
Ten-Year Compound Annual Growth Rate – 32%



Fiscal year end October 31
Before extraordinary items and change in accounting

Revenues (in millions)

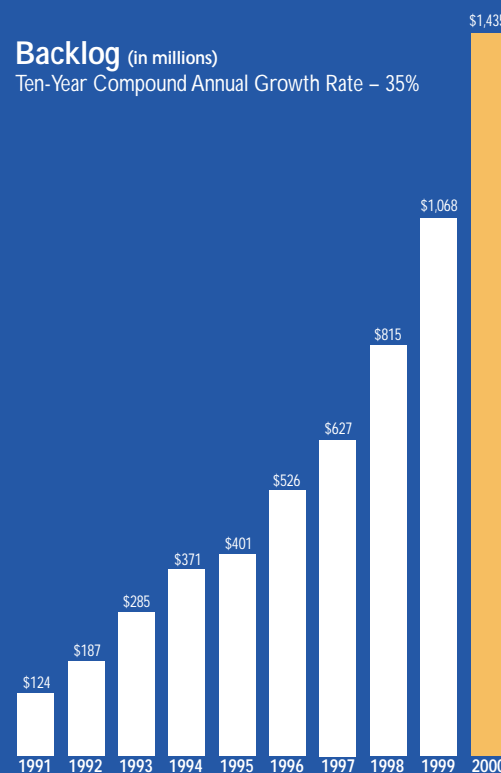
Ten-Year Compound Annual Growth Rate – 25%



Fiscal year end October 31

Backlog (in millions)

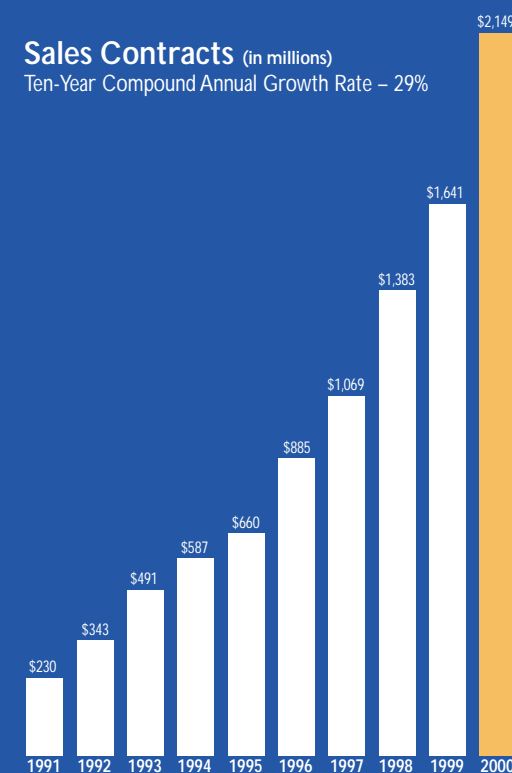
Ten-Year Compound Annual Growth Rate – 35%



Fiscal year end October 31

Sales Contracts (in millions)

Ten-Year Compound Annual Growth Rate – 29%



Fiscal year end October 31

DEAR SHAREHOLDER

2000 was a fabulous year for Toll Brothers. We delivered more homes, signed more contracts, and achieved greater profits than ever before. Over the last three, five, seven and ten years, we have averaged more than 20% compound annual growth for earnings, revenues, contracts and backlog. Even by these measures, fiscal 2000 was an extraordinary year as our earnings grew 42%, our revenues 24%, our contracts 31%, and our year-end backlog 34% versus fiscal 1999.

We believe our strategy of focusing on the luxury market and creating a special brand is the primary reason for our success. In 1990, we were 74th in *Professional Builder* magazine's annual ranking of U.S. home builders; today we are 9th. By expanding geographically, and diversifying beyond the move-up market into the empty-nester and active-adult sectors, we have broadened the scope of our business, thereby accelerating our growth and increasing our revenue and earnings potential dramatically.

We continue to benefit from our strategy of acquiring control of well-located land in affluent markets and taking sites through the entitlement process. Having operated in the Northeast for thirty years, we had to learn to be a land developer as well as a home builder. We recognized that "slow-growth" and "no-growth" sentiment, now a nationwide phenomenon, would restrict supply and make entitled land with development approvals very valuable. We also recognized that

baby boom demographics, which are driving the robust market for luxury homes, would accelerate these lot shortages, causing demand to outstrip supply. In anticipation of these shortages, to fuel our continued growth we have cautiously and carefully built up the supply of lots we control to over 33,000.



Left to right: Douglas C. Yearley, Jr., Zvi Barzilay, Wayne S. Patterson, Joel H. Rassman, Bruce E. Toll, Robert I. Toll

We could have signed more contracts and delivered houses in greater volumes this past year, but instead we followed our plan of maximizing the value of our land by continuing to raise home prices. As a result, in fiscal 2000 the average price of homes delivered rose 10% over 1999 to \$447,000. In an environment of relatively stable labor and material costs, our gross margins improved to 24.2% in FY 2000 from 22.3% in FY 1999.

The economy has helped us significantly. A recent Census Bureau study reported that, in constant 1999 dollars, U.S. households with incomes of \$100,000 or more have grown at nearly seven times the rate of U.S. households in general over the past twenty years. Affluent households now represent over 12%, or 12.8 million, of U.S. households.

Our stock price rose by 86% over the course of fiscal 2000 as our consistent performance and strong growth gained the attention of investors. As of this writing we are still selling at a price/earnings multiple of approximately 9.5 times First Call's consensus of analysts' earnings estimates for fiscal 2001, a discount of 56% to the S&P 500. Given our track record and future growth potential, we hope and believe that the market will reward us with a multiple more in line with other growth companies.

Our near-term prospects look outstanding. We believe fiscal 2001 will be another record year with net income and revenue growth of at least 15%. We start with a record \$1.43 billion backlog, 34% ahead of last year's total and equal to nearly 80% of fiscal 2000's record revenues. This backlog means that most of our revenues through third quarter 2001 are already in our pipeline.

And we believe that fiscal 2002 should be even better. Since we plan to increase the number of our selling communities over the coming year, if demand remains relatively constant, we estimate at least 15% growth in both net income and revenues in fiscal 2002 over 2001.

The outlook beyond is very encouraging. Experts predict that from now through 2010, U.S. households should continue to grow in numbers comparable to that of the past decade. At that pace, by 2010 there could be over 26% more households than in 1990. With more affluent households than ever before and

huge waves of maturing baby boomers now in their 30s, 40s and 50s, we believe demand for luxury homes should remain strong throughout this decade.

Toll Brothers is uniquely positioned to benefit from these exciting demographics. We are the only national builder focused primarily on the luxury market. Our average home price is double the average of the other major builders. Our main competitors are small and mid-sized private custom builders who don't have our investment grade ratings, our access to land and low-cost capital, our national buying power, our marketing reach or our brand name.



We have built our brand name by offering buyers choice, quality, value and service in addition to luxurious homes and wonderful lifestyles. We take the headache out of building a custom home. We are the land developer, the architect, the mortgage consultant, the home builder and even, to an extent, the interior designer. By marrying customization with production, we create great value for our customers. Our buyers can design their dream homes while we control the customization process and benefit from the economies of scale of high-volume home building. At Toll Architecture, we pre-design and pre-budget the hundreds of structural options we offer. At Toll Integrated Systems, our manufacturing operation, we assemble wall panels, roof and floor trusses, windows and signature millwork in a factory-controlled environment to ensure quality.

To increase profits and expand our brand, we are introducing communities that are more luxurious than ever before. We have recently opened seven large, master planned communities totaling nearly 9,300 home sites. We have three more comparable communities totaling over 3,500 home sites scheduled to open by 2002. In these large master plans, we are able to cross-market to the full range of luxury move-up and empty-nester buyers by offering in one location the wide array of Toll Brothers homes: estate, executive and villa lines of single-family homes and attached carriage homes and townhomes in numerous variations. We are introducing an active-adult community within one of our master plans and in three

communities we are selling lots to other builders for homes other than our own customized luxury product.

