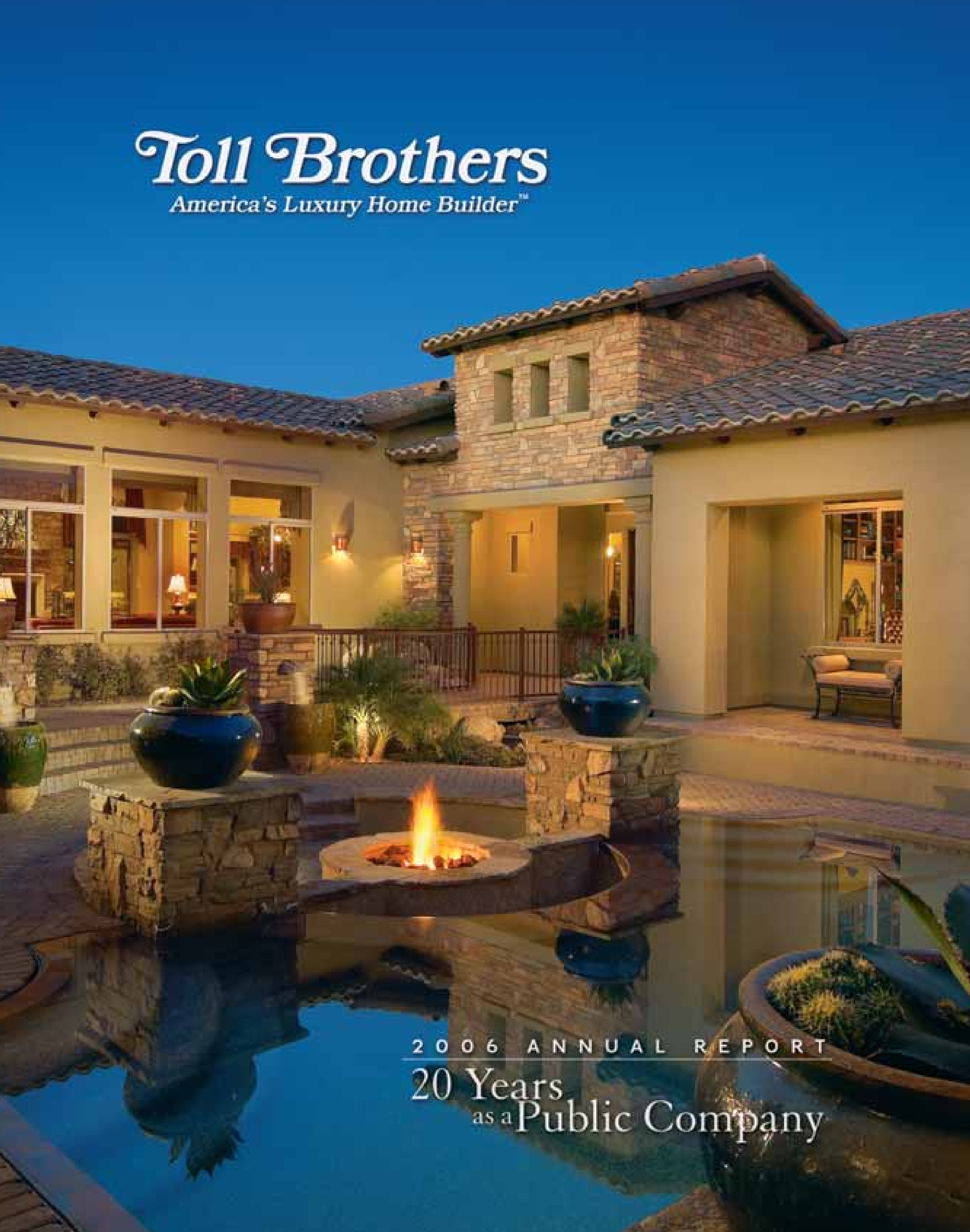


Toll Brothers
America's Luxury Home Builder™

2006 ANNUAL REPORT

20 Years as a Public Company

*A Corporate Overview**

Focus on Luxury Homes & Communities

National presence in the luxury market

Average delivered home price of $690,000

Executive and estate move-up homes

Upscale empty-nester attached and detached homes

Active-adult, age-qualified communities

Second-home communities

Urban low-, mid-, and high-rise condominiums

Suburban high-density communities

Luxury resort-style golf, country club, lake, and marina communities

Championship golf courses designed by Pete Dye, Arthur Hills, Peter Jacobsen, Nicklaus Design, Greg Norman, and Arnold Palmer

