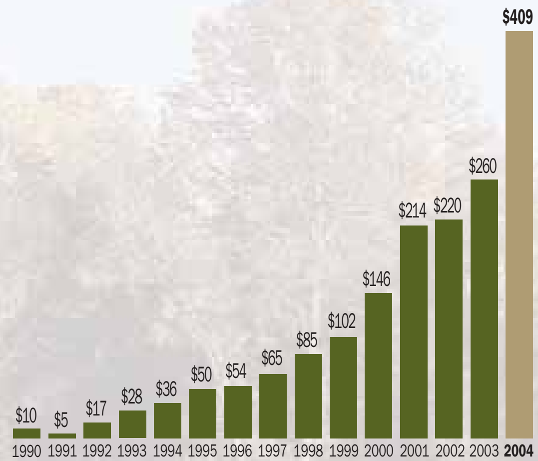
Toll Brothers

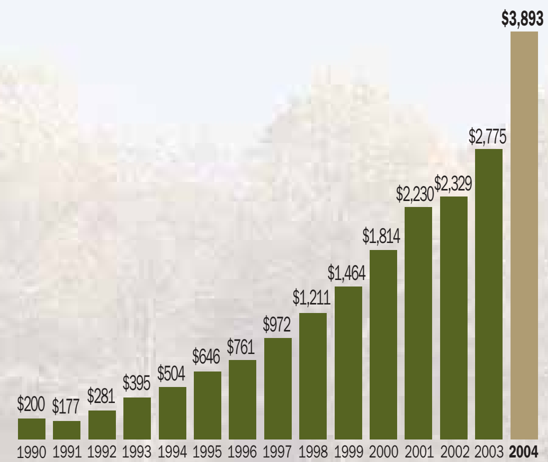
America's Luxury Home Builder™

2004 Annual Report

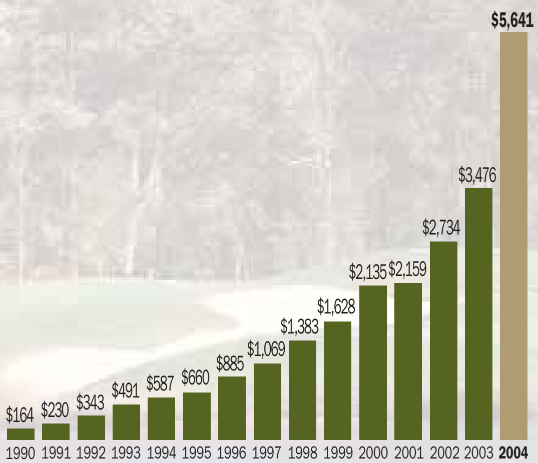
Proven Performance...



Net Income *(in millions)*
FYE October 31
1990–2004
*CAAGR–30.4%**

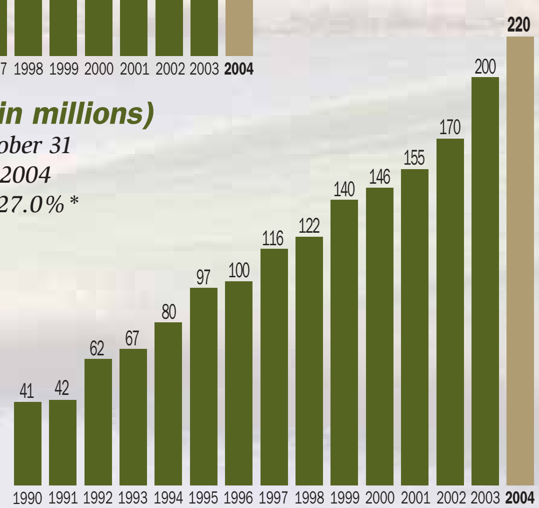


Total Revenues *(in millions)*
FYE October 31
1990–2004
*CAAGR–23.6%**

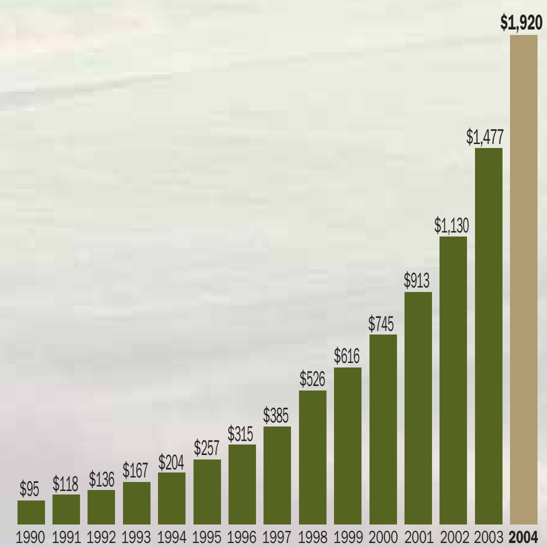


Contracts *(in millions)*
FYE October 31
1990–2004
*CAAGR–27.0%**

Backlog *(in millions)*
FYE October 31
1990–2004
*CAAGR–34.5%**



Number of Selling Communities
FYE October 31
1990–2004
*CAAGR–12.8%**



Shareholders' Equity *(in millions)*
FYE October 31
1990–2004
*CAAGR–24.0%**

**CAAGR – Compound Average Annual Growth Rate*

...A Solid Business Plan...

Fiscal Year End (FYE) October 31, 2004

Focus On Luxury Homes & Communities

- National presence in the luxury market
- Average delivered home price of nearly $580,000
- Executive and estate-line move-up homes
- Upscale empty-nester attached and detached homes
- Active-adult, age-qualified communities
- Weekend and resort community second homes
- Urban high-, mid-, and low-rise condominiums
- Luxury resort-style golf, country club, lake and marina communities
- Championship golf courses designed by Arnold Palmer, Pete Dye, Peter Jacobsen, and Arthur Hills
- Serve 47 affluent markets and have identified two dozen more with similar concentration of affluence

Strong Land Position

- Own or control over 60,000 home sites
- Selling from 220 communities; expect to reach 240 ± communities by fiscal year end 2005
- Land acquisition, approvals and development skills contribute significant profits

Distinctive Customization, Service & Systems

- Combine high-volume home production with extensive customization offerings
- Home buyers average $103,000 in upgrades
- Pre-design and pre-budget options through Toll Architecture and Toll Integrated Systems
- Growing ancillary businesses: mortgage, title, golf course development and management, security, landscape, land sales, cable TV and broadband Internet

The Magdalena at Frenchman's Reserve | Palm Beach Gardens, Florida

Excellent Financial Performance

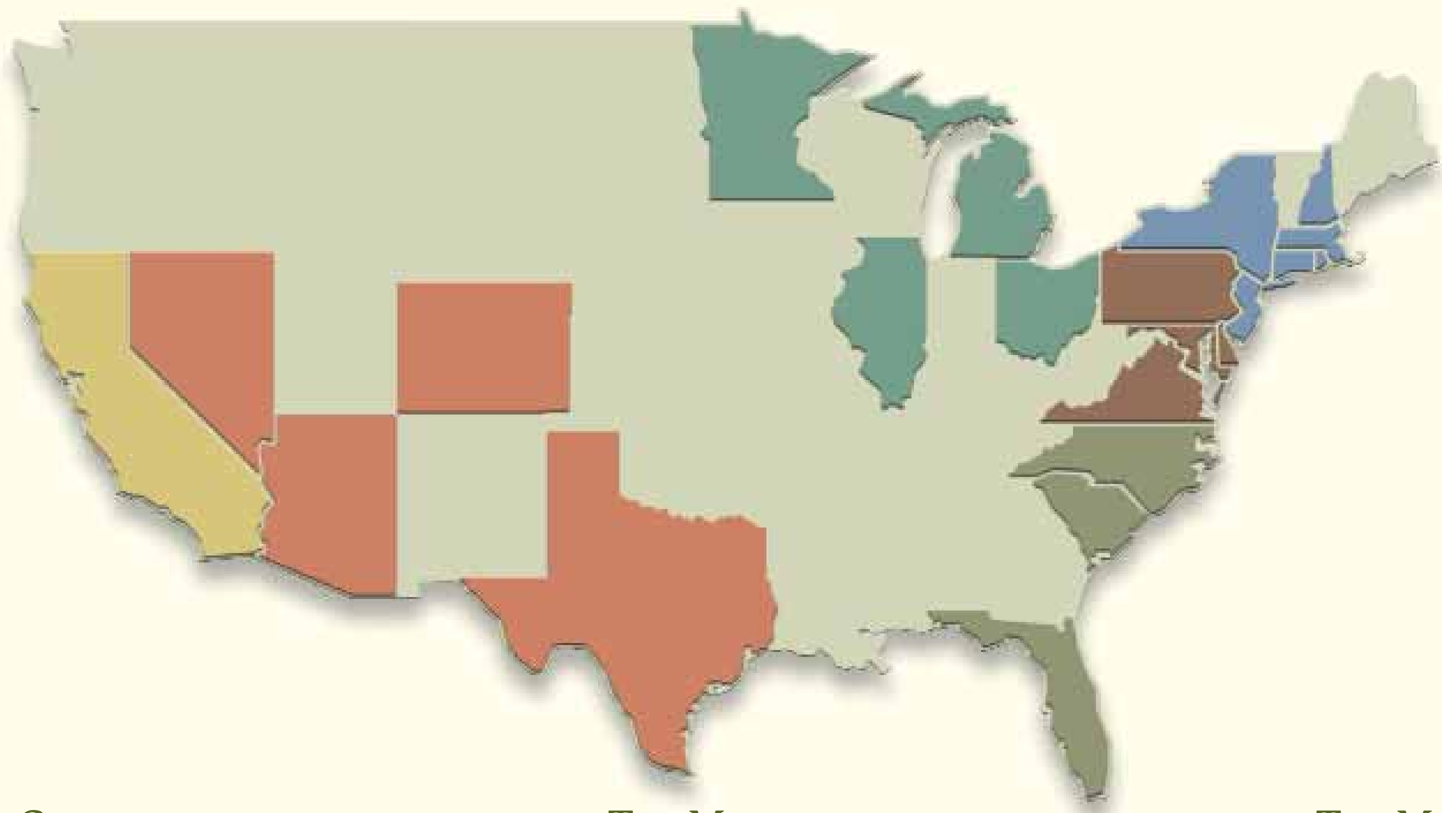
- 12 consecutive years of record earnings
- 13 consecutive years of record revenues
- 14 consecutive years of record sales contracts
- Investment-grade corporate credit ratings from Standard & Poor's (BBB-), Moody's (Baa3), and Fitch (BBB)
- Relationships with three dozen U.S. and global financial institutions
- Backed by $1.36 billion of credit facilities with 28 banks
- Raised more than $1.25 billion in the public capital markets over past 5 years
- Highest net profit margins of home builders in the *Fortune 1000* over past decade
- Stock price has appreciated over 3,000% since IPO in July 1986**
- Stockholders' equity, net income, and revenues have grown at compound average annual rate of more than 20% since 1986 IPO

Special Brand Name Reputation

- Founded in 1967
- Publicly traded since 1986
- Traded on the New York Stock Exchange and Pacific Exchange
- Award-winning communities across the U.S.
- *Fortune 1000* Company
- *Forbes Platinum 400* Company
- *Apex Award Winner,* Big Builder - 2004
- *America's Best Builder*, National Association of Home Builders - 1996
- *National Housing Quality Award*, National Association of Home Builders - 1995
- *Builder of the Year*, Professional Builder - 1988

***At December 10, 2004*

...And Nationwide Opportunities for Growth



The West Coast

Los Angeles | Palm Springs | San Diego | San Francisco

	2004	2003
Revenues *(in millions)*	$846	$490
Contracts *(in millions)*	$1,213	$678
Lots Owned or Controlled	6,797	3,845
Year-end Backlog *(in millions)*	$865	$497

The Midwest

Illinois | Michigan | Minnesota | Ohio

	2004	2003
Revenues *(in millions)*	$274	$219
Contracts *(in millions)*	$395	$238
Lots Owned or Controlled	5,247	2,864
Year-end Backlog *(in millions)*	$284	$163

The Mid-Atlantic

Delaware | Maryland | Pennsylvania | Virginia

	2004	2003
Revenues *(in millions)*	$1,253	$882
Contracts *(in millions)*	$1,788	$1,172
Lots Owned or Controlled	23,168	21,196
Year-end Backlog *(in millions)*	$1,372	$837

The Southwest

Arizona | Colorado | Nevada | Texas

	2004	2003
Revenues *(in millions)*	$528	$378
Contracts *(in millions)*	$981	$507
Lots Owned or Controlled	8,052	5,827
Year-end Backlog *(in millions)*	$850	$397

The Northeast

Connecticut | Massachusetts | New Hampshire
New Jersey | New York | Rhode Island

	2004	2003
Revenues *(in millions)*	$573	$450
Contracts *(in millions)*	$653	$585
Lots Owned or Controlled	11,585	9,955
Year-end Backlog *(in millions)*	$600	$519

The Southeast

Florida | North Carolina | South Carolina

	2004	2003
Revenues *(in millions)*	$367	$311
Contracts *(in millions)*	$612	$297
Lots Owned or Controlled	5,340	4,371
Year-end Backlog *(in millions)*	$464	$218

Fiscal year ended October 31.

The Chelsea Farmhouse at Stonykill View | *Wappingers Falls, New York*

Dear Shareholder

Mountain View Country Club | *La Quinta, California*

An Extraordinary Year With More To Come

Demand for our luxury homes remained tremendous in Fiscal Year (FY) 2004 and has continued through the early part of our FY 2005. With the most communities and most product lines we've ever offered, we produced records across the board. In FY 2004, net income grew by 57% to $409.1 million; revenues grew by 40% to $3.9 billion; new contracts grew by 62% to $5.6 billion; and shareholders' equity grew by 30% to $1.9 billion. Our revenues, contracts, and backlog increased in every region of the country. Investors took notice, as our stock price rose 74% from $36.84 per share at Fiscal Year End (FYE) 2003 to $64.00 per share as of this writing.

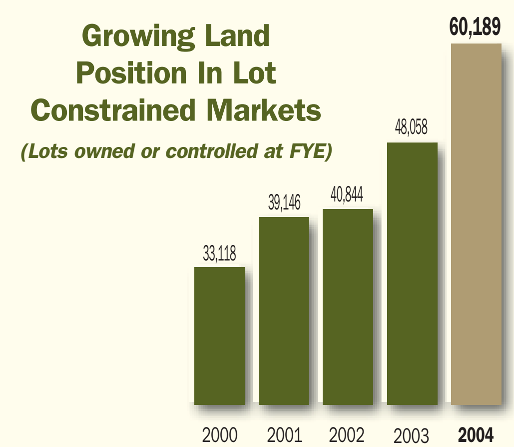
And the beat goes on! Based on our excellent fourth quarter, we head into FY 2005 with strong momentum. Our fourth quarter-end backlog of $4.4 billion, our highest ever, was up 68% from one year ago. New contracts rose 51% to $1.5 billion, a fourth-quarter record. Fourth-quarter revenues rose 62% to $1.5 billion and fourth-quarter net income grew 93% to $180.6 million—both were the highest totals in our history.

With a backlog in place that is already 115% of FY 2004's home building revenues, we believe FY 2005's net income will increase at least 40% over FY 2004. Our community count, which hit a record 220 at FYE 2004, should reach about 240 by FYE 2005. With that expansion ahead, we think that in FY 2006 we will achieve net income growth of at least 20%.

Fundamentals Drive Demand

Why has demand for our luxury residences remained unabated and unsated? Because, over the past two decades, the supply of new housing in the U.S. has not kept pace with the growth in population and wealth. Since 1970, the U.S. population has increased by 85 million and, in the past two decades, households earning $100,000 or more have grown at a pace six times faster than U.S. households in general. Today there are 16.9 million households earning $100,000 or more: in constant 2003 dollars, that's 15% of U.S. households, compared to 6 million and 7% just 20 years ago. Much of the population growth has come from immigrants, who want to own the American Dream as soon as possible and arrive in the U.S. with the skills to achieve it.