These highly amenitized communities contain features such as clubhouses, fitness centers, preserved open space, pools, tennis courts and other recreational amenities. Nine have championship golf courses. One has a 170-acre recreational lake with a private beach and marina. Buyers are willing to pay more for a luxurious recreational lifestyle and, with so many product offerings, they are more likely to find the home of their dreams. As these communities reach full-scale production, over the next several years we

believe they will have a significant positive impact on our revenues and profits.

As we look to the future, our goals are clear and within view. We intend to enhance and expand our brand name and reputation as the nation's leading builder of luxury homes; to gain a larger share of the market in the affluent territories where we build; to enter new markets with strong growth potential; to maintain the financial discipline that has assured us access to capital; and to sustain our record of consistent, strong growth and profitability.

We thank the many people who have made this year such a success: our shareholders for their patience and confidence in us, our home buyers who trust our company to deliver their dreams, and the entire Toll Brothers team, whose diligence and determination are unparalleled in the industry.

Sincerely,

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

BRUCE E. TOLL
Vice Chairman

ZVI BARZILAY
President and
Chief Operating Officer

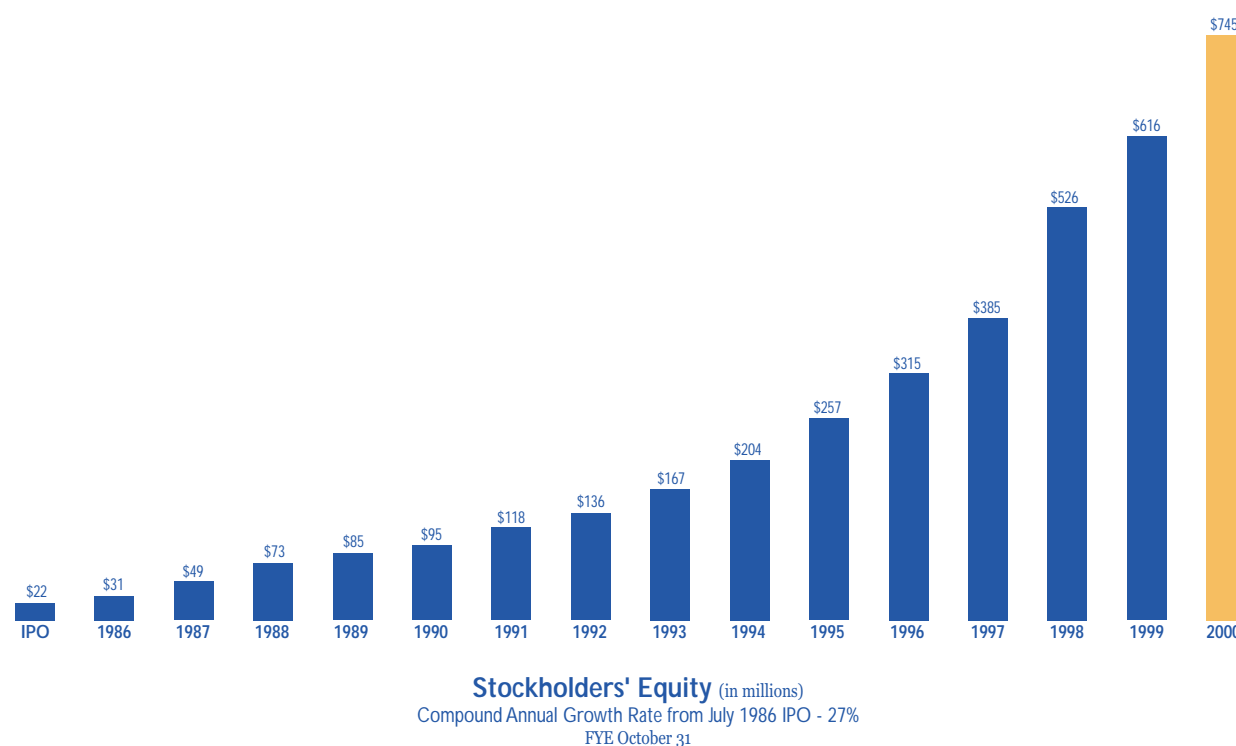
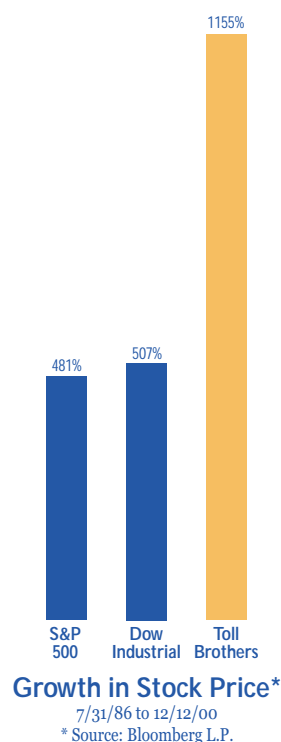
December 12, 2000



The Coventry Manor at Hunt Valley Estates, MD

PERFORMANCE

- An investor who bought our stock at the end of July 1986, the month we went public, has seen its value increase over 1000%; that's more than double the increase in value of the S&P 500.
- In fiscal 2000, we produced our eighth consecutive year of record earnings, our ninth consecutive year of record revenues and year-end backlog, and our tenth consecutive year of record signed contracts. We again led the home builders in the Fortune 1000 in net profit margin. With confidence in our future, we repurchased over 1.35 million shares of our stock.
- We ended fiscal 2000 with strong momentum. In our fourth quarter, we achieved our 39th consecutive quarterly year-over-year record for signed contracts, the highest revenues and earnings for any quarter in our history, and a record year-end backlog to jump-start fiscal 2001.







PREPAREDNESS

- We have a tremendous land supply to control our destiny. We now own or control over 33,000 home sites in many of the nation's most affluent markets. Over 70% of our sites are in California, the Mid-Atlantic and the Northeast markets - our most profitable regions.
- In an environment of anti-growth sentiment and increasingly contentious entitlement processes, our expertise in gaining approvals and developing our own sites gives us a competitive advantage. Our land supply can keep us growing for several years without having to be replenished.
- Through Toll Brothers Realty Trust, our commercial property venture, we are taking advantage of opportunities to develop and acquire apartment, office and retail properties in current Toll Brothers markets. The Trust, of which we effectively own one-third, enables us to build equity via property ownership and to earn fees from development, construction and property management.
- We have the financial strength to fuel our expansion. With investment grade ratings from all three rating agencies, Standard & Poor's, Moody's and Fitch, we have exceptional access to the capital markets.
- Since 1996, we have raised \$470 million in long-term subordinated debt in the public capital markets, with a blended rate of 8.15%, and secured over \$750 million of financing from U.S., European and Japanese banks. These diversified financial relationships help insulate us from the vagaries of individual capital markets.