Operations in 50 affluent markets in 21 states

Strong Financial Performance

Investment-grade corporate credit ratings from Standard & Poor's (BBB-), Moody's (Baa3), Fitch (BBB)

Backed by $1.8 billion credit facility with 33 banks

Raised more than $1.5 billion in the public capital markets over past 6 years

Highest average net profit margin of Fortune 500 home building companies during past decade

Stock price appreciation of 3,006% since July 1986 IPO

Stockholders' equity, net income, and revenues have grown at over 20% CAAGR** since FYE 1986

Integrated Land & Building Program

Own or control nearly 74,000 home sites

Delivered over 33,000 homes in past 5 years

Selling from 300 communities; expect to reach approximately 340 communities by FYE 2007

Land acquisition, approvals, and development skills contribute significant profits

Combine high-volume home production with extensive customization offerings

Home buyers average $121,000 in upgrades and lot premiums, 21% above base house price

Pre-design and pre-budget options through Toll Architecture and Toll Integrated Systems

Ancillary businesses: mortgage, title, golf course development and management, home security, landscape, and land sales

Brand Name

Founded in 1967, publicly traded since 1986

Traded on the New York Stock Exchange (TOL)

6th largest U.S. home builder (by 2005 revenues)

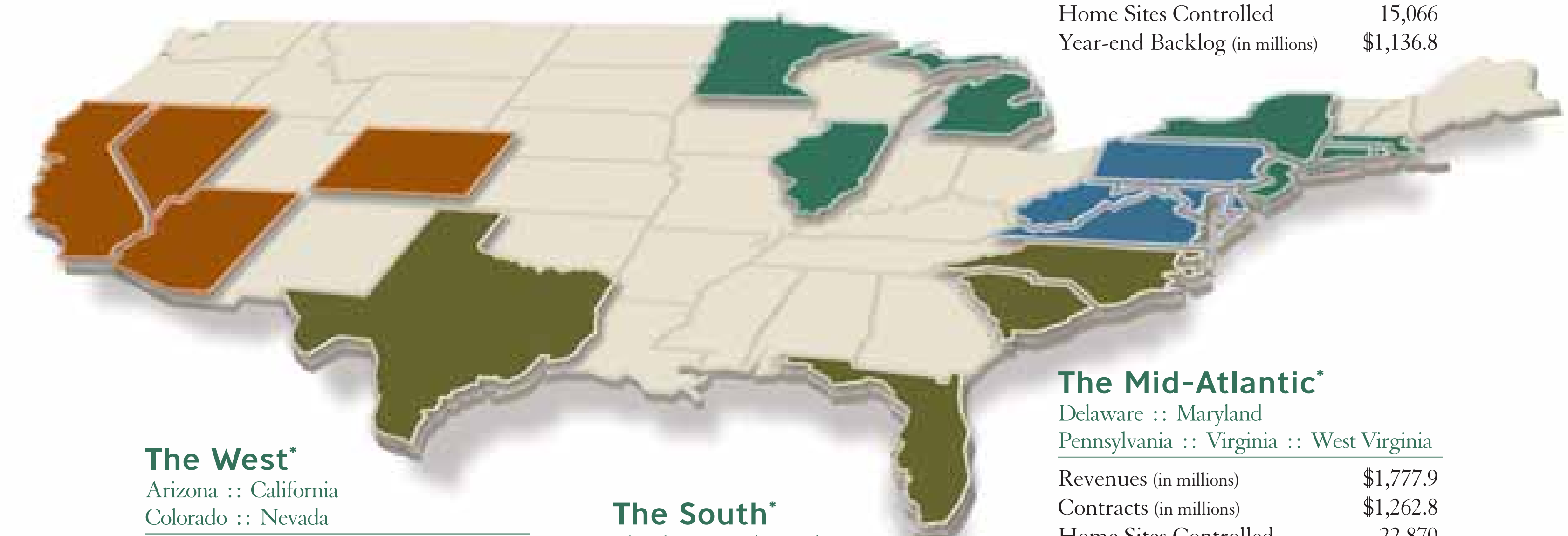