Logically, based on these demographics, more new housing should have been built. Yet, the home building industry has produced less new housing in the past decade than it did in the 1970s. Supply has been constrained by governmental regulation and no-growth politics, while demand has been spurred by increasing numbers of affluent households including maturing baby boomers entering their peak earning years: the result has been rising home prices and an appetite for luxury homes that we believe should remain strong in the foreseeable future.



The Capistrano at Vista Del Verde | *Yorba Linda, California*

For at least the past five or six years, it has been argued that a housing "bubble" has been created which is about to pop. We strongly disagree: we believe demand is being driven by fundamental demographics and home prices are rising due to the imbalance between supply and demand.

In this increasingly lot-constrained environment, we think those builders with approved home sites in desirable locations will be the winners. With our strong land position, we have grown even in years when industry-wide housing production has slowed. And we continue to increase our holdings: this year we expanded our lot position to more than 60,000 home sites, an increase of 12,000 compared to FYE 2003.

Expanding The Brand By Staying Focused On Luxury

Our luxury brand continues to get stronger as demand accelerates. We have diversified into more markets and more product lines, which has increased our popularity and, therefore, our customer demand. We now offer move-up, empty-nester, active-adult, resort-style golf and lake communities, urban in-fill, high-density suburban, beach tower and, most recently, urban tower residences.

Toll Brothers is the only national home building company focused primarily on the luxury market. Since going public in 1986, we have averaged more than 20% compound annual growth in net income, revenues, contracts, backlog and shareholders' equity. When there is strong demand, we benefit from exceptional pricing power because we have greater ability to raise prices than those builders who target buyers on tight budgets: it's easier to hit doubles, triples and home runs selling to luxury buyers. During tough economic times, affluent buyers are less impacted by a struggling economy, as our strong performance through the recent recession and stock market crash attests. And they are less affected by rising mortgage rates. In 1995 mortgage rates reached 9.2%; in 1996, 8.3%; in 1997, 8.2%; and in 2000, 8.6%. Our business was excellent during all of those periods. Today's comparable rates are about 5.75%. We believe it should be a long time before rates make a difference to our luxury home buyers.

**Calculated as total debt minus mortgage warehouse loans minus cash divided by total debt minus mortgage warehouse loans minus cash plus stockholders' equity.*

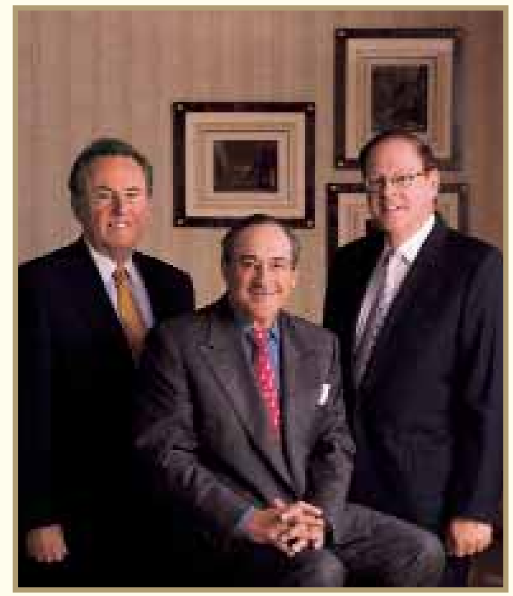
Our Financial House Is Ready For Growth

Investment-grade ratings from Standard & Poor's (BBB-), Moody's (Baa3) and Fitch (BBB) enable us to raise capital at rates far below those available to the small private builders who are our main competitors in the luxury market. In FY 2004, we increased our revolving credit line from $575 million to $1.14 billion, expanded our bank group from 16 to 27 lenders, reduced our borrowing rate to Libor +70 basis points, and extended the facility's maturity by four years through July 2009. We also raised $300 million through a 4.95% ten-year senior note offering, a portion of which went to repay $170 million of 8 1/8% notes.

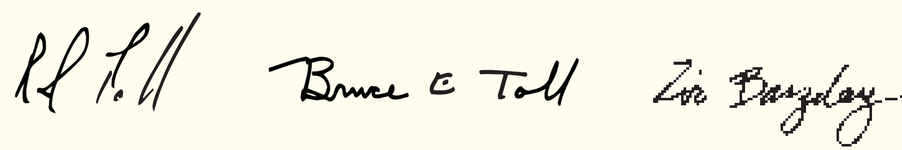
At FYE 2004, our net debt to capital ratio* of 35% was our lowest since going public in 1986. The average maturity on our outstanding debt, 94% of which is locked in at fixed rates, was nearly seven years, which protects us from interest rate fluctuations. Our FYE 2004 shareholders' equity stood at over $1.9 billion and, as we write this, our market cap exceeds $4 billion.

Thanks To Our Team

Ours is an industry where success is achieved on the ground, one home at a time. By finding the right sites, by building homes with pride and care, and by striving to exceed the level of customer service that luxury buyers expect, we have made Toll Brothers the only national brand name in the luxury new home market. The accomplishments we have achieved and the goals we hope to achieve in the future are attributable to the determination, effort, creativity, initiative and spirit of the Toll Brothers associates. We thank our associates, our shareholders, our home buyers, our contractors and our suppliers for their support, trust and confidence in your Company.



Left to right:
Zvi Barzilay President and COO
Robert I. Toll Chairman of the Board and CEO
Bruce E. Toll Vice Chairman of the Board



ROBERT I. TOLL	BRUCE E. TOLL	ZVI BARZILAY
Chairman of the Board and Chief Executive Officer	Vice Chairman of the Board	President and Chief Operating Officer

December 10, 2004

The Constantina at Sierra Norte | *Scottsdale, Arizona*

Diversified Luxury

Serving The Demographic Sweet Spot

As the only national home building company focused on the luxury market, Toll Brothers is well-positioned to benefit from the increasing household affluence and growing population in the U.S. We focus on the "sweet spot" in the luxury market: the nearly 17 million U.S. households with incomes of $100,000 or more. In FY 2004, the average price of our homes delivered was nearly $580,000 and 75% of the homes we delivered sold for under $700,000. This places our homes well within reach of this growing group.

One-Stop Shopping

Most of our buyers do not have the time or expertise to build a luxury home from scratch. They rely on us instead, and we provide one-stop shopping. We save them from having to find their own land, hire lawyers and engineers, gain the public approvals to build, choose an architect, design their house from the ground up, arrange the financing, select a reliable general contractor, and then oversee the myriad of decisions involved in the construction process. We provide it all for them.

Unique Systems, Homes & Communities

With our unique customization systems, our homes and communities have established us as *the brand name* in luxury move-up and empty-nester housing.

The Hudson Tea Building | Hoboken, New Jersey

We constantly innovate to keep our products in step with evolving American lifestyles. We offer luxury buyers the ability to individually customize their homes by choosing from thousands of combinations of structural and designer options. Selecting from our extensive customization offerings, our buyers added an average of $103,000, or 21%, to the base price of their homes in options and upgrades in FY 2004.

"The pace of household growth over the next 10 years is expected to surpass that over the past 10. [This], together with the wealth gains achieved by each age group in the 1990s, should propel home sales to unprecedented heights."

Source: The State of the Nation's Housing–2004 Harvard University

We offer structural options—such as guest suites to accommodate aging parents, returning children or visiting grandchildren—which have broadened the appeal of our move-up and empty-nester product lines. Home offices, media rooms, his-and-her master baths, free-standing guest casitas, interior courtyards and nine- and ten-foot ceilings are among the luxury features and options that attract buyers to the Toll Brothers brand.

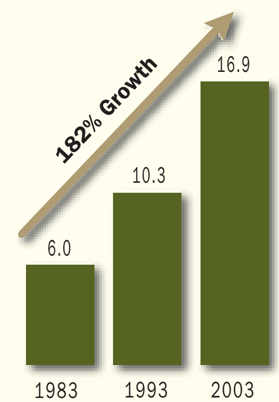
We believe the communities we design must be as impressive as the homes we build. Extensive recreational amenities, appealing streetscapes, attractive landscaping and preserved natural features all increase the value of the homes we sell. Our communities range from several dozen homes to several thousand, as in our luxurious resort-style golf course communities, where lifestyle amenities such as walking trails, spas, fitness centers, country clubs, and marinas enhance daily living.

Affluent U.S. Households

(Constant 2003 Dollars)

$100,000+ Income Households

(in millions)



Source: The U.S. Census Bureau

The Terraces at Dublin Ranch Villages | *Dublin, California*

Diversified Luxury

New Product Lines Expand The Brand

As we have grown, we have expanded into new markets and product lines to serve the increasingly varied lifestyles and tastes of luxury buyers.

Active Adult – In anticipation of the maturing of the baby boom generation, in 1999 we introduced our first active-adult product line: active-adult communities now account for about 9.3% of our home sales. We initially expected that our home prices would top out at $250,000, as we had been told that active adults were more frugal than our move-up and empty-nester customers. This expectation has not proven true and, although our active-adult "jewel box" homes generally are smaller than our other product lines, our homes in most of these communities average over $400,000, with some having sold for up to $635,000. Communities such as Regency at Dominion Valley in northern Virginia and Regency at Monroe in central New Jersey contain more than one thousand homes and include Arnold Palmer golf courses and country club lifestyles.

Urban In-Fill – We are developing high-density high-, mid-, and low-rise urban luxury product for affluent move-up families, empty-nesters and young professionals seeking the excitement of city life. Our first offerings in the urban in-fill market are in northern New Jersey, northern California, metro Chicago, Philadelphia, and Providence, Rhode Island, and our intention is to introduce these product lines around the nation. An example of the growth potential of this niche is in northern New Jersey where, either directly or through joint ventures, we now control approximately 2,500 units in Hoboken and Jersey City, across the Hudson River from New York City. Attractions include sophisticated urban living and glorious views of, and easy access to, Manhattan via rail, road and ferry.

High-Density Suburban – In rare instances, communities have adopted "smart-growth" as a policy instead of "no-growth." Smart-growth communities plan open space for all to enjoy, in exchange for approving higher-density suburban development. We have become a leader in this field. By designing features such as community pools and underground structured parking with elevators under central courtyards, we achieve high-density (up to 60-plus units to the acre) development and simultaneously promote luxurious living. At Dublin Ranch Villages, in Dublin, east of San Francisco, we are selling four high-density product lines totaling nearly 1,400 homes on about 40 acres. We can generate strong profits from small sites with this type of development.

Second Homes – With second-home ownership projected to grow by more than 300,000 annually in the coming years, we have expanded our single-family attached and detached second-home product lines in "destination" locations such as Boca Raton, Palm Beach Gardens, Las Vegas, Phoenix, Hilton Head, and Palm Springs, California. We have recently introduced "weekend" second homes near major metropolitan areas such as in the Pocono Mountains in Pennsylvania and near the Atlantic Ocean in Ocean City, Maryland, and Bethany Beach, Delaware. We are also now building ocean-front, high-rise towers targeted to second-home buyers in glamorous locations such as Singer Island, Florida, where our first project achieved 100% pre-sales prior to construction start.

Beach Front at Singer Island | Singer Island, Florida

The Henley at Potomac View | *Potomac, Maryland*

Our Program for Growth

Tremendous Demographics

With increased household net worth in every demographic age group and trends pointing to higher home ownership rates, the prospects for the new home market in general, and for the luxury market in particular, are very exciting.

Two major recent studies project that demand for new homes should continue to grow over the next ten years. This is based on increased population estimates from the U.S. Census Bureau, strong immigration trends, growing demand for new second homes and the replacement of older housing.

A study by The Homeownership Alliance, which includes the chief economists from Fannie Mae, Freddie Mac, the National Association of Home Builders, the National Association of Realtors and the Independent Community Bankers Association of America, projects demand from 2004 to 2013 will create the need for average production of 1.85 to 2.17 million new single- and multi-family housing units per year.

Harvard University's Joint Center for Housing Studies predicts demand for single-family and multi-family units combined will require production of at least 18.5 to 19.5 million units from 2005 to 2015. The study notes that this requirement far exceeds production in the 1990s, which was considered one of the most robust decades ever for new housing.

An Imbalance Between Supply & Demand

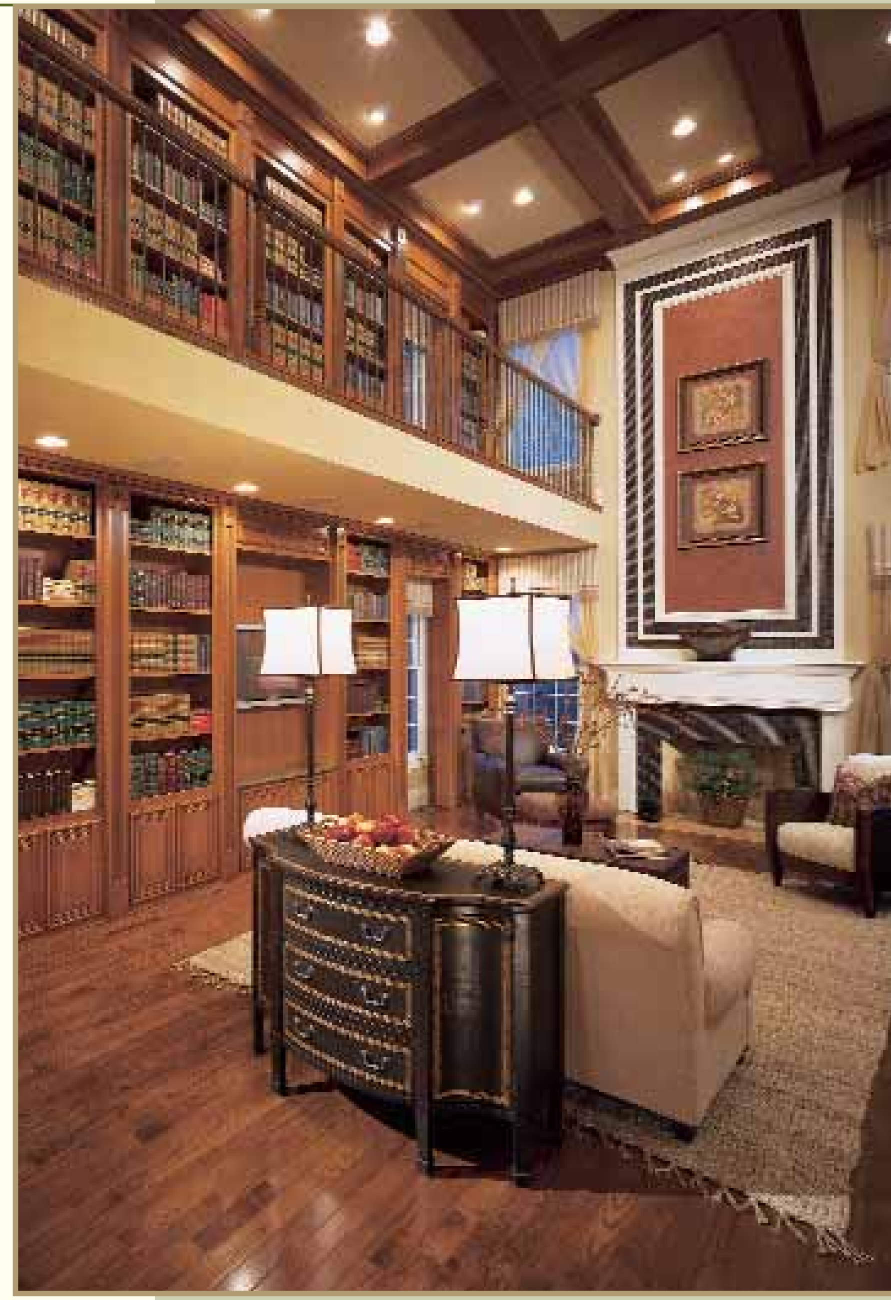
In the face of growing regulation that restricts the number of lots able to make their way through the approval process, we question the ability of our industry to meet this growing demand. In the 1970s, production of new single- and multi-family housing peaked at an average of 1.77 million units per year. Production dropped in the 1980s and 1990s, averaging 1.43 million units annually, before increasing to 1.68 million units on average since 2000. Even that total is below the average production of the 1970s. Considering that maturing, affluent baby boomers are buying an estimated 200,000 to 300,000 second homes annually and that the nation has added 47 million – 73% more – households to the 64.8 million in the United States in 1970, the gap between supply and demand may be even wider.