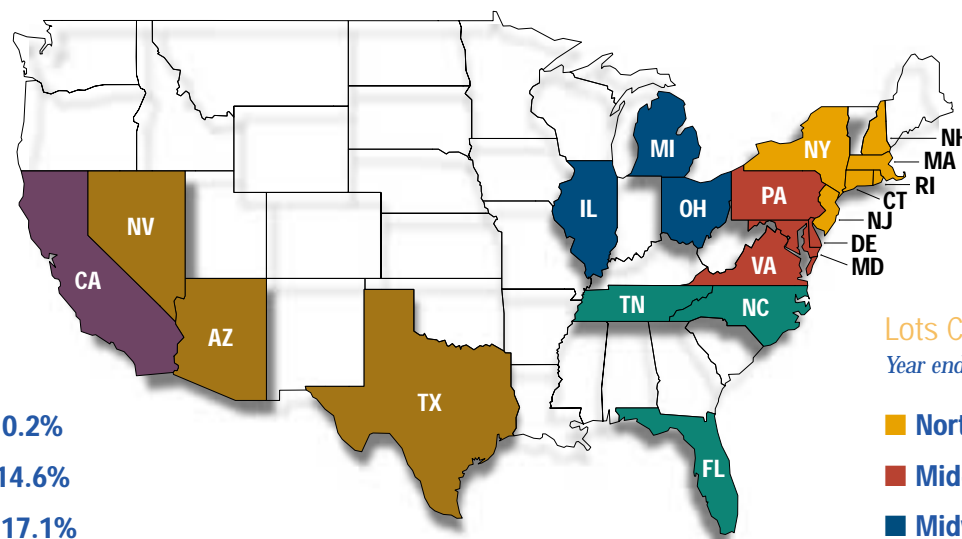
OPPORTUNITY

- We have seen dramatic growth in the size of our target markets as affluent households, those earning \$100,000 or more in constant 1999 dollars, have nearly tripled since 1980 to 12.8 million.
- With the largest group of baby boomers, the 4 million born annually between 1954 and 1964, now 36 - 46 years of age, the outlook for the luxury move-up market is vibrant. The empty-nester market is poised to explode as more baby boomers enter their 50s. The active-adult market is gaining momentum with households headed by 55 - 64 year-olds projected to grow by 47% in this decade.
- We now operate in 40 markets in 20 states with over 5.2 million affluent households. Since 1994, we have expanded into the West, Southwest, Southeast and Midwest regions. In these newer regions, which include many of the nation's strongest housing markets, if we can capture just half the market share we've achieved in our core Northeast and Mid-Atlantic markets, we could triple our current size. And we have identified another dozen markets for potential expansion.

Backlog by Region

(Percent of \$ value) Year ended October 31, 2000

| | |
|------------------------|----------------------|
| ■ Northeast - 25.6% | ■ Southeast - 10.2% |
| ■ Mid-Atlantic - 22.2% | ■ Southwest - 14.6% |
| ■ Midwest - 10.3% | ■ West Coast - 17.1% |



Lots Controlled by Region

Year ended October 31, 2000

| | |
|-------------------------|----------------------|
| ■ Northeast - 8,259 | ■ Southeast - 3,417 |
| ■ Mid-Atlantic - 13,207 | ■ Southwest - 2,819 |
| ■ Midwest - 2,981 | ■ West Coast - 2,435 |



The Claridge Georgian at River Crossing, PA



LIFESTYLE

- Our communities are planned to enhance the lifestyles of our buyers. Winding, tree-lined streets, cul-de-sacs, shaded lanes and pocket parks make our communities beautiful. Tennis courts, pools, cabanas, fitness centers and tot lots make them fun to live in. We believe this approach both increases demand for our homes and preserves the long-term value of our communities.
- In an age of choice, our buyers demand the flexibility to customize their homes to complement their active lifestyles. To achieve this, we offer them thousands of combinations of options from which to choose. His and her offices, first-floor master suites, sun rooms, exercise areas, guest wings, media centers, two-story conservatories, elevators and four-car garages are among the many custom features that make our homes special. In fiscal 2000, our buyers added, on average, over \$70,000 in options to their homes.
- We load our homes with luxury. Granite and marble countertops, vaulted and coffered ceilings, signature molding and elegant hardwood flooring contribute to the luxurious lifestyle we offer.
- We make the home-buying process easy and build longer-term relationships with our customers by providing them with one-stop shopping for services such as title, mortgage, landscape, security monitoring, cable television and broadband Internet access.



VISION

- With a dominant presence in the luxury markets of the Northeast and Mid-Atlantic regions, burgeoning operations in some of the nation's most dynamic housing markets in the West, Southwest, Midwest and Southeast, a diversified product mix and a rapidly growing base of potential customers, the future looks very bright.
- Ours is an evolving industry. We are integrating technology into all aspects of our business from marketing and sales, to manufacturing and construction, to planning and customer service. On our award-winning web site, we now host 8,200 visitors daily, who average nearly 16 minutes per visit. We install and provide Internet and cable television services to a number of our communities and have started testing web-based scheduling of home construction in the field. We see great potential from the efficiencies of the Internet in communication, cost savings and wider access to customers.
- We recognize that home building remains a people-driven business. Our reputation, integrity and relationships with our home buyers, shareholders, lenders and suppliers are the cornerstones of our business.
- We believe there is no substitute for hard work, diligence and focus. From the project management and sales teams in the field to the design, engineering, financial, land acquisition, legal, manufacturing, marketing and administrative teams that support them, we are dedicated to building the finest homes in America and making what we believe is the best home building company in the United States even better.



The Balboa at Oak Knoll, CA



CORPORATE PROFILE

(AT 10/31/00)

SOLID PERFORMANCE

Eight consecutive years
of record earnings
Nine consecutive years
of record revenues
Nine consecutive years
of record year-end backlog
Ten consecutive years
of record sales contracts
29% compound average
annual diluted earnings per
share growth since 1990
39 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
20 states in six regions:
Northeast, Mid-Atlantic,
Midwest, Southeast,
Southwest and West Coast

FINANCIAL STRENGTH

Investment grade corporate
credit ratings from Standard &
Poor's (BBB-), Moody's (Baa3),
and Fitch (BBB)
Backed by a \$465 million,
16-bank credit facility
Stockholders' equity nearly
tripled in the last five years
Secured over \$1.2 billion from
banks and the public capital
markets since 1996

GROWTH POTENTIAL

Own or control over 33,000
home sites
Selling from 146 communities,
up 50% in five years
Serve 40 affluent markets with
5.2 million households earning
\$100,000 and above
Have identified a 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,
security, landscape, cable TV
and broadband Internet access
Land acquisition, approvals
and development expertise
support growing home building
and land sales operations
Apartment, office and retail
development through
Toll Brothers Realty Trust

BRAND NAME REPUTATION

Founded in 1967
Publicly traded since 1986
Traded on the New York Stock
Exchange and Pacific Exchange
9th largest U.S. home builder
by revenues
Average delivered home price
of \$447,000 in fiscal year
2000, up 10% from 1999
Fortune 1000 Company
1996 - *America's Best Builder*
National Association of Home
Builders (NAHB)
1995 - *National Housing
Quality Award* (NAHB)
1988 - *Builder of the Year*
(Professional Builder)



REGIONAL RESULTS

| Year ended Oct. 31 | CLOSINGS | | | | CONTRACTS* | | | | BACKLOG* | | | |
|---|----------|-------|---------------|-----------|------------|-------|---------------|-----------|----------|-------|---------------|-----------|
| | Units | | \$ (millions) | | Units | | \$ (millions) | | Units | | \$ (millions) | |
| | 2000 | 1999 | 2000 | 1999 | 2000 | 1999 | 2000 | 1999 | 2000 | 1999 | 2000 | 1999 |
| Northeast <i>(CT, MA, NH, NJ, NY, RI)</i> | 1,043 | 910 | \$492.6 | \$401.1 | 1,043 | 1,068 | \$513.9 | \$482.7 | 723 | 723 | \$367.6 | \$346.1 |
| Mid-Atlantic <i>(DE, MD, PA, VA)</i> | 1,293 | 1,362 | 584.9 | 549.2 | 1,280 | 1,355 | 592.7 | 582.2 | 679 | 692 | 319.2 | 311.4 |
| Midwest <i>(IL, MI, OH)</i> | 335 | 242 | 122.1 | 68.6 | 481 | 262 | 206.0 | 91.6 | 311 | 240 | 147.2 | 82.5 |
| Southeast <i>(FL, NC, TN)</i> | 269 | 238 | 133.9 | 112.9 | 419 | 268 | 204.0 | 123.7 | 312 | 162 | 146.6 | 76.6 |
| Southwest <i>(AZ, NV, TX)</i> | 734 | 717 | 276.5 | 246.3 | 731 | 725 | 315.7 | 262.4 | 417 | 420 | 209.3 | 170.2 |
| West Coast <i>(CA)</i> | 271 | 86 | 152.9 | 60.2 | 464 | 167 | 317.1 | 98.4 | 337 | 144 | 245.0 | 80.7 |
| Total | 3,945 | 3,555 | \$1,762.9 | \$1,438.3 | 4,418 | 3,845 | \$2,149.4 | \$1,641.0 | 2,779 | 2,381 | \$1,434.9 | \$1,067.5 |

*Contracts for the twelve-month period ended October 31, 2000 included \$14,844,000 (54 homes) from an unconsolidated 50% owned joint venture. Contracts for the twelve-month period ended October 31, 1999 included \$13,141,000 (46 homes) from this joint venture. Backlog as of October 31, 2000 and 1999 included \$9,425,000 (33 homes) and \$13,756,000 (54 homes), respectively, from this joint venture.