A Fortune 500 Company

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



The North*

Connecticut :: Illinois :: Massachusetts
Michigan :: Minnesota :: New Jersey
New York :: Rhode Island

Revenues (in millions)	$1,444.2
Contracts (in millions)	$1,177.3
Home Sites Controlled	15,066
Year-end Backlog (in millions)	$1,136.8

The Mid-Atlantic*

Delaware :: Maryland
Pennsylvania :: Virginia :: West Virginia

Revenues (in millions)	$1,777.9
Contracts (in millions)	$1,262.8
Home Sites Controlled	22,870
Year-end Backlog (in millions)	$1,064.7

The West*

Arizona :: California
Colorado :: Nevada

Revenues (in millions)	$1,709.0
Contracts (in millions)	$1,220.3
Home Sites Controlled	21,124
Year-end Backlog (in millions)	$1,336.3

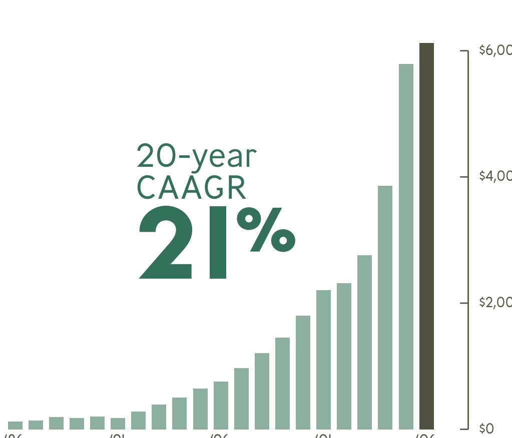
The South*

Florida :: North Carolina
South Carolina :: Texas

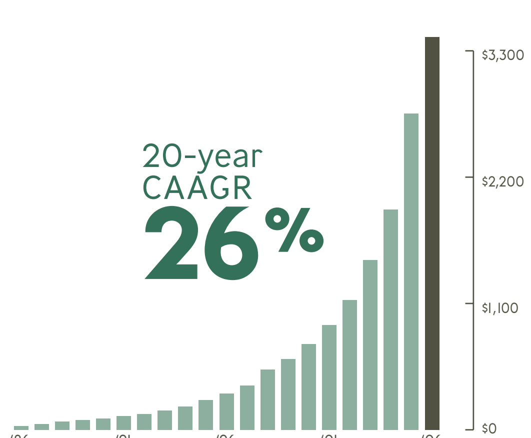
Revenues (in millions)	$1,192.4
Contracts (in millions)	$800.3
Home Sites Controlled	14,708
Year-end Backlog (in millions)	$950.6

"Despite the current cool-down, the long-term outlook for housing is bright. New Joint Center for Housing Studies projections — reflecting more realistic, although arguably still conservative, estimates about future immigration — put household growth in the next decade fully 2.0 million above the 12.6 million of the past decade. On the strength of this growth alone, housing production should set new records."