"Household growth, along with replacements, second home demand, and changes in vacancies will require production of 1.85 million to 2.17 million new homes per year. Even the lower end of that range will exceed production levels of recent decades."

Source: *America's Home Forecast: The Next Decade for Housing and Mortgage Finance, (2004–2013)–The Homeownership Alliance*

In anticipation of this growth in demand and shortage of land supply, we have positioned ourselves accordingly. We now control more than 60,000 home sites, a five- to six-year supply based on our current pace of growth, and continue to find attractive land deals. Our financial strength and land approval expertise enable us to take home sites through multi-year approval processes, whereas smaller private builders, who lack our skills and funds, cannot.

We can also take on larger sites where the number of competitors to acquire them is limited. Dominion Valley Country Club, in northern Virginia—with 3,032 homes in 12 product lines, Arnold Palmer-designed golf courses and several spectacular indoor recreational centers—includes move-up, empty-nester and active-adult offerings. Hawthorn Woods, a 592-home, five-product-line Arnold Palmer golf course community in the suburbs of Chicago, involved the acquisition of parcels from eight different sellers to assemble this 670-acre community. We acquired Aviano at Desert Ridge, a 1,295-home, seven-product-line community, in competitive auction from the Arizona State Land Department. And we recently joined with seven other builders to acquire, via competitive auction from the Nevada Bureau of Land Management, a nearly 2,000-acre site, South Edge, in Las Vegas. There, in total, our consortium's members plan to build more than 7,000 homes, of which Toll Brothers will build about 800.



The Hampton at Hawthorn Woods | Hawthorn Woods, Illinois

Our Program for Growth

Systems In Place To Support Expansion

We continue to gain market share from the small private builders who are our main competitors in the luxury new home market. Based on our backlog in place at FYE 2004 and the pace of current demand, we anticipate delivering between 7,900 and 8,300 homes in FY 2005, at an average price of between $635,000 and $645,000. That should translate into FY 2005 revenues of between $5.0 billion and $5.3 billion, an increase of 30% to nearly 40% over FY 2004.

Managing our growth and the production of highly customized luxury homes in high volume, while attending to the needs of our sophisticated, demanding customer base, requires a unique approach to our business.

Acquiring Land – We have hundreds of associates involved in finding sites for luxury home communities. We will not grow just for growth's sake. Each parcel must stand alone as its own profit center. The land approval process has continued to become more complex, more expensive and more time-consuming as no-growth politics and expanding government regulation impede the process of bringing new home sites to market. These constraints, although frustrating, work to our benefit because our capital and expertise in land approvals give us a significant competitive advantage over smaller, private builders.

High-Volume Production – In this "Age of Choice," we combine the benefits of high-volume production with the unique customization systems that enable Toll Brothers to compete with smaller custom builders. We pre-design and pre-budget every option we offer. Through our manufacturing plants and production systems at Toll Integrated Systems, we control the production of wall panels, roof and floor trusses, entryways, fireplaces and numerous other components in high volumes in a quality-controlled environment. Aided by Toll Architecture, our wholly owned design company, we have introduced more than 300 new models in the past three years.

High-Volume Purchasing – With our size and national scope, our national buying power affords us lower prices on lumber, windows, doors, roofing, cabinetry, appliances and dozens of other products that go into our homes than those available to our smaller private competitors. National contracts with material providers enable us to plan our purchases to avoid shortages or delays, and provide buyers with great value as well as great quality and dependability.

The Toll Brothers Project Management System – Each Toll Brothers community is run by a Project Manager who oversees sales, marketing, construction, land development and all other facets of his or her community. This system, which mirrors that of small private builders, places an entrepreneur in charge of each of our communities. Our Project Managers have the ability to solve problems and respond to customers in the field. This structure—in combination with our financial strength, management systems and national purchasing power—allows us to meet the needs of our customers more effectively, while providing a higher degree of service than most other builders can offer.

The Villa Rosa at Frenchman's Reserve | Palm Beach Gardens, Florida

The Del Mar at The Estates of Rancho Cucamonga | Rancho Cucamonga, California

The Palos Verdes at Country Club Estates at Moorpark | *Moorpark, California*

The Villagio at Sierra Norte | *Scottsdale, Arizona*

Managing for the Long Term

A Conservative Risk Philosophy

Ours is a capital-intensive industry: we invest large sums every day in acquiring land, improving sites, and building luxurious homes. We believe that managing risk at every stage is key to our business. This philosophy has kept us successful for 37 years, including 18 as a public company.

Geographic & Product Diversification

Having learned in the late 1980s the risk of being too locally or regionally concentrated, we now build in 20 states, 47 markets and six U.S. regions. This diversification has not only broadened our opportunity for profit but also has provided us with downside protection from the vagaries of individual markets and their economies.

We have diversified our product lines as well, offering what may be the broadest variety of residences in our industry. Our homes range from the low $200,000s to over $2 million. In each market, we offer an array of communities, diversified by product type and targeted to numerous lifestyle niches.

Buying & Developing Land

We do not buy unentitled land. When we find land we want to own, we typically first put it under option, subject to gaining the approvals we need to build on it. We then pay the costs of gaining approvals such as hiring engineers, lawyers and other experts, to ensure that we will be able to build on a site once we buy it. When we have the approvals, then we take title to it.

We assume no home price appreciation when we analyze a potential land acquisition. We evaluate what can go wrong more than what can get better. Thus, we consider what would happen if sales paces slowed, sales prices dropped or improvement costs escalated.

We phase land improvements. Rather than putting in all roads, infrastructure and amenities at once, we improve our properties in stages, thereby limiting the amount of capital that is locked up in the ground at one time. This improves our rate of return and gives us more flexibility in marketing and positioning a community in response to changing circumstances.

Building Homes

Before starting a home, we take a binding, non-refundable deposit averaging about 7% from each buyer who signs a purchase contract with us. This deposit, which averages over $40,000 today, is among the main reasons we have a drop-out rate that has averaged just 5.5% in recent years from our buyers once they have signed contracts with us. We almost never build spec homes. At FYE 2004, the percent of homes we had under construction, but not under contract to buyers, that were past foundation, totaled 2.7% of our FY 2004 total deliveries.

Conservative Capital Structure

We believe our investment-grade credit ratings afford us superior access to the capital markets relative to most of our competitors. To maximize our flexibility and assure ourselves a diversity of capital sources, we maintain relationships with three dozen banks and other financial institutions. Over the past three years, we have also raised over $1 billion in the public capital markets.

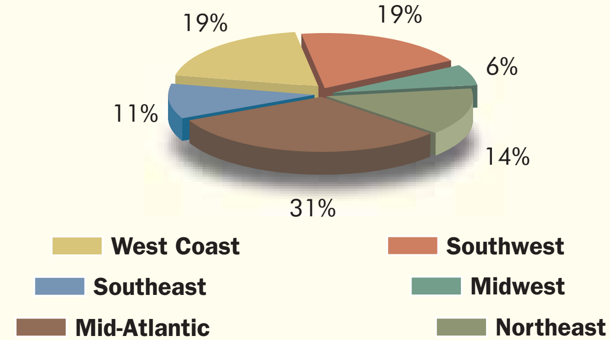
At FYE 2004, nearly 80% of our outstanding debt was characterized as long term with an average life of nearly seven years. Essential to our growth strategy, this long-term capital enables us to acquire long-term assets (primarily land) with long-term debt, appropriately matching long-term assets and liabilities. We are willing to forego the potential benefits of using lower-cost, shorter-term floating-rate debt for this purpose; instead, we've chosen the greater security we believe long-term, fixed-rate debt provides.

Geographic Diversification

Backlog By Region

FYE 2004

*(Percent of Total Value)**



**Subject to rounding*

The Belize at Mountain View Country Club | La Quinta, California

Creating Value for our Shareholders

Because about 2,400, or more than 50% of, Toll Brothers employees are shareholders of our Company, and more than 25% of our Company is owned by Toll Brothers associates, our interests and yours are very closely aligned.

The result is a Company that takes a long-term perspective. It's why we have established a reputation as the nation's leading builder of luxury homes, built a tremendous portfolio of communities, and seasoned a management team whose senior members average more than 15 years at our Company and have proven themselves during volatile economic times.

We believe there are no shortcuts to success in our industry. At Toll Brothers, ours is an attitude of diligence and attention to detail that is engrained in our culture. Every Monday night, at the start of our week, throughout the nation, Toll Brothers associates stay late to meet and plan. At 9:00 p.m., parking lots remain full. At 10:00 p.m., lights are still burning and computers are still humming. And at 11:00 p.m., land deals are still being discussed.

Three times a year, each of our communities undergoes a top-to-bottom project review. The entire management team convenes and reviews its performance with a senior executive from another division and plans for the future. As with everything we do, the process is very intense and detailed. The end result is a stronger team, a better community, and a better Company for our shareholders.

The outdoor Vercelli Patio at Toll Brothers at Red Rock | Las Vegas, Nevada

The Oakatie at Hampton Hall | Bluffton, South Carolina

The Henley Williamsburg at Potomac View | Potomac, Maryland

Unparalleled Lifestyles...

Naples Lakes Country Club | *Naples, Florida*


...Luxurious Living

The Avenida Versailles at Toll Brothers at Red Rock Country Club | *Las Vegas, Nevada*

Toll Brothers' Fifteen-Year Financial Summary

Summary Consolidated Income Statement Data

(Amounts in thousands, except per share data)

Year Ended October 31	2004	2003	2002	2001	2000	1999	1998	1997	1996	1995	1994	1993	1992	1991	1990
Revenues	$3,893,093	$2,775,241	$2,328,972	$2,229,605	$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 and change in accounting	$ 647,432	$ 411,153	$ 347,318	$ 337,889	$ 230,966	$ 160,432	$ 132,523	$ 103,215	$ 85,793	$ 79,439	$ 56,840	$ 42,820	$ 27,493	$ 8,444	$ 16,801
Net income before change in accounting	$ 409,111	$ 259,820	$ 219,887	$ 213,673	$ 145,943	$ 101,566	$ 84,704	$ 65,075	$ 53,744	$ 49,932	$ 36,177	$ 26,751	$ 16,538	$ 5,013	$ 9,988
Net income	$ 409,111	$ 259,820	$ 219,887	$ 213,673	$ 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															
Net income before change in accounting	$ 5.50	$ 3.68	$ 3.12	$ 2.98	$ 2.01	$ 1.38	$ 1.16	$ 0.95	$ 0.79	$ 0.75	$ 0.54	$ 0.40	$ 0.25	$ 0.08	$ 0.17
Net income	$ 5.50	$ 3.68	$ 3.12	$ 2.98	$ 2.01	$ 1.38	$ 1.16	$ 0.95	$ 0.79	$ 0.75	$ 0.54	$ 0.42	$ 0.25	$ 0.08	$ 0.17
Weighted-average number of shares	74,323	70,670	70,472	71,670	72,537	73,378	72,965	68,254	67,730	67,020	66,796	66,462	66,044	62,496	59,428
Diluted															
Net income before change in accounting	$ 5.04	$ 3.44	$ 2.91	$ 2.76	$ 1.95	$ 1.36	$ 1.11	$ 0.89	$ 0.75	$ 0.71	$ 0.52	$ 0.40	$ 0.25	$ 0.08	$ 0.17
Net income	$ 5.04	$ 3.44	$ 2.91	$ 2.76	$ 1.95	$ 1.36	$ 1.11	$ 0.89	$ 0.75	$ 0.71	$ 0.52	$ 0.42	$ 0.25	$ 0.08	$ 0.17
Weighted-average number of shares	81,165	75,541	75,480	77,367	74,825	74,872	76,721	74,525	73,758	72,720	71,310	66,934	66,468	62,824	59,428

Summary Consolidated Balance Sheet Data

(Amounts in thousands, except per share data)

At October 31	2004	2003	2002	2001	2000	1999	1998	1997	1996	1995	1994	1993	1992	1991	1990
Inventory	$3,878,260	$3,080,349	$2,551,061	$2,183,541	$1,712,383	$1,443,282	$1,111,863	$ 921,595	$772,471	$623,830	$506,347	$402,515	$287,844	$222,775	$240,155
Total assets	$4,905,578	$3,787,391	$2,895,365	$2,532,200	$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	$ 340,380	$ 281,697	$ 253,194	$ 362,712	$ 326,537	$ 213,317	$ 182,292	$ 189,579	$132,109	$ 59,057	$ 17,506	$ 24,779	$ 25,756	$ 49,943	$ 71,707
Senior notes	845,665	546,669													
Senior subordinated notes	450,000	620,000	819,663	669,581	469,499	469,418	269,296	319,924	208,415	221,226	227,969	174,442	128,854	55,513	61,474
Mortgage warehouse loan	92,053	49,939	48,996	24,754											
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	$1,728,098	$1,498,305	$1,121,853	$1,057,047	$ 796,036	$ 683,880	$ 452,972	$ 512,080	$343,340	$284,195	$250,161	$ 210,031	$179,013	$145,320	$179,169
Stockholders' equity	$1,919,987	$1,476,628	$1,129,509	$ 912,583	$ 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	74,821	73,322	70,216	69,556	71,790	72,907	73,871	68,551	67,837	67,276	66,846	66,638	66,174	65,624	59,368
Book value per share	$ 25.66	$ 20.14	$ 16.09	$ 13.12	$ 10.38	$ 8.45	$ 7.12	$ 5.62	$ 4.64	$ 3.82	$ 3.05	$ 2.51	$ 2.06	$ 1.80	$ 1.59
Return on beginning stockholders' equity	27.7%	23.0%	24.1%	28.7%	23.7%	19.3%	22.0%	20.7%	20.9%	24.5%	21.7%	20.6%	14.0%	5.3%	11.7%

Summary Home Data

Year Ended October 31	2004	2003	2002	2001	2000	1999	1998	1997	1996	1995	1994	1993	1992	1991	1990
Number of homes closed	6,627	4,911	4,430	4,358	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)	$3,839,451	$2,731,044	$2,279,261	$2,180,469	$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	8,684	6,132	5,070	4,314	4,364	3,799	3,387	2,701	2,398	1,846	1,716	1,595	1,202	863	612
Sales value of homes contracted (in thousands)	$5,641,454	$3,475,992	$2,734,457	$2,158,536	$2,134,522	$1,627,900	$1,383,093	$1,069,279	$884,677	$660,467	$586,941	$490,883	$342,811	$230,324	$163,975

At October 31	2004	2003	2002	2001	2000	1999	1998	1997	1996	1995	1994	1993	1992	1991	1990
Number of homes in backlog	6,709	4,652	3,342	2,702	2,746	2,327	1,892	1,551	1,367	1,078	1,025	892	621	438	251
Sales value of homes in backlog (in thousands)	$4,433,895	$2,631,900	$1,858,784	$1,403,588	$1,425,521	$1,053,900	$ 814,714	$ 627,220	$526,194	$400,820	$370,560	$285,441	$187,118	$124,148	$ 69,795
Number of selling communities	220	200	170	155	146	140	122	116	100	97	80	67	62	42	41
Home sites															
Owned	29,804	29,081	25,822	25,981	22,275	23,163	15,578	12,820	12,065	9,542	6,779	5,744	5,633	3,974	4,548
Optioned	30,385	18,977	15,022	13,165	10,843	11,268	14,803	9,145	5,237	5,042	4,445	4,271	3,592	3,281	2,117
Total	60,189	48,058	40,844	39,146	33,118	34,431	30,381	21,965	17,302	14,584	11,224	10,015	9,225	7,255	6,665

Note: All share and per share amounts have been adjusted for a 2-for-1 stock split in March 2002.