TOLL BROTHERS' ELEVEN-YEAR FINANCIAL SUMMARY

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

| Year ended October 31 | 2000 | 1999 | 1998 | 1997 | 1996 | 1995 | 1994 | 1993 | 1992 | 1991 | 1990 |
|--|-------------|-------------|-------------|------------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|
| Revenues | \$1,814,362 | \$1,464,115 | \$1,210,816 | \$ 971,660 | \$760,707 | \$646,339 | \$504,064 | \$395,261 | \$281,471 | \$177,418 | \$200,031 |
| Income before income taxes, extraordinary items and change in accounting | \$ 230,966 | \$ 162,750 | \$ 134,293 | \$ 107,646 | \$ 85,793 | \$ 79,439 | \$ 56,840 | \$ 43,928 | \$ 28,864 | \$ 6,248 | \$ 14,964 |
| Income before extraordinary items and change in accounting | \$ 145,943 | \$ 103,027 | \$ 85,819 | \$ 67,847 | \$ 53,744 | \$ 49,932 | \$ 36,177 | \$ 27,419 | \$ 17,354 | \$ 3,717 | \$ 8,904 |
| Net income | \$ 145,943 | \$ 101,566 | \$ 84,704 | \$ 65,075 | \$ 53,744 | \$ 49,932 | \$ 36,177 | \$ 28,058 | \$ 16,538 | \$ 5,013 | \$ 9,988 |
| Income per share | | | | | | | | | | | |
| Basic: | | | | | | | | | | | |
| Income before extraordinary items and change in accounting | \$ 4.02 | \$ 2.81 | \$ 2.35 | \$ 1.99 | \$ 1.59 | \$ 1.49 | \$ 1.08 | \$ 0.83 | \$ 0.53 | \$ 0.12 | \$ 0.30 |
| Net income | \$ 4.02 | \$ 2.77 | \$ 2.32 | \$ 1.91 | \$ 1.59 | \$ 1.49 | \$ 1.08 | \$ 0.84 | \$ 0.50 | \$ 0.16 | \$ 0.34 |
| Weighted average number of shares | 36,269 | 36,689 | 36,483 | 34,127 | 33,865 | 33,510 | 33,398 | 33,231 | 33,022 | 31,248 | 29,714 |
| Diluted: | | | | | | | | | | | |
| Income before extraordinary items and change in accounting | \$ 3.90 | \$ 2.75 | \$ 2.25 | \$ 1.86 | \$ 1.50 | \$ 1.42 | \$ 1.05 | \$ 0.82 | \$ 0.52 | \$ 0.12 | \$ 0.30 |
| Net income | \$ 3.90 | \$ 2.71 | \$ 2.22 | \$ 1.78 | \$ 1.50 | \$ 1.42 | \$ 1.05 | \$ 0.84 | \$ 0.50 | \$ 0.16 | \$ 0.34 |
| Weighted average number of shares | 37,413 | 37,436 | 38,360 | 37,263 | 36,879 | 36,360 | 35,655 | 33,467 | 33,234 | 31,412 | 29,714 |

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

| As of October 31 | 2000 | 1999 | 1998 | 1997 | 1996 | 1995 | 1994 | 1993 | 1992 | 1991 | 1990 |
|---|-------------|-------------|-------------|-------------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|
| Inventory | \$1,712,383 | \$1,443,282 | \$1,111,223 | \$ 921,595 | \$772,471 | \$623,830 | \$506,347 | \$402,515 | \$287,844 | \$222,775 | \$240,155 |
| Total assets | \$2,030,254 | \$1,668,062 | \$1,254,468 | \$1,118,626 | \$837,926 | \$692,457 | \$586,893 | \$475,998 | \$384,836 | \$312,424 | \$316,534 |
| Debt | | | | | | | | | | | |
| Loans payable | \$ 326,537 | \$ 213,317 | \$ 182,292 | \$ 189,579 | \$132,109 | \$ 59,057 | \$ 17,506 | \$ 24,779 | \$ 25,756 | \$ 49,943 | \$ 71,707 |
| Subordinated debt | 469,499 | 469,418 | 269,296 | 319,924 | 208,415 | 221,226 | 227,969 | 174,442 | 128,854 | 55,513 | 61,474 |
| Collateralized mortgage obligations payable | | 1,145 | 1,384 | 2,577 | 2,816 | 3,912 | 4,686 | 10,810 | 24,403 | 39,864 | 45,988 |
| Total | \$ 796,036 | \$ 683,880 | \$ 452,972 | \$ 512,080 | \$343,340 | \$284,195 | \$250,161 | \$210,031 | \$179,013 | \$145,320 | \$179,169 |
| Stockholders' equity | \$ 745,145 | \$ 616,334 | \$ 525,756 | \$ 385,252 | \$314,677 | \$256,659 | \$204,176 | \$167,006 | \$136,412 | \$117,925 | \$ 94,599 |
| Number of shares outstanding | 35,895 | 36,454 | 36,935 | 34,275 | 33,919 | 33,638 | 33,423 | 33,319 | 33,087 | 32,812 | 29,684 |
| Book value per share | \$ 20.76 | \$ 16.91 | \$ 14.23 | \$ 11.24 | \$ 9.28 | \$ 7.63 | \$ 6.11 | \$ 5.01 | \$ 4.12 | \$ 3.59 | \$ 3.19 |
| Return on beginning stockholders' equity | 23.7% | 19.3% | 22.0% | 20.7% | 20.9% | 24.5% | 21.7% | 20.6% | 14.0% | 5.3% | 11.7% |

Home Data

| Year ended October 31 | 2000 | 1999 | 1998 | 1997 | 1996 | 1995 | 1994 | 1993 | 1992 | 1991 | 1990 |
|--|-------------|-------------|-------------|-------------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|
| Number of homes closed | 3,945 | 3,555 | 3,099 | 2,517 | 2,109 | 1,825 | 1,583 | 1,324 | 1,019 | 676 | 727 |
| Sales value of homes closed (in thousands) | \$1,762,930 | \$1,438,171 | \$1,206,290 | \$ 968,253 | \$759,303 | \$643,017 | \$501,822 | \$392,560 | \$279,841 | \$175,971 | \$198,336 |
| Number of homes contracted | 4,418 | 3,845 | 3,387 | 2,701 | 2,398 | 1,846 | 1,716 | 1,595 | 1,202 | 863 | 612 |
| Sales value of homes contracted (in thousands) | \$2,149,366 | \$1,640,990 | \$1,383,093 | \$1,069,279 | \$884,677 | \$660,467 | \$586,941 | \$490,883 | \$342,811 | \$230,324 | \$163,975 |
| Number of homes in backlog | 2,779 | 2,381 | 1,892 | 1,551 | 1,367 | 1,078 | 1,025 | 892 | 621 | 438 | 251 |
| Sales value of homes in backlog (in thousands) | \$1,434,946 | \$1,067,685 | \$ 814,714 | \$ 627,220 | \$526,194 | \$400,820 | \$370,560 | \$285,441 | \$187,118 | \$124,148 | \$ 69,795 |
| Average number of selling communities | 147 | 133 | 120 | 104 | 97 | 86 | 72 | 61 | 48 | 40 | 38 |