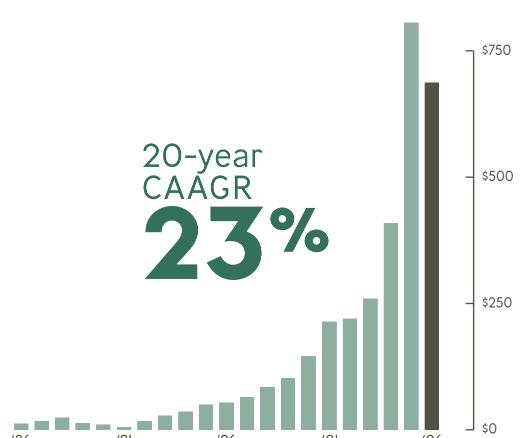
The State of the Nation's Housing 2006,
Joint Center for Housing Studies of Harvard University



TOTAL REVENUES
IN MILLIONS :: FYE OCTOBER 31
1986 - 2006

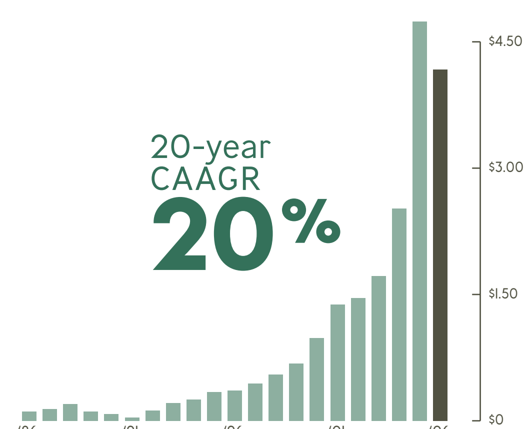


STOCKHOLDERS' EQUITY
IN MILLIONS :: FYE OCTOBER 31
1986 - 2006

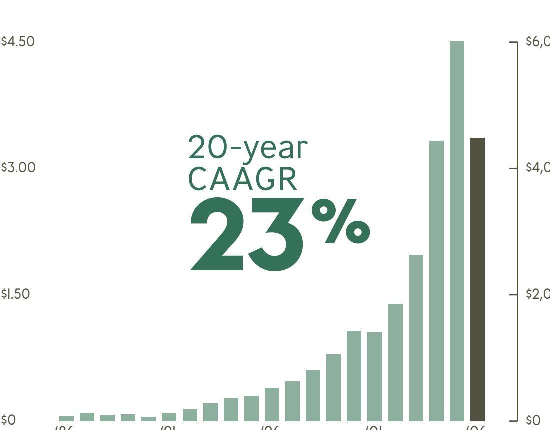


NET INCOME
IN MILLIONS :: FYE OCTOBER 31
1986 - 2006

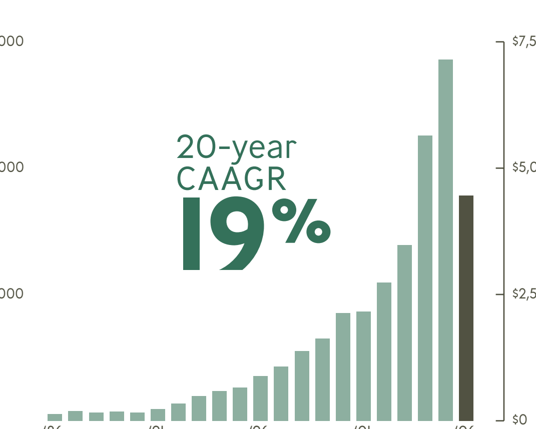
*All statistics are as of Fiscal Year End (FYE) Oct. 31, 2006, except stock price appreciation from inception, which is through Dec. 14, 2006.
**Compound average annual growth rate



EARNINGS PER SHARE
FYE OCTOBER 31
1986 - 2006



BACKLOG
IN MILLIONS :: AT FYE OCTOBER 31
1986 - 2006



SALES CONTRACTS
IN MILLIONS :: FYE OCTOBER 31
1986 - 2006

*All statistics are as of FYE Oct. 31, 2006.