Management's Discussion and Analysis

Overview

Fiscal 2004 was another record year for us. Home sales revenues increased by 41% over fiscal 2003 and net income increased by 57%. In addition, contract signings increased 62% in fiscal 2004 over fiscal 2003 and our backlog of homes under contract but not yet delivered to home buyers ("backlog") at October 31, 2004 was 68% greater than the backlog at October 31, 2003.

Geographic and product diversification, access to lower-cost capital, a versatile and abundant home mortgage market and improving demographics are promoting strong and steady demand for those builders who can control land and persevere through the increasingly difficult regulatory approval process. This evolution in our industry favors the large, publicly traded home building companies with the capital and expertise to control home sites and gain market share. We currently own or control more than 60,000 home sites in 47 markets we consider to be affluent, a substantial number of which sites already have the approvals necessary for development. We believe that as the approval process becomes more difficult, and as the political pressure from no-growth proponents increases, our expertise in taking land through the approval process and our already approved land positions should allow us to continue to grow for a number of years to come.

Because of the strong demand for our homes, we have been able to increase the base selling prices in many of our communities during the past several years. Based on our current backlog, which affords us revenue visibility over the next 9 to 12 months, and the pace of current demand, we expect to deliver between 7,900 and 8,300 homes during fiscal 2005, with an average delivered price between $635,000 and $645,000. In addition, in fiscal 2005 we expect that net income will increase by at least 40% over net income for fiscal 2004.

Because of the length of time that it takes to obtain the necessary approvals on a property, complete the land improvements on it, and deliver a home after a home buyer signs an agreement of sale, we are subject to many risks. We attempt to reduce certain risks by: controlling land for future development through options whenever possible, thus allowing us to obtain the necessary governmental approvals before acquiring title to the land; generally commencing construction of a home after executing an agreement of sale with a buyer; and using subcontractors to perform home construction and land development work on a fixed-price basis.

In the ordinary course of doing business, we must make estimates and judgments that affect decisions on how we operate and on the reported amounts of assets, liabilities, revenues and expenses. These estimates include, but are not limited to, those related to the recognition of income and expenses, impairment of assets, estimates of future improvement and amenity costs, capitalization of costs to inventory, provisions for litigation, insurance and warranty costs, and income taxes. We base our estimates on historical experience and on various other assumptions that are believed to be reasonable under the circumstances. On an ongoing basis, we evaluate and adjust our estimates based on the information currently available. Actual results may differ from these estimates and assumptions or conditions.

Our revenues have grown on average over 20% per year in the last decade. We have funded this growth through the reinvestment of profits, bank borrowings and capital market transactions. At October 31, 2004, we had $580.9 million of cash and cash equivalents and approximately $989.3 million available under our new bank revolving credit facility which extends to July 15, 2009. In addition, during the second quarter of 2004, we issued $300 million of 4.95% Senior Notes due 2014. We used a portion of the proceeds from these notes to redeem $170 million of our 8 1/8% Senior Subordinated Notes due 2009. With these resources, our strong cash flow from operations before inventory growth, and our history of success in accessing the public debt markets, we believe we have the resources available to continue to grow in fiscal 2005 and beyond.

Critical Accounting Policies

We believe the following critical accounting policies reflect the more significant judgments and estimates used in the preparation of our consolidated financial statements.

INVENTORY | Inventory is stated at the lower of cost or fair value in accordance with Statement of Financial Accounting Standards ("SFAS") No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets." In addition to direct 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.

It takes approximately four to five years to fully develop, sell and deliver all the homes in one of our typical communities. Longer or shorter time periods are possible depending on the number of home sites in a community. Our master planned communities, consisting of several smaller communities, may take up to 10 years or more to complete. Because our inventory is considered a long-lived asset under U.S. generally accepted accounting principles, we are required to review the carrying value of each of our communities and write down the value of those communities for which we believe the values are not recoverable. When the profitability of a current community deteriorates or the sales pace declines significantly or some other factor indicates a possible impairment in the recoverability of the asset, we evaluate the property in accordance with the guidelines of SFAS No. 144. If this evaluation indicates that an impairment loss should be recognized, we charge cost of sales for the estimated impairment loss in the period determined.

In addition, we review all land held for future communities or future sections of current communities, whether owned or under contract, to determine whether or not we expect to proceed with the development of the land. Based upon this review, we decide: (a) as to land that is under a purchase contract but not owned, whether the contract will be terminated or renegotiated; and (b) as to land we own, whether the land can be developed as contemplated or in an alternative manner, or should be sold. We then further determine which costs that have been capitalized to the property are recoverable and which costs should be written off.

INCOME RECOGNITION | Revenue and cost of sales are recorded at the time each home, or home site, is delivered and title and possession are transferred to the buyer.

Land, land development and related costs (both incurred and estimated to be incurred in the future) are amortized to the cost of homes closed based upon the total number of homes to be constructed in each community. Any changes to the estimated costs subsequent to the commencement of delivery of homes are allocated to the remaining undelivered homes in the community. Home construction and related costs are charged to the cost of homes closed under the specific identification method.

The estimated land, common area development and related costs of master planned communities (including the cost of golf courses, net of their estimated residual value) are allocated to individual communities within a master planned community on a relative sales value basis. Any change in the estimated cost is allocated to the remaining home sites in each of the communities of the master planned community.

Off-Balance Sheet Arrangements

We have investments in and advances to several joint ventures with unrelated parties to develop land. Some of these joint ventures develop land for the sole use of the venture partners, including ourselves, and others develop land for sale to the venture partners and to unrelated builders. We recognize our share of earnings from the sale of home sites to other builders. We do not recognize earnings from home sites we purchase from the joint ventures, but instead reduce our cost basis in these home sites by our share of the earnings on the home sites. At October 31, 2004, we had approximately $42.8 million invested in or advanced to these joint ventures and were committed to contributing additional capital in an aggregate amount of approximately $90.2 million if the joint ventures require it. In November 2004, one of the joint ventures obtained third-party financing of $535 million, of which each of the joint venture partners guaranteed their pro-rata share. Our share of the loan guarantee was $53.6 million, which has reduced the amount committed to the funding of the joint venture.

In January 2004, we entered into a joint venture in which we have a 50% interest with an unrelated party, to develop Maxwell Place, an 832-home luxury condominium community on the Hoboken, New Jersey waterfront. At October 31, 2004, we had investments in and advances to the joint venture of $29.5 million, and were committed to making up to $1.0 million of additional investments in and advances to it. We and our joint venture partner each have guaranteed $7.5 million of principal amount of one of the loans obtained by this joint venture.

In October 2004, we entered into a joint venture in which we have a 50% interest with an unrelated party, to convert a 525-unit apartment complex, The Hudson Tea Buildings, located in Hoboken, New Jersey, into luxury condominium units. At October 31, 2004, we had investments in and advances to the joint venture of $7.5 million, and were committed to making up to $1.5 million of additional investments in and advances to it.

We have a minority interest in a joint venture with unrelated parties that has developed and is currently marketing The Sky Club, a 326-unit, 17-story, two-tower structure, located in Hoboken, New Jersey. At October 31, 2004, our investment in this joint venture was $6.9 million. We do not have any commitment to contribute additional capital to this joint venture.

We also own 50% of a joint venture with an unrelated party that is currently building and selling an active-adult, age-qualified community in Michigan. At October 31, 2004, our investment in this joint venture was $1.4 million. We do not have any commitment to contribute additional capital to this joint venture.

To take advantage of commercial real estate opportunities, Toll Brothers Realty Trust Group (the "Trust") was formed in 1998. The Trust is effectively owned one-third by us, one-third by Robert I. Toll, Bruce E. Toll (and members of his family), Zvi Barzilay (and members of his family), Joel H. Rassman, and other members of our senior management, and one-third by the Pennsylvania State Employees Retirement System. We provide development, finance and management services to the Trust and receive fees for our services. The Trust currently owns and operates several office buildings and an 806-unit apartment complex that it developed in Virginia, and is building a 635-unit apartment complex in New Jersey. At October 31, 2004, our investment in the Trust was $5.9 million. The Trust has a $25 million revolving credit facility that extends through June 2005. As collateral for this facility, we and the other groups of investors each entered into a subscription agreement whereby each group of investors agreed to invest up to an additional $9.3 million if required by the Trust. The subscription agreements expire in August 2005.

Other than the guarantees discussed above, we do not currently guarantee any indebtedness of the joint ventures or the Trust. Our total commitment to these entities is not material to our financial condition. These investments are accounted for using the equity method.

Results Of Operations

The following table compares income statement items related to our operations (amounts in millions):

Year Ended October 31,	2004 $	2004 %	2003 $	2003 %	2002 $	2002 %
Home sales						
Revenues	3,839.5		2,731.0		2,279.3	
Costs	2,747.3	71.6	1,977.4	72.4	1,655.3	72.6
Land sales						
Revenues	22.5		27.4		36.2	
Costs	15.8	70.1	17.9	65.2	25.7	70.9
Equity earnings in unconsolidated entities	15.7		1.0		1.9	
Interest and other	15.4		15.8		11.7	
Total revenues	3,893.1		2,775.2		2,329.0	
Selling, general and administrative expenses*	381.1	9.8	288.3	10.4	236.1	10.1
Interest expense*	93.3	2.4	73.2	2.6	64.5	2.8
Expenses related to early retirement of debt*	8.2	0.2	7.2	0.3		
Total costs and expenses*	3,245.7	83.4	2,364.1	85.2	1,981.7	85.1
Income before income taxes*	647.4	16.6	411.2	14.8	347.3	14.9
Income taxes	238.3		151.3		127.4	
Net income*	409.1	10.5	259.8	9.4	219.9	9.4

** Note: Percentages for selling, general and administrative expenses, interest expense, expenses related to early retirement of debt, total costs and expenses, income before taxes and net income are based on total revenues. Amounts may not add due to rounding.*

Fiscal 2004 Compared To Fiscal 2003

HOME SALES | Home sales revenues for fiscal 2004 of $3.84 billion (6,627 homes) were higher than those of fiscal 2003 by approximately $1.11 billion, or 41%. The increase was attributable to a 35% increase in the number of homes delivered and a 4% increase in the average price of homes delivered. The increase in the number of homes delivered in fiscal 2004 was primarily due to the higher backlog of homes at October 31, 2003 as compared to October 31, 2002 which was primarily the result of a 21% increase in the number of new contracts signed in fiscal 2003 over fiscal 2002, and a 51% increase in the number of contracts signed in the first six months of fiscal 2004 as compared to the first six months of fiscal 2003. The increase in the average price of homes delivered in fiscal 2004 was the result of increased base selling prices and a shift in the location of homes delivered to more expensive areas offset, in part, by a change in the mix of product types delivered.

The value of new sales contracts signed was $5.64 billion (8,684 homes) in fiscal 2004, a 62% increase over the $3.48 billion (6,132 homes) value of new sales contracts signed in fiscal 2003. The increase in fiscal 2004 was attributable to a 42% increase in the number of new sales contracts signed and a 15% increase in the average selling price of the homes. The increase in the number of new sales contracts signed in fiscal 2004 was attributable to the continued demand for our homes and the increase in the number of communities from which we were selling homes. We were selling from 220 communities at October 31, 2004, compared to 200 communities at October 31, 2003. At October 31, 2005 we expect to be selling from approximately 240 communities. We believe that the demand for our homes is attributable to an increase in the number of affluent households, the maturation of the baby boom generation, a constricted supply of available new home sites in our markets, attractive mortgage rates and the belief of potential customers that the purchase of a home is a stable investment. At October 31, 2004, we had over 60,000 home sites under our control nationwide, compared to approximately 48,000 home sites at October 31, 2003. The increase in the average price of homes contracted for in fiscal 2004 was the result of increased base selling prices and a shift in the location of homes delivered to more expensive areas.

At October 31, 2004, our backlog of homes under contract was $4.43 billion (6,709 homes), an increase of 68% over the $2.63 billion (4,652 homes) backlog at October 31, 2003. The increase in backlog at October 31, 2004, compared to the backlog at October 31, 2003, was primarily attributable to the increase in the number and average price of new contracts signed during fiscal 2004, as compared to fiscal 2003, offset, in part, by an increase in the number and average price of homes delivered in fiscal 2004 as compared to fiscal 2003.

Based on the size of our current backlog, the continued demand for our products, the increased number of selling communities from which we are operating and the additional communities we expect to open in the coming months, we believe that we will deliver between 7,900 and 8,300 homes in fiscal 2005. We estimate that the average price of the homes delivered will be between $635,000 and $645,000 in fiscal 2005.

Home costs as a percentage of home sales revenues decreased 80 basis points in fiscal 2004 as compared to fiscal 2003. The decrease was primarily the result of selling prices increasing at a greater rate than construction costs.

Inventory write-offs of $7.5 million in fiscal 2004 were 32% higher than the $5.6 million of write-offs in fiscal 2003. As a percentage of home sales revenues, write-offs in fiscal 2004 were comparable to fiscal 2003.

For fiscal 2005, we expect that home costs as a percentage of home sales will be approximately 195 to 225 basis points lower than the fiscal 2004 percentage.

LAND SALES | We are developing several communities in which we sell a portion of the land to other builders. The amount of land sales will vary from year to year depending upon the scheduled timing of the delivery of the land parcels. Land sales revenues were $22.5 million in fiscal 2004 compared to $27.4 million in fiscal 2003. Land sales revenues in fiscal 2003 included $6.6 million from the sale of land to the Trust. (See Note 12 to the financial statements, "Related Party Transactions," for a description of the sale to the Trust.) Land costs as a percentage of land sales revenues increased from 65.2% in fiscal 2003 to 70.1% in fiscal 2004 due to higher cost parcels being sold in fiscal 2004 compared to fiscal 2003. For fiscal 2005, we expect land sales revenues to be approximately $17 million and land costs to be approximately 70% of the sales value.

EQUITY EARNINGS IN UNCONSOLIDATED ENTITIES | We are a participant in several joint ventures and in the Trust. We recognize income for our proportionate share of the earnings on sales to unrelated parties from these entities. (See "Off-Balance Sheet Arrangements" for a description of our investments in and commitments to these entities.) Earnings from these entities vary significantly from year to year. For fiscal 2004, we recognized $15.7 million of earnings from these unconsolidated entities as compared to $1.0 million in fiscal 2003. For fiscal 2005, we expect to realize approximately $15.5 million of earnings from our investments in the joint ventures and in the Trust.

INTEREST AND OTHER INCOME | Interest and other income for fiscal 2004 was $15.4 million, a decrease of $.4 million from the $15.8 million of interest and other income in fiscal 2003. This decrease was primarily the result of a $3.5 million profit realized from the sale of a small commercial property in fiscal 2003 and a decrease in forfeited customer deposits in fiscal 2004, as compared to fiscal 2003, offset, in part, by higher income realized from our ancillary businesses, higher management and construction fee income, and higher interest income. For fiscal 2005, we expect interest and other income to be approximately $18.0 million.