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 | 2000 | | 1999 | | 1998 | |
|--|---------|------|---------|------|---------|------|
| | \$ | % | \$ | % | \$ | % |
| Home sales | | | | | | |
| Revenues | 1,762.9 | | 1,438.2 | | 1,206.3 | |
| Costs | 1,337.1 | 75.8 | 1,117.9 | 77.7 | 933.9 | 77.4 |
| Land sales | | | | | | |
| Revenues | 38.7 | | 17.3 | | | |
| Costs | 29.8 | 77.0 | 13.4 | 77.1 | | |
| Equity earnings in unconsolidated joint ventures | 3.3 | | | | | |
| Interest and other income | 9.5 | | 8.6 | | 4.5 | |
| Total revenues | 1,814.4 | | 1,464.1 | | 1,210.8 | |
| Selling, general and administrative expenses | 170.4 | 9.4 | 130.2 | 8.9 | 106.7 | 8.8 |
| Interest expense | 46.2 | 2.5 | 39.9 | 2.7 | 35.9 | 3.0 |
| Total costs and expenses | 1,583.4 | 87.3 | 1,301.4 | 88.9 | 1,076.5 | 88.9 |
| Operating income | 231.0 | 12.7 | 162.7 | 11.1 | 134.3 | 11.1 |

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

Fiscal 2000 Compared to Fiscal 1999

Home Sales

Housing revenues for fiscal 2000 were higher than those of fiscal 1999 by approximately \$325 million, or 23%. The revenue increase was primarily attributable to an 11% increase in the number of homes delivered and a 10% increase in the average price of the homes delivered. The increase in the average price of the homes delivered was the result of increased selling prices, a shift in the location of homes delivered to more expensive areas and an increase in the number of homes delivered from our highly amenitized country club communities. The increase in the number of homes delivered is primarily due to a 7% increase in the number of communities from which the Company was delivering homes and the larger backlog of homes to be delivered at the beginning of fiscal 2000 as compared to fiscal 1999.

The value of new sales contracts signed totaled \$2.15 billion (4,418 homes) and \$1.64 billion (3,845 homes) for fiscal 2000 and 1999, respectively. The increase in the value of new contracts signed in fiscal 2000 was primarily attributable to an increase in the average selling price of the homes (due primarily to the location, size and increase in base selling prices) and an increase both in the average number of communities in which the Company was offering homes for sale and in the number of contracts signed per community.

As of October 31, 2000, the backlog of homes under contract was \$1.43 billion (2,779 homes), approximately 34% higher than the \$1.07 billion (2,381 homes) backlog as of October 31, 1999. The increase in backlog at October 31, 2000 was primarily attributable to the increase in the number of new contracts signed and price

increases, as previously discussed. Based on the Company's current backlog and current healthy demand, the Company believes that fiscal 2001 will be another record year.

Housing costs as a percentage of housing sales decreased in fiscal 2000 as compared to fiscal 1999. The decrease was largely the result of selling prices increasing at a greater rate than costs, lower land and improvement costs and improved operating efficiencies offset in part by higher inventory write-offs. The Company incurred \$7.4 million in write-offs in fiscal 2000, as compared to \$5.1 million in fiscal 1999.

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 will also sell home sites and commercial parcels to other builders. The Company recorded its first sale of land from this operation in the third quarter of fiscal 1999. The Company is also developing several master planned communities in which it may sell land to other builders. The increase in land sales in fiscal 2000 over fiscal 1999 was due to the full year of operations in fiscal 2000 compared to six months in fiscal 1999 at South Riding and the first sale of home sites at one of its other master planned communities.

Equity Earnings in Unconsolidated Joint Ventures

In fiscal 1998, the Company entered into a joint venture to develop and sell land owned by its venture partner. Under the terms of the agreement, the Company has the right to purchase a specified number of home sites on which to build homes with the majority of the home sites to be sold to other builders. In fiscal 2000, the joint venture sold its first group of home sites to other builders and to the Company. The Company recognizes its share of earnings from the sale of home sites to other builders. The Company reduces its cost basis in the home sites it purchases from the joint venture by its share of the earnings on those home sites.

Interest and Other Income

Interest and other income increased \$900,000 in fiscal 2000 as compared to fiscal 1999. The increase was principally due to gains from the sale of miscellaneous assets, offset in part by a reduction of fee income.

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

SG&A spending increased by \$40.1 million, or 31%, in fiscal 2000 as compared to fiscal 1999. This increased spending was primarily due to the increase in the number of communities from which the Company was selling, the increase in the number of homes delivered, costs associated with the Company's expansion into new markets, expenses incurred in the opening of divisional offices to manage the growth and spending related to the development of its master planned communities and land sales.

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 revenue 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 home sites 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.

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 2000 as compared to 1999, and lower in fiscal 1999 as compared to fiscal 1998.

Income Taxes

Income taxes for fiscal 2000, 1999 and 1998 were provided at effective rates of 36.8%, 36.7% and 36.1%, 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 \$1.5 million, 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 \$1.1 million, 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.

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 \$465 million unsecured revolving credit facility with 16 banks which extends through February 2003. As of October 31, 2000, the Company had \$80 million of loans and approximately \$36 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 resources, cash flow from operations 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 a buyer contracts to acquire a home and the Company generally contracts to sell 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.

FINANCIAL STATEMENTS

Consolidated Statements of Income

(Amounts in thousands, except per share data)

| <i>Year Ended October 31</i> | <i>2000</i> | <i>1999</i> | <i>1998</i> |
|--|-------------------|-------------------|------------------|
| Revenues: | | | |
| Home sales | \$ 1,762,930 | \$ 1,438,171 | \$ 1,206,290 |
| Land sales | 38,730 | 17,345 | |
| Equity earnings in unconsolidated joint ventures | 3,250 | | |
| Interest and other | 9,452 | 8,599 | 4,526 |
| | <u>1,814,362</u> | <u>1,464,115</u> | <u>1,210,816</u> |
| Costs and expenses: | | | |
| Home sales | 1,337,060 | 1,117,872 | 933,853 |
| Land sales | 29,809 | 13,375 | |
| Selling, general and administrative | 170,358 | 130,213 | 106,729 |
| Interest | 46,169 | 39,905 | 35,941 |
| | <u>1,583,396</u> | <u>1,301,365</u> | <u>1,076,523</u> |
| Income before income taxes and extraordinary loss | 230,966 | 162,750 | 134,293 |
| Income taxes | 85,023 | 59,723 | 48,474 |
| Income before extraordinary loss | 145,943 | 103,027 | 85,819 |
| Extraordinary loss | | (1,461) | (1,115) |
| Net income | <u>\$ 145,943</u> | <u>\$ 101,566</u> | <u>\$ 84,704</u> |
| Earnings per share | | | |
| Basic: | | | |
| Income before extraordinary loss | \$ 4.02 | \$ 2.81 | \$ 2.35 |
| Extraordinary loss | | (.04) | (.03) |
| Net income | <u>\$ 4.02</u> | <u>\$ 2.77</u> | <u>\$ 2.32</u> |
| Diluted: | | | |
| Income before extraordinary loss | \$ 3.90 | \$ 2.75 | \$ 2.25 |
| Extraordinary loss | | (.04) | (.03) |
| Net income | <u>\$ 3.90</u> | <u>\$ 2.71</u> | <u>\$ 2.22</u> |
| Weighted average number of shares: | | | |
| Basic | 36,269 | 36,689 | 36,483 |
| Diluted | 37,413 | 37,436 | 38,360 |

See accompanying notes.