The Ellsworth Colonial :: Marvin Creek :: Near Charlotte, NC

Dear Stockholder:

Fiscal 2006 marked our 20th anniversary as a public company and our 40th year in business. We commend our associates for their accomplishments and for the tremendous organization they have helped to create. We went public in July 1986 with stockholders' equity of $22.3 million. Since then, our book value has grown to more than $3.4 billion, a compound average annual growth rate through FYE 2006 of 28%. As we write this, our stock price, at $32.30 per share, has risen approximately 3,000% from the day we offered it to the public; during the same period the S&P 500 has grown 490%. We have evolved from a small regional builder with $120 million in revenues to the nation's leading builder of luxury homes with revenues in FY 2006 of over $6.1 billion — our highest total ever.

Insiders own about 30% of our stock. We are keenly focused on the fact that today's $32.30 share price, although up 45% from its recent low of $22.22 in July 2006, is still down 45% from its peak of $58.67 in July 2005. We assure our fellow stockholders that we will not be satisfied until our earnings, revenues, backlog, and contracts are once again setting new records.

Challenging Market Conditions

We are in the 15th month of the downside of the current cycle. We believe we are dealing with it appropriately. In March 2006, we secured a new $1.8 billion bank credit facility, an increase from our previous $1.2 billion facility, which extends through March 2011. We ended FY 2006 with roughly $1.1 billion unused and available under this credit line, over $600 million in cash on hand, and no major corporate debt maturities until 2011. We believe we are ready to take advantage of opportunities that may arise in this market.

We have trimmed our land holdings by 19% from a high of 91,200 lots controlled at FY 2006's second-quarter end to 74,000 at FYE 2006 – this compares to 83,000 lots at FYE 2005. By reevaluating and renegotiating many of our land options, we were able to maintain those we believe will be most profitable, while shedding those that appeared to be marginal in the current climate.

We ended our fiscal year with a conservative net debt-to-capital ratio* of under 32%, our second lowest ever. On November 1, 2006, we held our annual "check-ups" with Fitch Ratings, Moody's Investor Service, and Standard & Poor's, the three rating agencies that cover our industry. Based on these meetings, we believe we will continue to be rated investment grade by each. These ratings should continue to facilitate our ability to access capital at very competitive prices in the public markets going forward.

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

From 1991 to 2003, the home building industry enjoyed solid, stable, and sustainable growth, a long period for what is generally thought to be a cyclical industry. In 2004 and 2005, the new home market experienced unusual acceleration in demand, and home prices rose at an unsustainable pace. This growth was fueled by an influx of speculative investors and by some buyers overreaching to chase rapidly rising home prices. Demand began to weaken in early September 2005, which drove many speculators to the sell window all at once.

This is the first downturn in the 40 years since we entered the business that was not precipitated by high interest rates, a weak economy, job losses, or other macroeconomic factors. Instead, it seems to be the result of an oversupply of inventory and a decline in home buyer confidence. Speculative buyers who spurred demand in 2004 and 2005 are now sellers; builders that built speculative homes must now move their specs through aggressive discounting; and nervous buyers are canceling contracts for homes already under construction, thus bringing even more unsold product to market.

Although our policies restrict our own production of speculative housing, and even though we typically require a binding contract with, on average, a 7% down payment before we start a buyer's home, we nonetheless have felt the ripple effect of lost buyer confidence as our own cancellation rates rose in the second, third, and fourth quarters of FY 2006.

Some land deals that were made on the basis of 2004 and 2005 market conditions no longer made sense when viewed in the context of 2006 demand, so impairment charges and write-offs became the order of the day. We took $152 million in pre-tax write-offs and write-downs in FY 2006, which, on an after-tax basis, represented about 2.7% of our FYE 2006 book value.

San Francisco viewed from Seacliff at Point Richmond :: Point Richmond, CA

In this difficult environment, our team performed admirably. FY 2006 revenues of $6.12 billion were our highest ever. Net income of $687.2 million, $4.17 per share diluted, was our second highest ever. Return on beginning equity was 25%.