SELLING, GENERAL AND ADMINISTRATIVE EXPENSES ("SG&A") | In fiscal 2004, SG&A spending increased by 32%, or $92.7 million, as compared to fiscal 2003, while total revenues in fiscal 2004 increased by 40% as compared to fiscal 2003. The increased spending was principally due to higher sales commissions, higher costs incurred to operate the greater number of selling communities that we had during fiscal 2004, as compared to fiscal 2003, and increased compensation and benefit costs. We expect SG&A as a percentage of revenues will be approximately the same in fiscal 2005 as in fiscal 2004. We expect to open approximately 117 new communities in fiscal 2005 as compared to 91 in fiscal 2004 and 75 in fiscal 2003.

EXPENSES RELATED TO THE EARLY RETIREMENT OF DEBT | We recognized a pretax charge of $8.2 million in fiscal 2004 representing the premium paid on the early redemption of our 8 1/8% Senior Subordinated Notes due 2009, the write-off of unamortized bond issuance costs related to those notes, and the write-off of unamortized debt issuance costs related to our $575 million bank revolving credit agreement that was replaced by a new $1.14 billion bank revolving credit agreement that expires in July 2009. We recognized a pretax charge of $7.2 million in fiscal 2003 representing the premium paid on the early redemption of our 8 3/4% Senior Subordinated Notes due 2006, and our 7 3/4% Senior Subordinated Notes due 2007, and the write-off of unamortized bond issuance costs related to those notes.

Fiscal 2003 Compared To Fiscal 2002

HOME SALES | Home sales revenues for fiscal 2003 of $2.73 billion (4,911 homes) were higher than those of the comparable period of 2002 by approximately $451.8 million, or 20%. The increase was attributable to an 8% increase in the average price of the homes delivered and an 11% increase in the number of homes delivered. The increase in the average price of homes delivered in fiscal 2003 was the result of increased base selling prices, a shift in the location of homes delivered to more expensive areas and increased expenditures on options and lot premiums by our home buyers. The increase in the number of homes delivered in fiscal 2003 was primarily due to the higher backlog of homes at October 31, 2002 as compared to October 31, 2001, which was primarily the result of a 17% increase in the number of new contracts signed in fiscal 2002 over fiscal 2001, and a 4% increase in the number of contracts signed in the first six months of fiscal 2003 as compared to the first six months of fiscal 2002.

The value of new sales contracts signed was $3.48 billion (6,132 homes) in fiscal 2003, a 27% increase over the $2.73 billion (5,070 homes) value of new sales contracts signed in fiscal 2002. The increase in fiscal 2003 was attributable to a 20% increase in the number of units sold and a 5% increase in the average selling price of the homes. The increase in the average selling price in fiscal 2003 was attributable to increased base selling prices and increased option and lot premiums selected by our home buyers. The increase in the number of units sold in fiscal 2003 was attributable to the continued demand for our homes and the increased number of communities from which we were selling homes. We were selling from 200 communities (including seven communities that we acquired from Richard R. Dostie, Inc. in September 2003) at October 31, 2003, as compared to 170 communities at October 31, 2002. We believe that the demand for our homes was attributable to an increase in the number of affluent households, the maturation of the baby boom generation, a constricted supply of available new home sites in our markets, attractive mortgage rates and the belief of potential customers that the purchase of a home is a stable investment in the current period of economic uncertainty. At October 31, 2003, we had over 48,000 home sites under our control nationwide, as compared to approximately 41,000 home sites at October 31, 2002.

At October 31, 2003, our backlog of homes under contract was $2.63 billion (4,652 homes), an increase of 42% over the $1.86 billion (3,342 homes) backlog at October 31, 2002. The increase in backlog at October 31, 2003, as compared to the backlog at October 31, 2002, was primarily attributable to the increase in the value and number of new contracts signed during fiscal 2003 as compared to fiscal 2002, offset, in part, by an increase in the number of homes delivered in fiscal 2003 as compared to fiscal 2002.

Home costs as a percentage of home sales revenues decreased slightly in fiscal 2003 as compared to fiscal 2002. The decrease was primarily the result of selling prices increasing faster than costs. In addition, we had lower inventory write-offs in fiscal 2003 than in fiscal 2002. We incurred $5.6 million in write-offs in fiscal 2003, as compared to $6.1 million in fiscal 2002.

LAND SALES | We are developing several communities in which we sell a portion of the land to other builders. The amount of land sales will vary from year to year depending upon the scheduled timing of the delivery of the land parcels. Land sales revenues amounted to $27.4 million in fiscal 2003, including $6.6 million from the sale of land to the Trust. (See Note 12 to the financial statements, "Related Party Transactions," for a description of the sale to the Trust.) Land sales revenues in fiscal 2002 amounted to $36.2 million. Land costs as a percentage of land sales revenues decreased from 70.9% in fiscal 2002 to 65.2% in fiscal 2003 due to lower-cost parcels being sold in fiscal 2003 as compared to 2002.

EQUITY EARNINGS IN UNCONSOLIDATED ENTITIES | We are a participant in several joint ventures and in the Trust. We recognize income for our proportionate share of the earnings from these entities. (See "Off-Balance Sheet Arrangements" for a description of our investments in and commitments to these entities.) Earnings from the joint ventures will vary significantly from year to year. For fiscal 2003, we recognized $1.0 million of earnings from these unconsolidated entities as compared to $1.9 million in fiscal 2002.

INTEREST AND OTHER INCOME | For fiscal 2003, interest and other income was $15.8 million, an increase of $4.1 million as compared to $11.7 million in fiscal 2002. This increase was primarily the result of a $3.5 million profit realized from the sale of a small commercial property in fiscal 2003 and higher income realized from our ancillary businesses, offset, in part, by decreases in forfeited customer deposits, lower management and construction fee income and a decrease in gains from the sale of miscellaneous assets.

SELLING, GENERAL AND ADMINISTRATIVE EXPENSES ("SG&A") | In fiscal 2003, SG&A spending increased by 22%, or $52.2 million, as compared to fiscal 2002, whereas revenues in fiscal 2003 increased by 19% compared to fiscal 2002. The increased spending was principally due to higher sales commissions, higher costs incurred to operate the greater number of selling communities that we had during fiscal 2003 as compared to fiscal 2002, increased compensation and benefit costs and higher insurance costs.

EXPENSES RELATED TO THE EARLY RETIREMENT OF DEBT | We recognized a pretax charge of $7.2 million in fiscal 2003 representing the premium paid on the early redemption of our 8 3/4% Senior Subordinated Notes due 2006 and our 7 3/4% Senior Subordinated Notes due 2007, and the write-off of unamortized bond issuance costs related to those notes. No similar charge was incurred in fiscal 2002.

Interest Expense

We determine interest expense on a specific homesite-by-homesite basis for our home building operations and on a parcel-by-parcel basis for land sales.

As a percentage of total revenues, interest expense varies depending upon many factors, including the period of time that we have owned the land, 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 us in proportion to the amount of our inventory during those periods. Interest expense as a percentage of revenues was slightly lower in fiscal 2004 than in fiscal 2003, and slightly lower in fiscal 2003 than in fiscal 2002. For fiscal 2005, we expect interest expense to be approximately 2.3% of total revenues.

Income Before Income Taxes

Income before income taxes increased 57% in fiscal 2004 as compared to fiscal 2003, and increased 18% in fiscal 2003 as compared to fiscal 2002.

Income Taxes

Income taxes for fiscal 2004, 2003 and 2002 were provided at effective rates of 36.8%, 36.8% and 36.7%, respectively. For fiscal 2005, we expect our effective tax rate to be approximately 37%.

Capital Resources & Liquidity

Funding for our operations has been provided principally by cash flow from operating activities, unsecured bank borrowings and the public debt and equity markets.

In general, cash flow from operating activities assumes that as each home is delivered we will purchase a home site to replace it. Because we own several years' supply of home sites, we do not need to buy home sites immediately to replace the ones delivered. Accordingly, we believe that cash flow from operating activities before inventory additions is currently a better gauge of liquidity.

Cash flow from operating activities, before inventory additions, has improved as operating results have improved. One of the main factors that determine cash flow from operating activities, before inventory additions, is the level of revenues from the delivery of homes and land sales. We anticipate that cash flow from operating activities, before inventory additions, will continue to be strong in fiscal 2005 due to the expected increase in home deliveries in fiscal 2005, as compared to fiscal 2004. We expect that our inventory will continue to increase and we are currently negotiating and searching for additional opportunities to obtain control of land for future communities. At October 31, 2004, we had commitments to acquire land of approximately $2.0 billion, of which approximately $137.4 million had been paid or deposited. We have used our cash flow from operating activities, before inventory additions, bank borrowings and the proceeds of public debt and equity offerings to: acquire additional land for new communities; fund additional expenditures for land development; fund construction costs needed to meet the requirements of our increased backlog and the increasing number of communities in which we are offering homes for sale; repurchase our stock; and repay debt.

We generally do not begin construction of a home until we have a signed contract with the home buyer. Because of the significant amount of time between the time a home buyer enters into a contract to purchase a home and the time that the home is built and delivered, we believe we can estimate, with reasonable accuracy, the number of homes we will deliver in the next 9 to 12 months. Should our business decline significantly, our inventory would decrease as we complete and deliver the homes under construction but do not commence construction of as many new homes, resulting in a temporary increase in our cash flow from operations. In addition, under such circumstances, we might delay or curtail our acquisition of additional land, which would further reduce our inventory levels and cash needs.

In fiscal 2004, First Huntingdon Finance Corp., one of our indirect, wholly owned subsidiaries, entered into a credit agreement with 27 banks. This new credit facility replaced our previous facility of $575 million. The revolving credit facility provides $1.14 billion of loan capacity and extends through July 15, 2009. At October 31, 2004, interest was payable on borrowings under the facility at 0.70% (subject to adjustment based upon our debt ratings and leverage ratio) above the Eurodollar rate or other specified variable rates as selected by us from time to time. At October 31, 2004, we had no borrowings outstanding against the facility, and had approximately $150.7 million of letters of credit outstanding under it.

In March 2004, Toll Brothers Finance Corp., another of our indirect, wholly owned subsidiaries, sold $300 million of 4.95% Senior Notes due 2014. The obligations of Toll Brothers Finance Corp. to pay principal, premiums if any and interest are guaranteed jointly and severally on a senior basis by us and substantially all of our home building subsidiaries. The guarantees are full and unconditional. Our non-home building subsidiaries did not guarantee the debt. We used a portion of the proceeds from the senior notes to redeem all of the $170 million principal amount of our 8 1/8% Senior Subordinated Notes due 2009 at 104.0625% of principal amount.

We believe that we will be able to continue to fund our expected growth and meet our contractual obligations through a combination of existing cash resources, cash flow from operating activities, our existing sources of credit and the public debt markets.

Contractual Obligations

The following table summarizes our estimated contractual obligations at October 31, 2004 (in millions):

	2005	2006-2007	2008-2009	Thereafter	Total
Senior and senior subordinated notes (a)			$100.0	$1,200.0	$1,300.0
Loans payable (a)	$ 281.3	$ 50.2	4.4	4.5	340.4
Warehouse mortgage company loan (a)	92.1				92.1
Operating lease obligations	10.8	14.9	9.2	27.7	62.6
Purchase obligations (b)	1,048.7	933.3	184.9	112.7	2,279.6
Retirement plan (c)	2.7	2.8	4.7	23.3	33.5
	$1,435.6	$1,001.2	$303.2	$1,368.2	$4,108.2

(a) Amounts are included in the Consolidated Balance Sheet.

(b) Amounts represent our commitments to acquire land under options and contracts and the estimated remaining amount of the contractual obligation for land development agreements secured by letters of credit and surety bonds.

(c) Amounts represent our obligations under our 401K, deferred compensation and supplemental executive retirement plans. Of the total amount indicated, $20.1 million has been recorded in the Consolidated Balance Sheet.

Inflation

The long-term impact of inflation on us is manifested in increased costs for land, land development, construction and overhead, as well as in increased sales prices. We generally contract 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 our profits. Because the sales price of each of our homes is fixed at the time a buyer enters into a contract to acquire a home, and because we generally contract to sell our homes before we begin construction, any inflation of costs in excess of those anticipated may result in lower gross margins. We generally attempt to minimize that effect by entering into fixed-price contracts with our subcontractors and material suppliers for specified periods of time, which generally do not exceed one year.

In general, housing demand is adversely affected by increases in interest rates and housing costs. Interest rates, the length of time that land remains in inventory and the proportion of inventory that is financed affect our interest costs. If we are 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, our 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 new homes.

Quantitative & Qualitative Disclosures About Market Risk

We are exposed to market risk primarily due to fluctuations in interest rates. We utilize both fixed-rate and variable-rate debt. For fixed-rate debt, changes in interest rates generally affect the fair market value of the debt instrument, but not our earnings or cash flow. Conversely, for variable-rate debt, changes in interest rates generally do not impact the fair market value of the debt instrument but do affect our earnings and cash flow. We do not have the obligation to prepay fixed-rate debt prior to maturity, and, as a result, interest rate risk and changes in fair market value should not have a significant impact on such debt until we are required to refinance such debt.

At October 31, 2004, our debt obligations, principal cash flows by scheduled maturity, weighted-average interest rates, and estimated fair value were as follows (amounts in thousands):

	Fixed-Rate Debt		Variable-Rate Debt (a) (b)	
Fiscal Year of Expected Maturity	Amount	Weighted-Average Interest Rate	Amount	Weighted-Average Interest Rate
2005	$ 281,172	7.19%	$92,203	3.02%
2006	19,719	5.46%	150	1.82%
2007	30,158	7.55%	150	1.82%
2008	2,952	6.04%	150	1.82%
2009	101,119	7.99%	150	1.82%
Thereafter	1,200,800	6.60%	3,710	1.82%
Discount	(4,335)			
Total	$1,631,585	6.79%	$96,513	2.96%
Fair value at October 31, 2004	$1,727,885		$96,513	

(a) We have a $1.14 billion revolving credit facility with 27 banks which extends through July 15, 2009. At October 31, 2004, interest was payable on borrowings under this facility at 0.70% (this rate will vary based upon our corporate debt rating and leverage ratios) above the Eurodollar rate or at other specified variable rates as selected by us from time to time. At October 31, 2004, we had no borrowings and approximately $150.7 million of letters of credit outstanding under the facility.

(b) Our mortgage subsidiary has a $125 million line of credit with three banks to fund mortgage originations. The line is due within 90 days of demand by the banks and bears interest at the banks' overnight rate plus an agreed-upon margin. At October 31, 2004, the subsidiary had $92.1 million outstanding under the line at an average interest rate of 3.02%. Borrowing under this line is included in the fiscal 2005 maturities.

Based upon the amount of variable-rate debt outstanding at October 31, 2004, and holding the variable rate-debt balance constant, each 1% increase in interest rates would increase the interest incurred by us by approximately $1.0 million per year.

Financial Statements

Consolidated Statements Of Income

(Amounts in thousands, except per share data)

Year Ended October 31,	2004	2003	2002
Revenues			
Home sales	$3,839,451	$2,731,044	$2,279,261
Land sales	22,491	27,399	36,183
Equity earnings in unconsolidated entities	15,731	981	1,870
Interest and other	15,420	15,817	11,658
	3,893,093	2,775,241	2,328,972
Costs and expenses			
Home sales	2,747,274	1,977,439	1,655,331
Land sales	15,775	17,875	25,671
Selling, general and administrative	381,080	288,337	236,123
Interest	93,303	73,245	64,529
Expenses related to early retirement of debt	8,229	7,192	
	3,245,661	2,364,088	1,981,654
Income before income taxes	647,432	411,153	347,318
Income taxes	238,321	151,333	127,431
Net income	$ 409,111	$ 259,820	$ 219,887
Earnings per share			
Basic	$ 5.50	$ 3.68	$ 3.12
Diluted	$ 5.04	$ 3.44	$ 2.91
Weighted-average number of shares			
Basic	74,323	70,670	70,472
Diluted	81,165	75,541	75,480

See accompanying notes.