Consolidated Balance Sheets

(Amounts in thousands)

| <i>October 31</i> | <i>2000</i> | <i>1999</i> |
|--|--------------------|--------------------|
| Assets | | |
| Cash and cash equivalents | \$ 161,860 | \$ 96,484 |
| Inventory | 1,712,383 | 1,443,282 |
| Property, construction and office equipment, net | 24,075 | 19,633 |
| Receivables, prepaid expenses and other assets | 113,025 | 87,469 |
| Investments in unconsolidated entities | 18,911 | 21,194 |
| | <u>\$2,030,254</u> | <u>\$1,668,062</u> |
| Liabilities and Stockholders' Equity | | |
| Liabilities: | | |
| Loans payable | \$ 326,537 | \$ 213,317 |
| Subordinated notes | 469,499 | 469,418 |
| Customer deposits on sales contracts | 104,924 | 82,495 |
| Accounts payable | 110,927 | 84,777 |
| Accrued expenses | 185,141 | 141,835 |
| Income taxes payable | 88,081 | 59,886 |
| Total liabilities | <u>1,285,109</u> | <u>1,051,728</u> |
| Stockholders' equity: | | |
| Preferred stock, none issued | | |
| Common stock, 37,028 and 37,035 shares issued at October 31, 2000 and 1999, respectively | 359 | 365 |
| Additional paid-in capital | 105,454 | 105,239 |
| Retained earnings | 668,608 | 522,665 |
| Treasury stock, at cost – 1,133 shares and 581 shares at October 31, 2000 and 1999, respectively | (29,276) | (11,935) |
| Total stockholders' equity | <u>745,145</u> | <u>616,334</u> |
| | <u>\$2,030,254</u> | <u>\$1,668,062</u> |

See accompanying notes.

Consolidated Statements of Cash Flows

(Amounts in thousands)

| <i>Year Ended October 31</i> | <i>2000</i> | <i>1999</i> | <i>1998</i> |
|--|-------------|-------------|-------------|
| Cash Flows From Operating Activities | | | |
| Net income | \$145,943 | \$101,566 | \$ 84,704 |
| Adjustments to reconcile net income to net cash used in operating activities: | | | |
| Depreciation and amortization | 8,528 | 6,594 | 5,611 |
| Equity earnings in unconsolidated joint ventures | (3,250) | | |
| Extraordinary loss from extinguishment of debt | | 2,318 | 1,770 |
| Deferred tax provision | 5,191 | 1,569 | 324 |
| Changes in operating assets and liabilities, net of assets and liabilities acquired: | | | |
| Increase in inventory | (264,303) | (282,764) | (179,132) |
| Increase in receivables, prepaid expenses and other assets | (28,025) | (32,524) | (11,862) |
| Increase in customer deposits on sales contracts | 22,429 | 11,557 | 16,700 |
| Increase in accounts payable and accrued expenses | 71,492 | 62,769 | 35,265 |
| Increase in current income taxes payable | 25,132 | 8,045 | 5,912 |
| Net cash used in operating activities | (16,863) | (120,870) | (40,708) |
| Cash Flows From Investing Activities | | | |
| Purchase of property and equipment, net | (9,415) | (8,331) | (2,834) |
| Acquisition of company, net of cash acquired | | (11,090) | |
| Investment in unconsolidated entities | | (15,193) | (6,001) |
| Distribution from unconsolidated entities | 13,589 | | |
| Net cash provided by (used in) investing activities | 4,174 | (34,614) | (8,835) |
| Cash Flows From Financing Activities | | | |
| Proceeds from loans payable | 559,843 | 177,500 | 55,000 |
| Principal payments of loans payable | (460,482) | (187,551) | (74,416) |
| Net proceeds from issuance of subordinated notes | | 267,716 | |
| Redemption of subordinated notes | | (71,359) | |
| Proceeds from stock-based benefit plans | 11,936 | 2,223 | 4,874 |
| Purchase of treasury stock | (33,232) | (16,704) | (3,347) |
| Net cash provided by (used in) financing activities | 78,065 | 171,825 | (17,889) |
| Net increase (decrease) in cash and cash equivalents | 65,376 | 16,341 | (67,432) |
| Cash and cash equivalents, beginning of year | 96,484 | 80,143 | 147,575 |
| Cash and cash equivalents, end of year | \$161,860 | \$ 96,484 | \$ 80,143 |



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 2000 | | | | |
| Revenues | \$ 614,793 | \$ 464,532 | \$ 390,486 | \$ 344,551 |
| Income before income taxes | \$ 92,484 | \$ 58,791 | \$ 44,363 | \$ 35,328 |
| Net income | \$ 58,366 | \$ 37,234 | \$ 27,950 | \$ 22,393 |
| Earnings per share | | | | |
| Basic: | | | | |
| Net income* | \$ 1.62 | \$ 1.03 | \$.77 | \$.61 |
| Diluted: | | | | |
| Net income* | \$ 1.52 | \$ 1.00 | \$.75 | \$.61 |
| Weighted average number of shares: | | | | |
| Basic | 36,061 | 36,146 | 36,396 | 36,471 |
| Diluted | 38,486 | 37,219 | 37,036 | 36,909 |

| | | | | |
|---|------------|------------|------------|------------|
| 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 |

*Due to rounding, the sum of the quarterly earnings per share amounts does not equal the reported earnings per share for the year.



NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. Significant Accounting Policies

Basis of Presentation

The accompanying consolidated financial statements include the accounts of Toll Brothers, Inc. (the "Company"), a Delaware corporation, and its majority-owned subsidiaries. All significant intercompany accounts and transactions have been eliminated. Investments in 20% to 50% owned partnerships and affiliates are accounted for on the equity method and investments in less than 20% owned affiliates are accounted for on the cost method.

Use of Estimates

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

Land sales revenues and cost of sales are recognized at the time that title and possession of the property has been transferred to the buyer.

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 \$30,288,000 and \$25,761,000 at October 31, 2000 and 1999, 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 acquisition price was not material to the financial position of the Company.

Segment Reporting

Statement of Financial Accounting Standards ("SFAS") 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.

New Accounting Pronouncement

SFAS No. 133, "Accounting for Derivative Instruments and for Hedging Activities," establishes accounting and reporting standards of derivative instruments embedded in other contracts, and for hedging activities. The Company will adopt SFAS No. 133, as amended, in the first quarter of fiscal 2001. Such adoption is not expected to have a material impact on the Company's reported results of operations, financial position or cash flows.

2. Inventory

Inventory consisted of the following (amounts in thousands):

| October 31 | 2000 | 1999 |
|---|--------------------|--------------------|
| Land and land development costs | \$ 558,503 | \$ 506,869 |
| Construction in progress | 992,098 | 794,599 |
| Sample homes | 60,511 | 57,995 |
| Land deposits and costs of future development | 68,560 | 55,575 |
| Deferred marketing costs | 32,711 | 28,244 |
| | <u>\$1,712,383</u> | <u>\$1,443,282</u> |

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, 2000, 1999 and 1998, the Company provided for inventory writedowns and the expensing of costs which it believed not to be recoverable of \$7,448,000, \$5,092,000 and \$2,010,000, 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, 2000 were as follows (amounts in thousands):

| | 2000 | 1999 | 1998 |
|---|-----------------|-----------------|-----------------|
| Interest capitalized, beginning of year | \$64,984 | \$53,966 | \$51,687 |
| Interest incurred | 60,236 | 51,396 | 38,331 |
| Interest expensed | (46,169) | (39,905) | (35,941) |
| Write-off to cost and expenses | (608) | (473) | (111) |
| Interest capitalized, end of year | <u>\$78,443</u> | <u>\$64,984</u> | <u>\$53,966</u> |

3. Loans Payable and Subordinated Notes

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

| <i>October 31</i> | <i>2000</i> | <i>1999</i> |
|---|------------------|------------------|
| Revolving credit facility due Feb. 2003 | \$ 80,000 | \$ 80,000 |
| Term loan due July 2001 | | 56,000 |
| Term loan due March 2002 | 50,000 | 50,000 |
| Term loan due July 2005 | 170,000 | |
| Other | \$ 26,537 | 27,317 |
| | <u>\$326,537</u> | <u>\$213,317</u> |

The Company has a \$465,000,000 unsecured revolving credit facility with 16 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 7.2% at October 31, 2000. As of October 31, 2000, letters of credit and obligations under escrow agreements of \$35,896,000 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 \$271,000,000 as of October 31, 2000.