The impact of the weakened market was evident in our sales contracts of $4.46 billion, which were down 38% from FY 2005 and contributed to a 25% decline in year-end backlog to $4.49 billion. Given the rise in cancellation rates, projecting future revenues and earnings is a challenge. Based on current market conditions and our fiscal year-end contracts and backlog, we are estimating FY 2007 revenues of between $4.34 billion and $5.10 billion and earnings of between $260 million and $340 million, or between $1.58 and $2.08 per share diluted.*

Lessons from the Past

We have learned by managing through four previous downturns – 1968, 1974, 1980-1982, and 1988-1991 – that times of stress in our industry often produce unexpected opportunities for those with capital, strong reputations, and solid management.

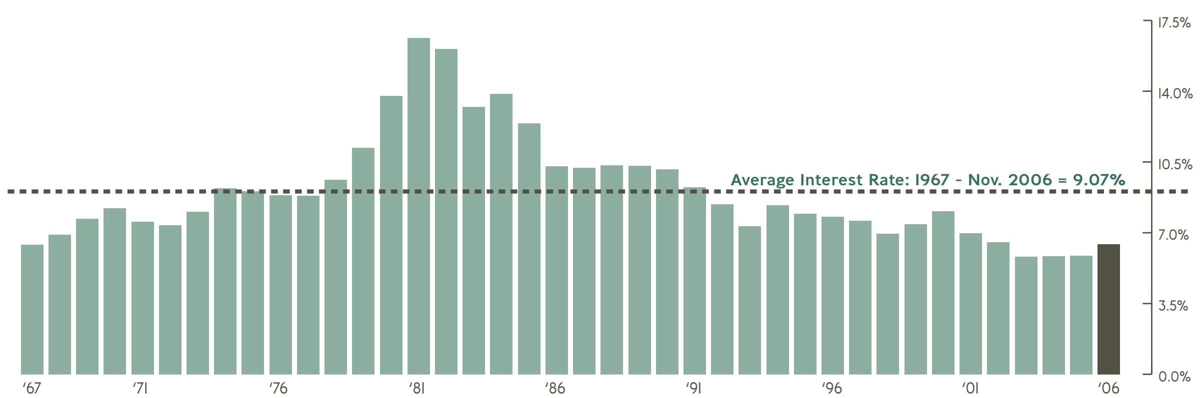
The last major downturn, in the late 1980s and early 1990s, provided a springboard for us to expand into Northern Virginia, the New York City suburbs, southern Connecticut, metro Los Angeles, and San Francisco. In that period we took the first major steps to becoming the national brand for luxury new homes.

Looking Forward

Right now is a great time to buy a new luxury home. Builders are motivated to sell their specs, and many of the fundamentals that typically lead our industry out of a slowdown are already in place. Interest rates are near historic lows, unemployment is near an all-time low, and the stock market is setting records.

We believe we are well-positioned for a market rebound. We have an experienced and seasoned management team, the industry's leading brand name, a portfolio of well-located properties, and a broad array of product lines to attract urban and suburban luxury home buyers at most stages of their lives.

Spectacular demographics buoy the luxury market. Twenty-five years ago, there were 6.3 million households earning $100,000 or more in FY 2005 dollars. Today, there are nearly 19.7 million. These affluent families now represent 17% of all U.S. households compared to 7.7% in 1980. The luxury market has the largest pool of potential buyers in its history, and we are the leading name in that niche.



YEARLY AVERAGE MORTGAGE RATES

Yearly average 30-year fixed contract interest rate for conventional, 0-point first mortgages from 1967 through November 2006. Last data point represents November 2006. Source: FHFB, FHLMC

As projected on December 5, 2006, but not reconfirmed or updated thereafter.

A recent Harvard University study estimates that, based in part on projected household growth of 14.6 million during the next ten years (compared to 12.6 million in the previous ten years), our nation will need to produce over 2 million new housing units annually.