Consolidated Balance Sheets

(Amounts in thousands)

October 31,	2004	2003
Assets		
Cash and cash equivalents	$ 580,863	$ 425,251
Inventory	3,878,260	3,080,349
Property, construction and office equipment, net	52,429	43,711
Receivables, prepaid expenses and other assets	146,212	113,633
Mortgage loans receivable	99,914	57,500
Customer deposits held in escrow	53,929	31,547
Investments in and advances to unconsolidated entities	93,971	35,400
	$4,905,578	$3,787,391
Liabilities and Stockholders' Equity		
Liabilities		
Loans payable	$ 340,380	$ 281,697
Senior notes	845,665	546,669
Senior subordinated notes	450,000	620,000
Mortgage company warehouse loan	92,053	49,939
Customer deposits	291,424	176,710
Accounts payable	181,972	151,730
Accrued expenses	574,202	346,944
Income taxes payable	209,895	137,074
Total liabilities	2,985,591	2, 310,763
Stockholders' Equity		
Preferred stock, none issued		
Common stock, 77,002 shares issued at October 31, 2004 and 2003	770	770
Additional paid-in capital	200,938	190,596
Retained earnings	1,770,730	1,361,619
Treasury stock, at cost - 2,181 shares and 3,680 shares at October 31, 2004 and 2003, respectively	(52,451)	(76,357)
Total stockholders' equity	1,919,987	1,476,628
	$4,905,578	$3,787,391

See accompanying notes.

Consolidated Statements Of Cash Flows

(Amounts in thousands)

Year Ended October 31,	2004	2003	2002
Cash flow from operating activities			
Net income	$409,111	$ 259,820	$219,887
Adjustments to reconcile net income to net cash provided by (used in) operating activities:			
Depreciation and amortization	15,032	12,075	10,495
Amortization of initial benefit obligation	6,735		
Equity earnings in unconsolidated entities	(15,731)	(981)	(1,870)
Deferred tax provision	32,377	17,933	1,831
Provision for inventory write-offs	7,452	5,638	6,081
Write-off of unamortized debt discount and financing costs	1,322	1,692	
Changes in operating assets and liabilities, net of assets and liabilities acquired:			
Increase in inventory	(692,400)	(478,478)	(360,409)
Origination of mortgage loans	(744,380)	(714,505)	(412,431)
Sale of mortgage loans	701,967	718,761	376,764
Increase in receivables, prepaid expenses and other assets	(26,210)	(18,803)	(23,469)
Increase in customer deposits	92,332	33,475	27,213
Increase in accounts payable and accrued expenses	265,387	94,471	52,761
Increase in current income taxes payable	58,618	22,831	9,042
Net cash provided by (used in) operating activities	111,612	(46,071)	(94,105)
Cash flow from investing activities			
Purchase of property and equipment, net	(20,408)	(15,475)	(14,170)
Investment in and advances to unconsolidated entities	(84,729)	(15,268)	(9,526)
Distribution from unconsolidated entities	34,088	4,550	4,200
Net cash used in investing activities	(71,049)	(26,193)	(19,496)
Cash flow from financing activities			
Proceeds from loans payable	981,621	1,096,897	528,710
Principal payments of loans payable	(988,488)	(1,117,047)	(627,270)
Net proceeds from issuance of public debt	297,432	544,174	149,748
Redemption of senior subordinated notes	(170,000)	(200,000)	
Net proceeds from issuance of common stock		86,241	
Proceeds from stock-based benefit plans	14,725	10,478	12,997
Purchase of treasury stock	(20,241)	(25,565)	(31,087)
Net cash provided by financing activities	115,049	395,178	33,098
Net increase (decrease) in cash and cash equivalents	155,612	322,914	(80,503)
Cash and cash equivalents, beginning of year	425,251	102,337	182,840
Cash and cash equivalents, end of year	$580,863	$ 425,251	$102,337

See accompanying notes.

Toll Brothers at Red Rock Country Club | Las Vegas, Nevada

Notes to Consolidated Financial Statements

One | 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. Investments in less than 20%-owned entities are accounted for on the cost method.

USE OF ESTIMATES | The preparation of financial statements in conformity with U.S. 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.

Land, land development and related costs (both incurred and estimated to be incurred in the future) are amortized to the cost of homes closed based upon the total number of homes the Company expects to construct in each community. Any changes resulting from a change in the estimated number of homes to be constructed or a change in estimated costs subsequent to the commencement of delivery of homes are allocated to the remaining undelivered homes in the community. Home construction and related costs are charged to the cost of homes closed under the specific identification method.

The estimated land, common area development and related costs of master planned communities (including the cost of golf courses, net of their estimated residual value) are allocated to individual communities within a master planned community on a relative sales value basis. Any changes resulting from a change in the estimated number of homes to be constructed or a change in estimated costs are allocated to the remaining home sites in each of the communities of the master planned community.

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

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

PROPERTY, CONSTRUCTION AND OFFICE EQUIPMENT | Property, construction and office equipment are recorded at cost and are stated net of accumulated depreciation of $64.4 million and $54.1 million at October 31, 2004 and 2003, respectively. Depreciation is recorded by using the straight-line method over the estimated useful lives of the assets.

INVENTORY | Inventory is stated at the lower of cost or fair value in accordance with Statement of Financial Accounting Standards ("SFAS") No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets." 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.

It takes approximately four to five years to fully develop, sell and deliver all the homes in one of the Company's typical communities. Longer or shorter time periods are possible depending on the number of home sites in a community. The Company's master planned communities, consisting of several smaller communities, may take up to 10 years or more to complete. Because the Company's inventory is considered a long-lived asset under U.S. generally accepted accounting principles, the Company is required to review the carrying value of each of its communities and write down the value of those communities for which it believes the values are not recoverable. When the profitability of a current community deteriorates or the sales pace declines significantly or some other factor indicates a possible impairment in the recoverability of the asset, the Company evaluates the property in accordance with the guidelines of SFAS No. 144. If this evaluation indicates an impairment loss should be recognized, the Company charges cost of sales for the estimated impairment loss in the period determined.

In addition, the Company reviews all the land held for future communities or future sections of current communities, whether owned or under contract, to determine whether or not it expects to proceed with the development of the land, and, if so, whether it will be developed in the manner originally contemplated. Based upon this review, the Company decides: (a) as to land that is under a purchase contract but not owned, whether the contract will be terminated or renegotiated; and (b) as to land the Company owns, whether the land can be developed as contemplated or in an alternative manner, or should be sold. The Company then further determines which costs that have been capitalized to the property are recoverable and which costs should be written off.

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

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

The Company is also a party to several other joint ventures and effectively owns one-third of the Toll Brothers Realty Trust Group (the "Trust"). The Company recognizes its proportionate share of the earnings of these entities. (See Note 12, "Related Party Transactions," for a description of the accounting for sales of land to the Trust.)

TREASURY STOCK | Treasury stock is recorded at cost. Issuance of treasury shares is 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.

ADVERTISING COSTS | The Company expenses advertising costs as incurred.

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

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

SEGMENT REPORTING | 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, home building.

GOODWILL AND OTHER INTANGIBLE ASSETS | Intangible assets, including goodwill, that are not subject to amortization are tested for impairment and possible write down on an annual basis. At October 31, 2004, the Company had $12.2 million of unamortized goodwill.

ACQUISITIONS | In September 2003, the Company acquired substantially all of the assets of Richard R. Dostie, Inc. ("Dostie"), a privately owned home builder in the Jacksonville, Florida area.

In October 2003, the Company acquired substantially all of the assets of The Manhattan Building Company ("MBC"), a privately owned developer of urban in-fill locations in northern New Jersey. MBC, which is now operating under the name City Living by Toll Brothers, has developed and is currently marketing for a joint venture in which it has a minority interest: The Sky Club, a 326-unit, 17-story, two-tower structure under construction in Hoboken, New Jersey.

The acquisition agreements provide for contingent payments to the respective sellers if post-closing operations exceed specified levels of cash flow as provided in the agreements. The acquisition prices paid at closing, together with any contingent payments we are obligated to make for both acquisitions, were not material to the financial position of the Company.

NEW ACCOUNTING PRONOUNCEMENTS | SFAS No. 148, "Accounting for Stock-Based Compensation - Transition and Disclosure," which amends SFAS No. 123, "Accounting for Stock-Based Compensation," provides alternative methods of transition for a voluntary change to the fair-value based method of accounting for stock-based compensation. It also requires prominent disclosures in both annual and interim financial statements about the method of accounting for stock-based employee compensation and the effect of the method used on reported results. The Company has not elected to change to the fair-value based method of accounting for stock-based employee compensation. The financial disclosures required by SFAS No. 148 have been provided in the notes to the financial statements. On December 16, 2004, the Financial Accounting Standards Board ("FASB") issued SFAS 123 (revised 2004), "Share-Based Payment" ("SFAS 123R"), effective for periods beginning after June 15, 2005. SFAS 123R requires that all stock-based compensation be treated as a cost that is reflected in the financial statements. The Company is required to adopt the new standard for its fiscal period beginning August 1, 2005. The Company is currently reviewing the effect of this statement on the Company's financial statements.

In January 2003, the FASB issued FASB Interpretation No. 46 ("FIN 46"), "Consolidation of Variable Interest Entities, an interpretation of ARB No. 51," as revised. A Variable Interest Entity ("VIE") is an entity with insufficient equity investment or in which the equity investors lack some of the characteristics of a controlling financial interest. Pursuant to FIN 46, an enterprise that absorbs a majority of the expected losses of the VIE must consolidate the VIE. The full adoption of FIN 46 in fiscal 2004 did not have a material effect on our financial position and results of operations.

In March 2004, the SEC released Staff Accounting Bulletin ("SAB") No. 105, "Application of Accounting Principles to Loan Commitments." SAB No. 105 provides the SEC staff's position regarding the application of U.S. generally accepted accounting principles to loan commitments that relate to the origination of mortgage loans that will be held for resale. SAB No. 105 contains specific guidance on the inputs to a valuation-recognition model to measure loan commitments accounted for at fair value. Current accounting guidance requires the commitment to be recognized on the balance sheet at fair value from its inception through its expiration or funding. SAB No. 105 requires that fair-value measurement include only the differences between the guaranteed interest rate in the loan commitment and a market interest rate, excluding any expected future cash flows related to the customer relationship or loan servicing. In addition, SAB No. 105 requires the disclosure of loan commitments and any associated hedging strategies. SAB 105 is effective for all loan commitments accounted for as derivatives and entered into after March 31, 2004. The adoption of SAB No. 105 did not have a material effect on our results of operations, financial condition, or cash flows.

RECLASSIFICATION | Certain prior year amounts have been reclassified to conform with the fiscal 2004 presentation.

Two | Inventory

Inventory at October 31, 2004 and 2003 consisted of the following (amounts in thousands):

	2004	2003
Land and land development costs	$1,242,417	$1,115,805
Construction in progress	2,178,112	1,609,314
Sample homes and sales offices	208,416	188,592
Land deposits and costs of future development	237,353	155,649
Other	11,962	10,989
	$3,878,260	$3,080,349

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

The Company provided for inventory write-downs and the expensing of costs that it believed not to be recoverable of $7.5 million in fiscal 2004, $5.6 million in fiscal 2003 and $6.1 million in fiscal 2002. Of these amounts, $5.2 million, $2.0 million and $2.5 million were applicable to future communities in fiscal 2004, fiscal 2003 and fiscal 2002, respectively.

Interest capitalized in inventories is charged to interest expense when the related inventory is delivered. Changes in capitalized interest for each of the three years ended October 31, 2004, 2003 and 2002, were as follows (amounts in thousands):

	2004	2003	2002
Interest capitalized, beginning of year	$154,314	$123,637	$ 98,650
Interest incurred	113,448	104,754	90,313
Interest expensed	(93,303)	(73,245)	(64,529)
Write-off to cost and expenses	(1,017)	(832)	(797)
Interest capitalized, end of year	$173,442	$154,314	$123,637

Three | Loans Payable, Senior Notes, Senior Subordinated Notes & Mortgage Company Warehouse Loan

Loans payable at October 31, 2004 and 2003 consisted of the following (amounts in thousands):

	2004	2003
Term loan due July 2005	$222,500	$222,500
Other	117,880	59,197
	$340,380	$281,697

The Company has a $1.14 billion unsecured revolving credit facility with 27 banks, which extends to July 15, 2009. At October 31, 2004, interest was payable on borrowings under the facility at 0.70% (subject to adjustment based upon the Company's debt rating and leverage ratios) above the Eurodollar rate or at other specified variable rates as selected by the Company from time to time. At October 31, 2004, the Company had no outstanding borrowings against the facility; and letters of credit of approximately $150.7 million were outstanding under the facility. Under the terms of the revolving credit agreement, the Company is not permitted to allow its maximum leverage ratio (as defined in the agreement) to exceed 2.00:1.00 and is required to maintain a minimum tangible net worth (as defined in the agreement) of approximately $1.26 billion at October 31, 2004. At October 31, 2004, the Company's leverage ratio was approximately .56:1.00 and its tangible net worth was approximately $2.06 billion. Based upon the minimum tangible net worth requirement, the Company's ability to pay dividends and repurchase its common stock was limited to an aggregate amount of approximately $842 million at October 31, 2004.

The Company has an unsecured term loan of $222.5 million from nine banks at a weighted-average interest rate of 7.43%, repayable in July 2005. Under the terms of the term loan agreement, the Company is not permitted to allow its maximum leverage ratio (as defined in the agreement) to exceed 2.25:1.00, and is required to maintain a minimum tangible net worth (as defined in the agreement) of approximately $946 million at October 31, 2004. At October 31, 2004, the Company's leverage ratio was approximately .54:1.00 and its tangible net worth was approximately $2.12 billion.

At October 31, 2004, the aggregate estimated fair value of the Company's loans payable was approximately $350.2 million. The fair value of loans was estimated based upon the interest rates at October 31, 2004 that the Company believed were available to it for loans with similar terms and remaining maturities.

During fiscal 2004, the Company issued $300 million of 4.95% Senior Notes due 2014 and used a portion of the proceeds from the transaction to redeem its $170 million outstanding of 8 1/8% Senior Subordinated Notes due 2009.

During fiscal 2003, the Company issued $300 million of 6.875% Senior Notes due 2012 and $250 million of 5.95% Senior Notes due 2013. The Company used a portion of the proceeds from these transactions to redeem its $100 million outstanding of 8 3/4% Senior Subordinated Notes due 2006, and its $100 million outstanding of 7 3/4% Senior Subordinated Notes due 2007.

At October 31, 2004 and 2003, the Company's senior notes and senior subordinated notes consisted of the following (amounts in thousands):

	2004	2003
Senior notes:		
6.875% Senior Notes due November 15, 2012	$ 300,000	$ 300,000
5.95% Senior Notes due September 15, 2013	250,000	250,000
4.95% Senior Notes due March 15, 2014	300,000	
Bond discount	(4,335)	(3,331)
	845,665	546,669
Senior subordinated notes:		
8 1/8% Senior Subordinated Notes due February 1, 2009		170,000
8% Senior Subordinated Notes due May 1, 2009	100,000	100,000
8 1/4% Senior Subordinated Notes due February 1, 2011	200,000	200,000
8.25% Senior Subordinated Notes due December 1, 2011	150,000	150,000
	450,000	620,000
	$1,295,665	$1,166,669

The senior notes are the unsecured obligations of the Company and substantially all of its home building subsidiaries ("Loan Parties") and the payment of principal and interest are fully and unconditionally guaranteed, jointly and severally by them. The senior notes rank equally in right of payment with all the Loan Parties' existing and future unsecured senior indebtedness, including the bank revolving credit facility and the bank term loan. The senior notes are structurally subordinated to the prior claims of creditors, including trade creditors, of the subsidiaries of Toll Brothers, Inc. that are not guarantors of the senior notes. The senior notes are redeemable in whole or in part at any time at the option of the Company, at prices that vary based upon the then-current rates of interest and the remaining original term of the notes.