The Company has borrowed \$50,000,000 from three banks at a fixed rate of 7.72% repayable in March 2002. The Company has borrowed \$170,000,000 from eight banks at a fixed interest rate of 8.25% repayable in July 2005. 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):

| <i>October 31</i> | <i>2000</i> | <i>1999</i> |
|--|------------------|------------------|
| 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 | 170,000 |
| 8% Senior Subordinated Notes due May 1, 2009 | 100,000 | 100,000 |
| Bond discount | (501) | (582) |
| | <u>\$469,499</u> | <u>\$469,418</u> |

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, 2000, the aggregate fair value of all the outstanding subordinated notes, based upon their indicated market prices, was approximately \$437,570,000.

The annual aggregate maturities of the Company's loans and notes during the next five fiscal years are: 2001 - \$12,703,000; 2002 - \$55,176,000; 2003 - \$82,861,000; 2004 - \$395,000; and 2005 - \$170,342,000.

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 2000, 1999 and 1998. The effective tax rates in 2000, 1999 and 1998 were 36.8%, 36.7% and 36.1%, 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, 2000 were as follows (amounts in thousands):

| | <i>2000</i> | <i>1999</i> | <i>1998</i> |
|----------|-----------------|------------------|------------------|
| Federal | \$ 78,105 | \$ 54,874 | \$ 44,865 |
| State | 6,918 | 4,849 | 3,609 |
| | <u>\$85,023</u> | <u>\$ 59,723</u> | <u>\$ 48,474</u> |
| Current | \$ 79,832 | \$ 58,154 | \$ 48,150 |
| Deferred | 5,191 | 1,569 | 324 |
| | <u>\$85,023</u> | <u>\$ 59,723</u> | <u>\$ 48,474</u> |

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

| <i>October 31</i> | <i>2000</i> | <i>1999</i> |
|-------------------|-----------------|------------------|
| Current | \$ 63,775 | \$ 40,772 |
| Deferred | 24,306 | 19,114 |
| | <u>\$88,081</u> | <u>\$ 59,886</u> |

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

| <i>October 31</i> | <i>2000</i> | <i>1999</i> |
|---------------------------------------|-----------------|-----------------|
| Deferred tax liabilities: | | |
| Capitalized interest | \$26,287 | \$21,204 |
| Deferred expenses | 13,743 | 7,640 |
| Total | <u>40,030</u> | <u>28,844</u> |
| Deferred tax assets: | | |
| Inventory valuation reserves | 4,555 | 2,193 |
| Inventory valuation differences | 2,184 | 1,763 |
| Deferred income | 2,170 | |
| Accrued expenses deductible when paid | 178 | 271 |
| Other | 6,637 | 5,503 |
| Total | <u>15,724</u> | <u>9,730</u> |
| Net deferred tax liability | <u>\$24,306</u> | <u>\$19,114</u> |

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 Stockholder's Equity

Changes in stockholders' equity for the three years ended October 31, 2000 were as follows (amounts in thousands):

| | Common Stock | | Additional | Retained | Treasury | Total |
|--------------------------------------|--------------|--------|-----------------|-----------|------------|-----------|
| | Shares | Amount | Paid-In Capital | Earnings | Stock | |
| Balance, November 1, 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 |
| Net income | | | | 145,943 | | 145,943 |
| Purchase of treasury stock | (1,355) | (14) | | | (33,218) | (33,232) |
| Exercise of stock options | 672 | 7 | 588 | | 13,345 | 13,940 |
| Executive bonus award | 80 | 1 | (225) | | 1,620 | 1,396 |
| Employee stock plan purchases | 6 | | (8) | | 131 | 123 |
| Contribution to employee 401(k) Plan | 38 | | (140) | | 781 | 641 |
| Balance, October 31, 2000 | 35,895 | \$359 | \$105,454 | \$668,608 | \$(29,276) | \$745,145 |

Stockholder Rights Plan

Common shares outstanding are subject to stock purchase rights. The rights, which are exercisable only under certain conditions, entitle the holder, other than an acquiring person (and certain related parties of an acquiring person) as defined in the plan, to purchase common shares at prices specified in the rights agreement. Unless earlier redeemed, the rights will expire on July 11, 2007. The rights were not exercisable at October 31, 2000.

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, 2000, the Company had repurchased 2,289,000 shares of which 1,156,000 shares had 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.

SFAS No. 123, "Accounting for Stock-Based Compensation," 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, 2000, 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 SFAS No. 123 had been adopted, were as follows (in thousands, except per share amounts):

| | 2000 | | 1999 | | 1998 | |
|---|-------------|-----------|-------------|-----------|-------------|-----------|
| | As Reported | Pro Forma | As Reported | Pro Forma | As Reported | Pro Forma |
| Net income | \$145,943 | \$136,622 | \$101,566 | \$ 93,402 | \$ 84,704 | \$ 72,841 |
| Basic net income per share | \$ 4.02 | \$ 3.77 | \$ 2.77 | \$ 2.55 | \$ 2.32 | \$ 2.00 |
| Diluted net income per share | \$ 3.90 | \$ 3.65 | \$ 2.71 | \$ 2.50 | \$ 2.22 | \$ 1.91 |
| Weighted-average grant date fair value per share of options granted | \$ 9.03 | | \$ 10.98 | | \$ 12.01 | |

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, 2000.

| | 2000 | 1999 | 1998 |
|-------------------------|-------|-------|-------|
| Risk-free interest rate | 5.80% | 6.14% | 4.68% |
| Expected life (years) | 7.7 | 7.1 | 7.2 |
| Volatility | 35.7% | 34.9% | 35.1% |
| Dividends | none | none | none |

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 issued (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 issued (including treasury shares). The 1995 Plan and the 1998 Plan each restricts 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 thereunder in a calendar year to the lesser of the number of shares available for grant thereunder 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, 2000:

| | 2000 | | 1999 | | 1998 | |
|----------------------------------|-------------------|---------------------------------|-------------------|---------------------------------|-------------------|---------------------------------|
| | 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 | 5,891,593 | \$20.40 | 4,942,518 | \$19.53 | 3,684,175 | \$16.03 |
| Granted | 1,879,750 | 17.53 | 1,252,800 | 22.81 | 1,720,575 | 26.41 |
| Exercised | (678,288) | 17.69 | (176,470) | 11.39 | (293,015) | 14.04 |
| Cancelled | (89,299) | 20.95 | (127,255) | 22.97 | (169,217) | 22.85 |
| Outstanding, end of year | <u>7,003,756</u> | \$19.88 | <u>5,891,593</u> | \$20.40 | <u>4,942,518</u> | \$19.53 |
| Exercisable, end of year | <u>3,874,223</u> | \$19.92 | <u>3,736,905</u> | \$18.93 | <u>3,286,706</u> | \$17.90 |
| Available for grant, end of year | <u>2,313,251</u> | | <u>3,188,657</u> | | <u>3,893,663</u> | |

The following table summarizes information about stock options outstanding at October 31, 2000:

| 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 | 1,031,200 | 3.0 | 1,031,200 | \$ 12.13 |
| 17.13 - 20.25 | 3,361,385 | 7.4 | 1,356,195 | 18.29 |
| 22.31 - 25.56 | 1,913,671 | 7.7 | 789,328 | 23.87 |
| 27.44 - 29.50 | 697,500 | 7.2 | 697,500 | 28.01 |
| \$ 9.94 - \$29.50 | <u>7,003,756</u> | 6.8 | <u>3,874,223</u> | \$ 19.88 |

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 2000 of \$4,413,000 and in 1999 of \$1,395,000 which represented the fair market value of the shares issued to Robert I. Toll (135,792 shares in 2000 and 79,686 shares in 1999). On October 31, 2000 and 1999, the closing price of the Company's Common Stock on the New York Stock Exchange was \$32.50 and \$17.50, respectively.

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.