Bringing enough home sites through heavily regulated government approval processes to meet this need will be a major challenge. Our industry, on average, builds no more homes today than we did in the 1970s, although the U.S. has added 70% more households. While currently there is an oversupply of inventory on the market, we believe it is temporary. Consistent with trends over the past thirty years, we think that securing land approvals will continue to get more difficult. When the current excess inventory is absorbed, those who control land and can get it approved will profit. In the current weak housing climate, land developers and home builders have not been pushing new lot supplies through the approval pipeline. This could result in a near-term shortage of home sites once demand for new homes rebounds. With our land supply, and approval and development expertise, we believe this trend favors us.

We continue to expand into new product lines and introduce existing product lines into new territories. We are bringing the Toll Brothers brand to the infill high-rise business, with new buildings rising in several key metro New York City markets: Hoboken and Jersey City, New Jersey; and Manhattan, Brooklyn, and Queens, New York. We have yet to introduce our active-adult communities, currently offered predominantly in our Northeast and Mid-Atlantic markets, into most of our Sun Belt markets, which should offer dramatic growth potential for us as the baby boomers mature. And we are broadening our suburban high-density and resort-style product lines to complement our strong position in the move-up and empty-nester luxury markets.

Many potential buyers, unsure of the direction of home prices, are waiting on the sidelines, creating pent-up demand. We believe buyer confidence will return; the demographics will prevail; we will get back on track; and those who thought about buying homes but didn't will kick themselves for waiting.

As we look back from our position now as the sixth largest home builder by revenues in the United States, we applaud the tremendous team at Toll Brothers, whose diligence and commitment have brought us here. We also thank the thousands of home buyers who have put their faith in us over the past 40 years, our excellent subcontractor and supplier partners, and our stockholders for their support.

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

BRUCE E. TOLL
Vice Chairman
of the Board

ZVI BARZILAY
President and
Chief Operating Officer

December 14, 2006

Left to right: Robert Toll, Kira McCarron, James Boyd, William Gilligan, Zvi Barzilay, Thomas Argyris, Joel Rassman, Michael Snyder, Edward Weber, Robert Parahus, Doug Yearley, Don Liu, Richard Hartman, Bruce Toll (not shown, Barry Depew)

Twenty Years as a Public Company

Opportunistic Evolution

1986 :: Toll Brothers goes public :: In 1986, we were operating in the suburbs of Philadelphia, PA, and Wilmington, DE, and in metro Princeton, NJ. Two years later, we expanded to the Boston, MA and Baltimore, MD suburbs just before the Northeast and Mid-Atlantic markets slowed. Managing through this downturn, we learned how to survive and position ourselves for the impending upturn.

1987 :: Toll Integrated Systems is formed :: TIS is our house component manufacturing and distribution operation. TIS began in 1987 with one plant in Philadelphia's suburbs; it now also has plants in southern Virginia and northern Indiana. TIS produced components for 6,200 homes in FY 2006.

1991 :: As the market recovers, Toll is well-positioned :: During the late 1980s downturn, we reduced our land holdings, strengthened our balance sheet, and maintained solid financial relationships. As one of the few builders with capital, in 1991 we began to buy distressed properties and portfolios in core markets from lenders, builders, and institutions such as the Resolution Trust Corporation. We also began expanding into New York City's Westchester and Connecticut suburbs, and into metro D.C.'s Northern Virginia and Maryland suburbs.

1994 :: Toll's nationwide expansion begins :: In 1994, with California's housing market still weak, we bought several distressed properties in metro Los Angeles. Soon thereafter we entered Florida, Texas, North Carolina, and the San Francisco Bay area, laying the foundation for what is now a nationwide presence.

1995 :: Toll's first builder acquisition :: We entered Scottsdale/Phoenix with the purchase of Geoffrey H. Edmunds. We followed with acquisitions to enter Las Vegas (Coleman Homes) in 1997 and metro Detroit (Silverman Companies) in 1999. Detroit's buy included our first active-adult community, showing us that demand for this product was not limited to the Sun Belt. More recent acquisitions brought us into the high-rise business of Northern New Jersey (Manhattan Building Company) in 2003, and into Jacksonville (Richard R. Dostie) in 2003, and Orlando (Landstar Homes) in 2005.