All issues of senior subordinated notes are subordinated to all senior indebtedness of the Company. The indentures governing these notes restrict certain payments by the Company, including cash dividends and repurchases of Company stock. The senior subordinated notes are redeemable in whole or in part at the option of the Company at various prices, on or after the fifth anniversary of each issue's date of issuance.

At October 31, 2004, the aggregate fair value of all the outstanding senior notes and senior subordinated notes, based upon their indicated market prices, was approximately $893.0 million and $489.1 million, respectively.

A subsidiary of the Company has a $125 million bank line of credit with three banks to fund mortgage originations. The line of credit is due within 90 days of demand by the banks and bears interest at the bank's overnight rate plus an agreed-upon margin. At October 31, 2004, the subsidiary had borrowed $92.1 million under the line of credit at an average interest rate of 3.02%. The line of credit is collateralized by all the assets of the subsidiary, which amounted to approximately $105.4 million at October 31, 2004.

The annual aggregate maturities of the Company's loans and notes during each of the next five fiscal years are: 2005 - $373.4 million; 2006 - $19.9 million; 2007 - $30.3 million; 2008 - $3.1 million; 2009 - $101.3 million.

Four | Accrued Expenses

Accrued expenses at October 31, 2004 and 2003 consisted of the following (amounts in thousands):

	2004	2003
Land, land development and construction costs	$229,045	$ 115,062
Compensation and employee benefit costs	89,865	48,914
Warranty costs	42,133	33,752
Other	213,159	149,216
	$574,202	$346,944

Five | 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 2004, 2003 and 2002. The effective tax rates in 2004, 2003 and 2002 were 36.8%, 36.8% and 36.7%, respectively. The primary difference between the Company's Base Rate and effective tax rate was tax-free income in each of the years.

The provision for income taxes for each of the three years ended October 31, 2004, 2003 and 2002 was as follows (amounts in thousands):

	2004	2003	2002
Federal	$223,076	$139,046	$117,233
State	15,245	12,287	10,198
	$238,321	$ 151,333	$127,431
Current	$205,944	$133,400	$125,600
Deferred	32,377	17,933	1,831
	$238,321	$ 151,333	$127,431

The components of income taxes payable at October 31, 2004 and 2003 consisted of the following (amounts in thousands):

	2004	2003
Current	$126,125	$ 85,681
Deferred	83,770	51,393
	$209,895	$137,074

The components of net deferred taxes payable at October 31, 2004 and 2003 consisted of the following (amounts in thousands):

	2004	2003
Deferred tax liabilities:		
Capitalized interest	$ 60,906	$48,679
Deferred expense	58,362	43,166
Total	119,268	91,845
Deferred tax assets:		
Inventory valuation reserves	15,412	18,014
Inventory valuation differences	2,784	2,684
Deferred income	(1,013)	2,960
Accrued expenses deductible when paid	2,376	2,401
Other	15,939	14,393
Total	35,498	40,452
Net deferred tax liability	$ 83,770	$ 51,393

Six | Stockholders' Equity

The Company's authorized capital stock consists of 100 million shares of Common Stock, $.01 par value per share, and 1 million shares of Preferred Stock, $.01 par value per share. The Board of Directors is authorized to amend the Company's Certificate of Incorporation to increase the number of authorized shares of Common Stock to 200 million shares and the number of shares of authorized Preferred Stock to 15 million shares. At October 31, 2004, the Company had approximately 74.8 million shares of common stock issued and outstanding (net of approximately 2.2 million shares of common stock held in Treasury), approximately 15.2 million shares of common stock reserved for outstanding options, approximately 3.2 million shares of common stock reserved for future option and award issuances and approximately 0.4 million shares of common stock reserved for issuance under the Company's employee stock purchase plan. As of October 31, 2004, the Company had not issued any shares of preferred stock.

ISSUANCE OF COMMON STOCK | In August 2003, the Company issued 3.0 million shares of its common stock at a price of $28.80, realizing net proceeds of $86.2 million.

REDEMPTION OF COMMON STOCK | 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 million 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 million of life insurance on each of their lives. In addition, the Tolls have granted the Company an option to purchase up to an additional $30 million (or a lesser amount under certain circumstances) of the Company's Common Stock from each of their estates. The agreements expire in October 2005.

STOCK REPURCHASE PROGRAM | In March 2003, the Company's Board of Directors authorized the repurchase of up to 10 million 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. At October 31, 2004, the Company had approximately 9.3 million shares remaining under the repurchase authorization.

STOCKHOLDER RIGHTS PLAN | Shares of the Company's Common Stock 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, 2004.

CHANGES IN STOCKHOLDERS' EQUITY | Changes in stockholders' equity for each of the three years ended October 31, 2004, 2003 and 2002 were as follows (amounts in thousands):

	Common Stock Shares	Common Stock Amount	Additional Paid-In Capital	Retained Earnings	Treasury Stock	Total
Balance, November 1, 2001	69,554	$369	$107,014	$ 882,281	$(77,081)	$ 912,583
Net income				219,887		219,887
Purchase of treasury stock	(1,238)				(31,087)	(31,087)
Exercise of stock options	1,411		(4,137)		24,192	20,055
Executive bonus award	440		(647)		7,502	6,855
Two-for-one stock split		371	(2)	(369)		-
Employee benefit plan issuances	50		372		844	1,216
Balance, October 31, 2002	70,217	740	102,600	1,101,799	(75,630)	1,129,509
Net income				259,820		259,820
Issuance of shares	3,000	30	86,241			86,271
Purchase of treasury stock	(1,340)		160		(25,725)	(25,565)
Exercise of stock options	897		(240)		15,690	15,450
Executive bonus award	471		1,685		7,959	9,644
Employee benefit plan issuances	77		150		1,349	1,499
Balance, October 31, 2003	73,322	770	190,596	1,361,619	(76,357)	1,476,628
Net income				409,111		409,111
Purchase of treasury stock	(544)		5		(20,241)	(20,236)
Exercise of stock options	1,448		(883)		33,180	32,297
Executive bonus award	551		10,520		9,768	20,288
Employee benefit plan issuances	44		700		1,199	1,899
Balance, October 31, 2004	74,821	$770	$200,938	$1,770,730	$(52,451)	$1,919,987

The Charleston Renaissance at Southlake Woods | Dallas, Texas

Seven | 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." 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 that are designed to estimate the value of options that, 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.

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, 2004, 2003 and 2002:

	2004	2003	2002
Risk-free interest rate	3.73%	3.53%	5.02%
Expected life (years)	6.99	7.07	7.50
Volatility	42.97%	43.37%	41.30%
Dividends	none	none	none

At October 31, 2004, 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):

	2004	2003	2002
Net income			
As reported	$409,111	$259,820	$219,887
Pro forma	$391,898	$245,158	$205,314
Basic net income per share			
As reported	$ 5.50	$ 3.68	$ 3.12
Pro forma	$ 5.27	$ 3.47	$ 2.91
Diluted net income per share			
As reported	$ 5.04	$ 3.44	$ 2.91
Pro forma	$ 4.83	$ 3.25	$ 2.72
Weighted-average grant date fair value per share of options granted	$ 19.47	$ 10.24	$ 11.17

STOCK OPTION PLANS | The Company's four stock option plans for employees, officers and 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.

No additional options may be granted under the Company's Stock Option Plan (1986), the Executives and Non-Employee Directors Stock Option Plan (1993) and the Company's Stock Option and Incentive Stock Plan (1995).

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 1998 Plan restricts the number of shares available for grant in a year to a maximum of five million shares.

The Melrose at Waterford Ridge | *Waterford, Virginia*

The following table summarizes stock option activity for the four plans during each of the three years ended October 31, 2004, 2003 and 2002:

	2004		2003		2002	
	Number of Options (in thousands)	Weighted-Average Exercise Price	Number of Options (in thousands)	Weighted-Average Exercise Price	Number of Options (in thousands)	Weighted-Average Exercise Price
Outstanding, November 1,	15,533	$13.91	15,321	$13.24	14,486	$11.44
Granted	1,352	40.27	1,280	21.05	2,586	21.76
Exercised	(1,509)	11.09	(926)	11.86	(1,530)	9.98
Cancelled	(131)	26.78	(142)	19.39	(221)	17.68
Outstanding, October 31	15,245	$16.41	15,533	$13.91	15,321	$13.24
Options exercisable, October 31,	11,535	$12.74	11,083	$11.62	9,781	$10.64
Options available for grant October 31,	3,168		3,275		3,498	

The following table summarizes information about stock options outstanding and exercisable at October 31, 2004:

	Options Outstanding			Options Exercisable	
Range of Exercise Prices	Number Outstanding (in thousands)	Weighted-Average Remaining Contractual Life (in years)	Weighted-Average Exercise Price	Number Exercisable (in thousands)	Weighted-Average Exercise Price
$ 4.35 - $ 8.70	811	0.9	$ 6.82	811	$ 6.82
8.71 - 10.88	4,280	3.9	9.14	4,280	9.14
10.89 - 13.06	2,417	3.8	11.85	2,417	11.85
13.07 - 15.23	1,395	3.2	14.01	1,395	14.01
17.41 - 21.76	5,031	7.0	20.78	2,632	20.55
21.77 - 40.27	1,311	9.1	40.27	-	-
$ 4.35 - $40.27	15,245	5.1	$16.41	11,535	$12.74

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 pre-tax earnings and stockholders' equity of the Company as defined by the plan.

In December 2000, Mr. Toll and the Board of Directors agreed that any bonus payable for each of the three fiscal years ended October 31, 2002, 2003 and 2004 would be made (except for specific conditions) in shares of the Company's Common Stock using the value of the stock as of the date of the agreement ($19.3125 per share). The stockholders approved the plan at the Company's 2001 Annual Meeting. In October 2004, Mr. Toll and the Board of Directors amended the plan for fiscal 2004, reducing the formula for the calculation of the cash bonus and limiting the value of the shares that may be issued under the award. The Company recognized compensation expense in 2004, 2003 and 2002 of $30.4 million, $20.3 million and $9.6 million, respectively, which represented the fair market value of shares that will be issued or have been issued to Mr. Toll (655,932 shares for 2004, 550,857 shares for 2003 and 471,099 shares for 2002). Had Mr. Toll and the Board of Directors not amended Mr. Toll's bonus program for fiscal 2004, Mr. Toll would have received 1,073,937 shares with a fair market value of $49.8 million.

On October 31, 2004, 2003 and 2002, the closing price of the Company's Common Stock on the New York Stock Exchange was $46.35, $36.84 and $20.48, respectively.

Under the Company's deferred compensation plan, Mr. Toll can elect to defer receipt of his bonus until a future date. Mr. Toll elected to defer receipt of his bonus award shares for fiscal 2002. In December 2004, Mr. Toll will receive 235,550 shares of his 2002 bonus.

EMPLOYEE STOCK PURCHASE PLAN | The Company's employee stock purchase plan enables substantially all employees to purchase the Company's Common Stock at 95% of the market price of the stock on specified offering dates without restriction or at 85% of the market price of the stock on specified offering dates subject to restrictions. The plan, which terminates in December 2007, provides that 600,000 shares be reserved for purchase. At October 31, 2004, 417,567 shares were available for issuance.

The number of shares and the average price per share issued under this plan during each of the three fiscal years ended October 31, 2004, 2003 and 2002 were 15,624 shares and $38.24, 15,085 shares and $21.12, 15,672 shares and $21.24, respectively. No compensation expense was recognized by the Company under this plan.

Eight | Earnings Per Share Information

Information pertaining to the calculation of earnings per share for each of the three years ended October 31, 2004, 2003 and 2002 is as follows (amounts in thousands):

	2004	2003	2002
Basic weighted-average shares	74,323	70,670	70,472
Assumed conversion of dilutive stock options	6,842	4,871	5,008
Diluted weighted-average shares	81,165	75,541	75,480

Nine | Employee Retirement & Deferred Compensation Plans

The Company maintains a salary deferral savings plan covering substantially all employees. The plan provides for Company contributions of up to 2% of all eligible compensation, plus 2% of eligible compensation above the social security wage base, plus matching contributions of up to 2% of eligible compensation of employees electing to contribute via salary deferrals. Company contributions with respect to the plan totaled $5.4 million, $5.3 million and $3.5 million for the years ended October 31, 2004, 2003 and 2002, respectively.

The Company has an unfunded, non-qualified deferred compensation plan that permits eligible employees to defer a portion of their compensation. The deferred compensation, together with certain Company contributions, earns various rates of return depending upon when the compensation was deferred and the length of time that it was deferred. A portion of the deferred compensation and interest earned may be forfeited by a participant if he or she elects to withdraw the compensation prior to the end of the deferral period. At October 31, 2004 and 2003, the Company had accrued $4.0 million and $2.3 million, respectively, for its obligations under the plan.

In October 2004, the Company established a defined benefit retirement plan (the "Retirement Plan") effective as of September 1, 2004, which covers a number of senior executives and a director of the Company. The Retirement Plan is unfunded and vests when the participant has completed 20 years of service with the Company and reaches normal retirement age (age 62). An unrecognized prior service cost of $13.7 million is being amortized over the period from the effective date of the plan until the participants are fully vested. At October 31, 2004, the balance sheet includes a $7.0 million intangible asset related to unamortized prior service cost and an accrued pension liability of $13.9 million. In fiscal 2004, the Company recognized $6.9 million of pension expense under the Retirement Plan, which represented amortization of prior service obligations of $6.7 million and current service expense and interest of $.2 million. The Company used a 5.69% discount rate in its calculation of the present value of its projected benefit obligation. At October 31, 2004, the present value of the Company's projected benefit obligation was $13.9 million.

Ten | Investment In Unconsolidated Entities

The Company has investments in and advances to several joint ventures with unrelated parties to develop land. Some of these joint ventures develop land for the sole use of the venture partners, including the Company, and others develop land for sale to the venture partners and to unrelated builders. The Company recognizes its share of earnings from the sale of home sites to other builders. The Company does not recognize earnings from home sites it purchases from the joint ventures, but instead reduces its cost basis in these home sites by its share of the earnings on the home sites. At October 31, 2004, the Company had approximately $42.8 million invested in or advanced to these joint ventures and was committed to contributing additional capital in an aggregate amount of approximately $90.2 million if the joint ventures require it. In November 2004, one of the joint ventures obtained third-party financing of $535 million, of which each of the joint venture partners guaranteed their pro-rata share. The Company's share of the loan guarantee was $53.6 million, which has reduced the amount committed to the funding of the joint venture.

In January 2004, the Company entered into a joint venture in which it has a 50% interest with an unrelated party to develop Maxwell Place, an 832-home luxury condominium community on the Hoboken, New Jersey waterfront. At October 31, 2004, the Company had investments in and advances to the joint venture of $29.5 million and was committed to making up to $1.0 million of additional investments in and advances to it. The Company and its joint venture partner each have guaranteed $7.5 million of principal amount of one of the loans obtained by this joint venture.

In October 2004, the Company entered into a joint venture in which it has a 50% interest with an unrelated party to convert a 525-unit apartment complex, The Hudson Tea Buildings, located in Hoboken, New Jersey, into luxury condominium units. At October 31, 2004, the Company had investments in and advances to the joint venture of $7.5 million and was committed to making up to $1.5 million of additional investments in and advances to it.

The Company has a minority interest in a joint venture with unrelated parties that has developed and is currently marketing The Sky Club, a 326-unit, 17-story, two-tower structure, located in Hoboken, New Jersey. At October 31, 2004, the Company's investment in this joint venture was $6.9 million. The Company does not have any commitment to contribute additional capital to this joint venture.