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 2007, provides that 300,000 shares be reserved for purchase. As of October 31, 2000, a total of 233,242 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, 2000, 1999 and 1998 were 6,309 shares and \$19.41, 12,182 shares and \$16.97, and 9,916 shares and \$22.48, 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, 2000 is as follows (amounts in thousands):

| | 2000 | 1999 | 1998 |
|--|--------|--------|--------|
| Basic weighted average shares | 36,269 | 36,689 | 36,483 |
| Common stock equivalents | 1,144 | 747 | 1,437 |
| Convertible subordinated notes | | | 440 |
| Diluted weighted average shares | 37,413 | 37,436 | 38,360 |
| Earnings addback related to interest on convertible subordinated notes, net of income tax benefits | — | — | \$ 315 |

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 \$2,579,000, \$1,876,000 and \$1,591,000 for the years ended October 31, 2000, 1999 and 1998, 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.

10. Commitments and Contingencies

As of October 31, 2000, the Company had agreements to purchase land and improved home sites for future development with purchase prices aggregating approximately \$648,347,000, of which \$32,934,000 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, 2000, the Company had agreements of sale outstanding to deliver 2,779 homes with an aggregate sales value of approximately \$1,434,946,000.

As of October 31, 2000, the Company was committed to make approximately \$63,000,000 of mortgage loans to its homebuyers and to others. All loans with committed interest rates are covered by take-out commitments from third party lenders, resulting in no interest rate risk to the Company. The Company also arranges through outside mortgage lenders, a variety of mortgage programs which are offered to its homebuyers.

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 Transactions

In order to take advantage of commercial real estate opportunities which may present themselves from time to time, the Company formed Toll Brothers Realty Trust (the "Trust"), a venture which is effectively owned one-third by the Company, one-third by a number of senior executives and/or directors, including Robert I. Toll, Bruce E. Toll (and certain members of his family), Zvi Barzilay (and certain members of his family), and Joel H. Rassman, and one-third by the Pennsylvania State Employees Retirement System (collectively, the "Shareholders").

In June 2000, the Shareholders entered into a subscription agreement whereby each group agreed to invest additional capital in an amount not to exceed \$9,259,000 if required by the Trust. The commitment expires in June 2002. As of October 31, 2000, the Company had an investment of \$7,233,000 in the Trust. This investment is accounted for on the equity method.

The Company provides development, finance and management services to the Trust and received fees under the terms of various agreements in the amount of \$1,392,000 and \$2,524,000 in fiscal 2000 and 1999, respectively.

On September 18, 2000 and October 12, 2000, the Company repurchased 200,000 shares and 50,000 shares of its common stock, respectively, from Bruce E. Toll at \$30.00 per share. The high and low trading price of the Company's common stock on the New York Stock Exchange was \$30.50 and \$28.875 on September 18, 2000 and \$32.0625 and \$29.25 on October 12, 2000.



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, 2000 (amounts in thousands):

| | 2000 | 1999 | 1998 |
|---|-----------|-----------|-----------|
| Supplemental disclosures of cash flow information: | | | |
| Interest paid, net of amount capitalized | \$ 21,548 | \$ 17,469 | \$ 13,430 |
| Income taxes paid | \$ 54,700 | \$ 49,250 | \$ 40,835 |
| Supplemental disclosures of noncash activities: | | | |
| Cost of residential inventories acquired through seller financing | \$ 8,321 | \$ 7,504 | \$ 13,500 |
| Investment in unconsolidated subsidiary acquired through seller financing | \$ 4,500 | | |
| Income tax benefit relating to exercise of employee stock options | \$ 2,128 | \$ 541 | \$ 748 |
| Stock bonus awards | \$ 1,395 | \$ 2,462 | \$ 3,564 |
| Contributions to employee retirement plan | \$ 641 | \$ 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, 2000 and 1999, and the related consolidated statements of income and cash flows for each of the three years in the period ended October 31, 2000. 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 auditing standards generally accepted in the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Toll Brothers, Inc. and subsidiaries at October 31, 2000 and 1999, and the consolidated results of their operations and their cash flows for each of the three years in the period ended October 31, 2000, in conformity with accounting principles generally accepted in the United States.

Ernst & Young LLP

Philadelphia, Pennsylvania
December 12, 2000



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 |
| Edward G. Boehne | Retired President - Federal Reserve Bank of Philadelphia |
| 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 | Michael J. Donnelly | Benjamin D. Jogodnick | Walter A. Music |
| Thomas A. Argyris, Jr. | Kevin D. Duermit | Gregory Kamedulski | Robert Parahus |
| William P. Berry | John P. Elcano | Webb A. Koschene | Douglas C. Shipe |
| Charles W. Bowie | Raymond P. Gamble | B. Mitchell Kotler | James A. Smith |
| James W. Boyd | William J. Gilligan | John G. Mangano | James E. Tackett |
| Roger A. Brush | Daniel Grosswald | Gary M. Mayo | Steven W. Walker |
| Thomas Carnaghi | Richard T. Hartman | Mark F. McAlpine | Edward D. Weber |
| Barry A. Depew | Douglas C. Heppe | Richard C. McCormick | Douglas C. Yearley, Jr. |
| Cory DeSpain | | Thomas J. Murray | |

Vice Presidents - Administration

| | | | |
|---------------------|-------------------------|---------------------|---|
| Frederick N. Cooper | Finance | Joseph J. Palka | Eastern States Engineering |
| Jonathan C. Downs | Human Resources | Steven Robinson | Land Development |
| Evan G. Ernest | Taxation | Joseph R. Sicree | Chief Accounting Officer |
| Manfred P. Marotta | Toll Integrated Systems | Michael I. Snyder | Corporate Planning and Corporate Secretary |
| Kevin F. McAndrews | Commercial Development | Ronald E. Snyder | Land Development |
| Kira McCarron | Marketing | Werner Thiessen | Acquisitions |
| Robert N. McCarron | Land Development | Steven A. Turbyfill | Product Development |
| Kevin J. McMaster | Controller | Phillip M. Turner | Land Development |
| Charles E. Moscony | Westminster Title | | |

Subsidiary Operations

| | |
|--------------------|---|
| Wayne S. Patterson | President, Westminster Security Company |
| Charles E. Moscony | President, Westminster Title Company |
| Donald L. Salmon | President, Westminster Mortgage Corporation |
| Michael J. Zammit | Managing Director, Advanced Broadband |

Listings are as of 11/1/00.

Employees

As of October 31, 2000, the Company had 2,479 full-time employees.

Shareholders

As of October 31, 2000, the Company had 694 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").

Investor Relations - Information Requests

The Company's Form 10-K Annual Report, Form 10-Q Quarterly Reports and other Company information are available upon request from Frederick N. Cooper (fcooper@tollbrothersinc.com) or Joseph R. Sicree (jsicree@tollbrothersinc.com), Co-Directors of Investor Relations, at the Corporate Office.

Corporate Office

Toll Brothers, Inc.
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Huntingdon Valley, Pennsylvania 19006
(215) 938-8000
www.tollbrothers.com

Independent Auditors

Ernst & Young LLP
Philadelphia, Pennsylvania

Transfer Agent & Registrar

Mellon Investor Services, L.L.C.
Ridgefield Park, New Jersey

Securities Counsel

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

Common Stock Price Range - New York Stock Exchange

Quarter Ended

| 2000 | High | Low | 1999 | High | Low |
|------------|-----------|-----------|------------|-----------|------------|
| October 31 | \$35 | \$23 1/2 | October 31 | \$21 1/2 | \$15 5/8 |
| July 31 | \$24 5/8 | \$18 7/16 | July 31 | \$23 7/16 | \$19 13/16 |
| April 30 | \$23 1/16 | \$16 | April 30 | \$23 1/4 | \$17 1/2 |
| January 31 | \$19 3/4 | \$16 1/8 | January 31 | \$25 7/16 | \$21 5/8 |

Statement on Forward-Looking Information

Certain information included herein and in other Company reports, SEC filings, statements and presentations is forward-looking within the meaning of the Private Securities 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. 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, SEC filings, statements and presentations. 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, Tim Buchman, Alan Goldstein, Barry Grossman, Rob Ikeler, Eric Kieley, Robb Miller, Kim Sargent, Beth Singer, Bill Taylor

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Toll Brothers
America's Luxury Home Builder™

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