The Modena at Toll Brothers at Red Rock Country Club | Las Vegas, Nevada

The Company also owns 50% of a joint venture with an unrelated party that is currently building and selling an active-adult, age-qualified community in Michigan. At October 31, 2004, the Company's investment in this joint venture was $1.4 million. The Company does not have any commitment to contribute additional capital to this joint venture.

See Note 12, "Related Party Transactions," for a description of the Company's investment in Toll Brothers Realty Trust Group.

Eleven | Commitments & Contingencies

The Company accrues expected warranty costs at the time each home is closed and title and possession have been transferred to the home buyer. Changes in the warranty accrual during fiscal 2004 and 2003 were as follows (amounts in thousands):

	2004	2003
Balance, beginning of year	$33,752	$29,197
Additions	27,674	19,732
Charges incurred	(19,293)	(15,177)
Balance, end of year	$42,133	$33,752

At October 31, 2004, the Company had agreements to purchase land for future development with an aggregate purchase price of approximately $2.0 billion, of which $137.4 million had been paid or deposited. Purchase of the properties is generally contingent upon satisfaction of certain requirements by the Company and the sellers.

At October 31, 2004, the Company had outstanding surety bonds amounting to approximately $611.0 million related primarily to its obligations to various governmental entities to construct improvements in the Company's various communities. The Company estimates that approximately $205.7 million of work remains on these improvements. The Company has an additional $74.5 million of surety bonds outstanding that guarantee other obligations of the Company. The Company does not believe that any outstanding bonds will likely be drawn upon.

At October 31, 2004, the Company had agreements of sale outstanding to deliver 6,709 homes with an aggregate sales value of approximately $4.43 billion.

At October 31, 2004, the Company was committed to providing approximately $524.1 million of mortgage loans to its home buyers and to others. All loans with committed interest rates are covered by take-out commitments from third-party lenders, which minimizes the Company's interest rate risk. The Company also arranges a variety of mortgage programs that are offered to its home buyers through outside mortgage lenders.

The Company leases certain facilities and equipment under non-cancellable operating leases. Rental expense incurred by the Company amounted to $4.4 million for 2004, $3.4 million for 2003 and $2.8 million for 2002. At October 31, 2004, future minimum rent payments under these operating leases were $10.8 million for 2005, $8.1 million for 2006, $6.8 million for 2007, $5.1 million for 2008, and $4.1 million for 2009.

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.

Twelve | Related Party Transactions

To take advantage of commercial real estate opportunities, the Company formed Toll Brothers Realty Trust Group (the "Trust") in 1998. The Trust is effectively owned one-third by the Company, one-third by Robert I. Toll, Bruce E. Toll (and members of his family), Zvi Barzilay (and members of his family), Joel H. Rassman and other members of the Company's senior management, and one-third by the Pennsylvania State Employees Retirement System (collectively, the "Shareholders").

The Shareholders entered into subscription agreements whereby each group has agreed to invest additional capital in an amount not to exceed $9.3 million if required by the Trust. The subscription agreements expire in August 2005. At October 31, 2004, the Company had an investment of $5.9 million in the Trust. This investment is accounted for on the equity method.

In December 2002, the Company's Board of Directors, upon the recommendation of its Real Estate Utilization Committee (the "Committee"), which is comprised of members of the Board of Directors who do not have a financial interest in the Trust, approved the sale to the Trust of a 62.2-acre parcel of land, which is a portion of the Company's multi-product community known as The Estates at Princeton Junction in New Jersey, which is being developed as multi-family rental apartment buildings (the "Property"). The Committee's recommendation that the Company sell the Property to the Trust rather than to an outside third party was based upon the following advantages to the Company: (a) the Company's ability to influence the design and construction quality so as to enhance the overall community; (b) synergies of development and marketing costs were expected to be a benefit to the Company; (c) the Trust's maintenance of a high quality of operations, ensuring that the existence of the apartments in the community would not negatively affect the image of the community as a whole; and (d) as was the Company's experience with another Trust property, apartment tenants being potential customers for the purchase of the Company's townhomes and single-family homes. Moreover, the sale has allowed the Company to recover cash, remove the Property from the Company's balance sheet and free the Company from the need to provide capital from its credit facility to build the apartment units. The $9.8 million sales price was approved by the Committee after reviewing an offer from an independent third party and after reviewing an independent professional appraisal. The sale was completed in May 2003. Because the Company owns one-third of the Trust, it recognized only two-thirds of the revenue, cost and profit on the sale. The remaining one-third of the profit on the sale reduced the Company's investment in the Trust.

The Company provides development, finance and management services to the Trust and received fees under the terms of various agreements in the amounts of $1.7 million, $1.0 million and $1.2 million in fiscal 2004, 2003 and 2002, respectively. The Company believes that the transactions, including the sale of the Property, between itself and the Trust were on terms no less favorable than it would have agreed to with unrelated parties.

Thirteen | 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, 2004, 2003 and 2002 (amounts in thousands):

	2004	2003	2002
Cash flow information:			
Interest paid, net of amount capitalized	$ 50,157	$ 39,154	$ 29,867
Income taxes paid	$147,326	$109,018	$116,558
Non-cash activity:			
Cost of inventory acquired through seller financing	$107,664	$ 56,956	$ 13,284
Income tax benefit related to exercise of employee stock options	$ 18,175	$ 5,320	$ 7,394
Stock bonus awards	$ 20,288	$ 9,643	$ 6,855
Contributions to employee retirement plan	$ 1,301	$ 1,180	$ 883
Adoption of supplemental executive retirement plan – projected initial benefit obligation	$ 13,702		

Summary Consolidated Quarterly Financial Data (Unaudited)

(Amounts in thousands, except per share data)

2004 Three Months Ended	Oct. 31	July 31	April 30	Jan. 31
Revenue	$1,462,577	$1,013,119	$819,485	$597,912
Gross profit	$ 430,378	$ 296,126	$233,359	$170,181
Income before income taxes	$ 286,120	$ 167,821	$114,521	$ 78,970
Net income	$ 180,574	$ 106,015	$ 72,438	$ 50,084
Earnings per share				
Basic	$ 2.42	$ 1.43	$ 0.97	$ 0.68
Diluted	$ 2.22	$ 1.31	$ 0.89	$ 0.62
Weighted-average number of shares				
Basic	74,695	74,352	74,406	73,839
Diluted	81,496	80,920	81,426	80,819

2003 Three Months Ended	Oct. 31	July 31	April 30	Jan. 31
Revenue	$ 903,364	$ 693,685	$607,932	$570,260
Gross profit	$ 256,157	$ 198,701	$167,595	$157,474
Income before income taxes	$ 147,762	$ 107,855	$ 83,616	$ 71,920
Net income	$ 93,382	$ 68,159	$ 52,865	$ 45,414
Earnings per share				
Basic	$ 1.29	$ 0.98	$ 0.76	$ 0.65
Diluted	$ 1.19	$ 0.90	$ 0.72	$ 0.61
Weighted-average number of shares				
Basic	72,564	69,848	69,859	70,407
Diluted	78,722	75,534	73,601	74,308

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

Common Stock Price Range - New York Stock Exchange

QUARTER ENDED

2004	High	Low	2003	High	Low
October 31	$47.80	$40.34	October 31	$37.02	$25.67
July 31	$43.14	$36.85	July 31	$32.13	$22.64
April 30	$47.74	$39.32	April 30	$23.65	$17.63
January 31	$43.00	$36.89	January 31	$21.92	$18.85

Report Of Independent Registered Public Accounting Firm

The Board of Directors and Stockholders
Toll Brothers, Inc.

We have audited the accompanying consolidated balance sheets of Toll Brothers, Inc. and subsidiaries as of October 31, 2004 and 2003, and the related consolidated statements of income and cash flows for each of the three years in the period ended October 31, 2004. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Toll Brothers, Inc. and subsidiaries at October 31, 2004 and 2003, and the consolidated results of their operations and their cash flows for each of the three years in the period ended October 31, 2004, in conformity with U.S. generally accepted accounting principles.

Ernst & Young LLP

Philadelphia, Pennsylvania
December 9, 2004

The Chelsea at South Riding | South Riding, Virginia

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 anticipated operating results, financial resources, changes in revenues, changes in profitability, interest expense, growth and expansion, anticipated income from joint ventures and the Toll Brothers Realty Trust Group, the ability to acquire land, the ability to secure governmental approvals and the ability to open new communities, the ability to sell homes and properties, the ability to deliver homes from backlog, the average delivered price of homes, the ability to secure materials and subcontractors, the ability to maintain the liquidity and capital necessary to expand and take advantage of future opportunities, and stock market valuations. 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 demand for homes, domestic and international political events, uncertainties created by terrorist attacks, the effects 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, uncertainties and fluctuations in capital and securities markets, changes in tax laws and their interpretation, legal proceedings, the availability of adequate insurance at reasonable cost, the ability of customers to finance the purchase of homes, the availability and cost of labor and materials and weather conditions.

Photography

James B. Abbott, Mark Boisclair, Greg Cava, JL Christy, Dick Durrance II, Levi Ellyson - Oppulence Studio, Barry Grossman, Eric Kieley, Barry Kinsella, Eric Lucero, Rob Miller, Evan Schiller, Shimer & Hendrich Blessing Photographers, Frank Short, William Taylor, Jim Wilson

Photos

Front Cover: Aviano at Desert Ridge clubhouse, Phoenix, AZ; **Back Cover:** The Savoy at the Estates at Tattersall, West Chester, PA

Quote Sources

Pg. 7: Joint Center for Housing Studies of Harvard University, the State of the Nation's Housing 2004; **Pg. 11:** Homeownership Alliance, America's Home Forecast: The Next Decade for Housing and Mortgage Finance, (2004 - 2013)

Demographic & Other Data

Sources for the data included in this annual report include: *American Demographics* magazine; Bloomberg L.P.; Citigroup Salomon Smith Barney; Claritas; The Conference Board; Credit Suisse First Boston; Fannie Mae; Federal Reserve Bank; Freddie Mac; Homeownership Alliance; International Strategy & Investment Group; The Joint Center for Housing Studies of Harvard University; Merrill Lynch; Mortgage Bankers Association; National Association of Home Builders; National Association of Realtors®; Office of Federal Housing Enterprise Oversight; Raymond James & Associates, Inc.; UBS; U.S. Census Bureau; U.S. Commerce Department; U.S. Department of Labor; U.S. Immigration and Naturalization Service; Wachovia Securities

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 - President, BET Investments, an office and commercial real estate company*
Zvi Barzilay*	*President and Chief Operating Officer*
Robert S. Blank	*Partner - Whitcom Partners, a media company*
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 - Greater Marbach Airlines, Inc., and Florida Professional Aviation, Inc., aviation services and consulting companies*
Stephen A. Novick	*Vice Chairman and Chief Creative Officer - Grey Global Group, a marketing company*
Joel H. Rassman*	*Executive Vice President, Treasurer and Chief Financial Officer*
Paul E. Shapiro	*Chairman - Q Capital Strategies, LLC, a life settlement company*

**Executive Officer and Director of the Company*

Officers

SENIOR VICE PRESIDENTS | OPERATIONS

Wayne S. Patterson *First Senior Vice President*

Thomas A. Argyris, Jr.
James W. Boyd
Barry A. Depew
G. Cory DeSpain
Richard T. Hartman
Edward D. Weber
Douglas C. Yearley, Jr.

SENIOR VICE PRESIDENTS | ADMINISTRATION

Frederick N. Cooper *Finance/Investor Relations*
Kenneth J. Gary *General Counsel*
Michael I. Snyder *Secretary*
Werner Thiessen *Acquisitions*

VICE PRESIDENTS | OPERATIONS

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Keith L. Anderson
Thomas J. Anhut
William J. Bestimt
Ronald Blum
Charles W. Bowie
Roger A. Brush
Anthony E. Casapulla
Joseph Caulfield
Scott L. Coleman
Michael Davenport
Ronald Davis
Dennis M. Devino
J. Michael Donnelly
Kevin D. Duermit
John P. Elcano
Alan E. Euvrard
Christopher G. Gaffney
William J. Gilligan
Michael D. Glenn
P. Scott Hare
John D. Harris
Gordon Ivascu
Robert D. Jaegar
John Jakominich
Benjamin D. Jogodnik
Robert A. Johnson
Gregory E. Kamedulski
Gregory S. Kelleher
Webb A. Koschene
B. Mitchell Kotler
Gary Lemon
Bruce A. Lingerfelt
James Majewski, Jr.
John G. Mangano
Gary M. Mayo
Marc F. McAlpine
Richard C. McCormick
Jeff Meyer
Thomas J. Murray
Richard M. Nelson
Walt I. Nowak
Michael J. Palmer
Robert Parahus
H. Jon Paynter
Joseph J. Pease
William D. Perry
Charles B. Raddatz
William C. Reilly
Ralph E. Reinert
Anthony J. Rocco
C. J. Rogers
David K. Sadler
Douglas C. Shipe
Beverly A. Smith
James A. Smith
Andrew M. Stern
Edward J. Zebrowski

VICE PRESIDENTS | ADMINISTRATION

Suzanne Barletto
Paul Brukardt
Joseph DeSanto
Jonathan C. Downs
Evan G. Ernest
Robert B. Fuller
Patrick Galligan
Jed Gibson
Tracy Graves
Linda M. Hart
Daniel J. Kennedy
Manfred P. Marotta
Kira McCarron
Robert N. McCarron
Kevin J. McMaster
James L. Meeks
George W. Nelson
Michael T. Noles
Joseph J. Palka
David H. Richey
Byron W. Rimmer
Joseph R. Sicree
Michael Smith
Ronnie E. Snyder
Michael J. Sosinski
Steven A. Turbyfill
Phillip M. Turner
Christopher S. Utschig
Mark J. Warshauer

Employee listings are as of 11/1/04.

Corporate Office

Toll Brothers, Inc., 250 Gibraltar Road, Horsham, Pennsylvania 19044, 215-938-8000 • tollbrothers.com

Transfer Agent & Registrar

American Stock Transfer and Trust Company, 59 Maiden Lane, New York, New York 10038
1-800-937-5449 • www.amstock.com

Independent Auditors

Ernst & Young LLP — Philadelphia, Pennsylvania

Securities Counsel

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

Employees

As of October 31, 2004, the Company had 4,655 full-time employees.

Shareholders

As of October 31, 2004, the Company had 1,013 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”).

Certifications

The Company’s Chief Executive Officer and Chief Financial Officer have filed their certifications as required by the SEC regarding the quality of the Company’s public disclosure for each of the periods ended during the Company’s fiscal year ended October 31, 2004. Further, the Company’s Chief Executive Officer has certified to the New York Stock Exchange (“NYSE”) that he is not aware of any violation by the Company of NYSE corporate governance listing standards, as required by Section 303A.12(a) of the NYSE Corporate Governance Rules.

Investor Relations | Information Requests

The Company’s Annual Report on Form 10-K, Quarterly Reports on Form 10-Q and other Company information are available on or through our Web site, tollbrothers.com, or upon request from Frederick N. Cooper, Senior Vice President–Finance (fcooper@tollbrothersinc.com) or Joseph R. Sicree, Vice President–Chief Accounting Officer (jsicree@tollbrothersinc.com), Co-Directors of Investor Relations, at the Corporate Office.

Subsidiary Operations

Richard R. Dostie	*President, Toll-Jacksonville, LP*
Kenneth J. Gary	*President, Westminster Security Company*
Donald L. Salmon	*President, Westminster Mortgage Corporation*
William T. Unkel	*President, Westminster Title Company*
Michael J. Zammit	*Managing Director, Advanced Broadband*

Affiliate Operations

James M. Steuterman *Senior Vice President, Toll Brothers Realty Trust*

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250 Gibraltar Road
Horsham, Pennsylvania 19044
tollbrothers.com