1996 :: Toll and Arnold Palmer form strategic alliance :: In the early 1990s, two distressed communities we acquired with Arnold Palmer-designed golf courses highlighted the unmet demand for multiproduct master planned resort-style communities and empty-nester homes in the Northeast. In 1996 we launched the first of nearly a dozen new golf communities with Palmer's golf course design firm. We are now among the nation's leading developers of golf communities with courses designed by Pete Dye, Arthur Hills, Peter Jacobsen, Nicklaus Design, Greg Norman, and Arnold Palmer.

2001 :: Toll wins its first large-scale land auction :: We won our first major land auction, a 536-acre parcel, Aviano® at Desert Ridge™, with a bid of $52.9 million to the Arizona State Land Department. Since then we have won, both on our own and in teams, major parcels in Arizona and Nevada, and become among those states' largest home builders.

2004 :: Toll Brothers launches "City Living" urban initiative :: We introduced Toll Brothers City Living™ with Maxwell Place, an 800-unit luxury condominium located on a former coffee factory site on Hoboken, NJ's Hudson River waterfront. We have since expanded our urban tower business throughout metro New York City and introduced mid-rise communities in Philadelphia and Phoenix.

The Chesapeake Farmhouse :: The Reserve at Chestnut Ridge :: Downingtown, PA

The Casa Del Sol :: Frenchman's Reserve :: Palm Beach Gardens, FL

We Are Prepared

Well-Positioned for the Future

Toll offers the broadest range of product lines in the industry :: We build single-family homes priced from $280,000 to over $2 million. We offer multifamily attached homes of all types, empty-nester and active-adult communities, multigenerational resort-style golf and lake communities, and suburban high-density and urban low-, mid-, and high-rise communities.

Nationwide diversification increases our growth opportunities :: With operations now in 50 markets in 21 states, we can expand or slow in individual regions based on local conditions without compromising our long-term growth strategy. In just a handful of territories do we capture over 5% market share. If we increased to 3% share in all our other current markets, we could double in size.

We have a unique brand name :: As we have grown, our name has become synonymous with quality, value, and service in the luxury new home market. Our recognized brand builds buyer confidence and has eased our entry into new markets and product lines.

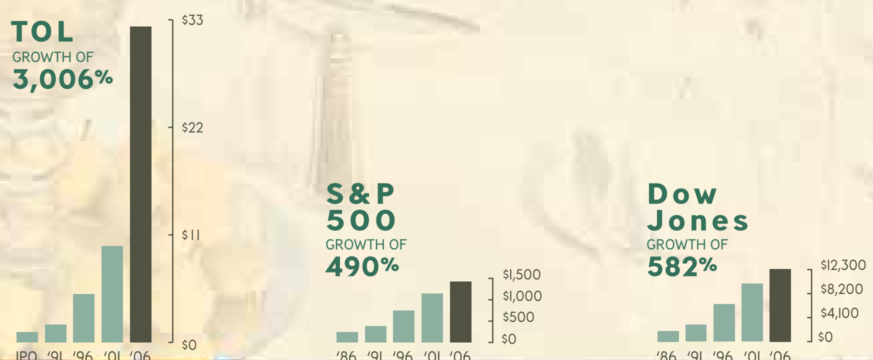
Our land expertise enables us to capitalize on opportunities :: From complex approvals and major infrastructure improvements to brownfields reclamations and industrial-to-residential conversions, our experienced land approval and development teams can seize opportunities that most builders would avoid. As sites become harder to find in the affluent markets where we operate, our teams create tremendous value where demand is greatest and supply is scarcest.

A solid capital base supports our growth :: Investment grade ratings from Standard & Poor's, Moody's, and Fitch facilitate our access to capital at very attractive rates. Our newly minted $1.8 billion credit facility, which extends into 2011, includes 33 banks from around the globe. Our $1.5 billion of long-term public debt has a weighted average life of 6.6 years. We face no major corporate debt maturities until 2011, which gives us flexibility to manage through cycles in our industry.

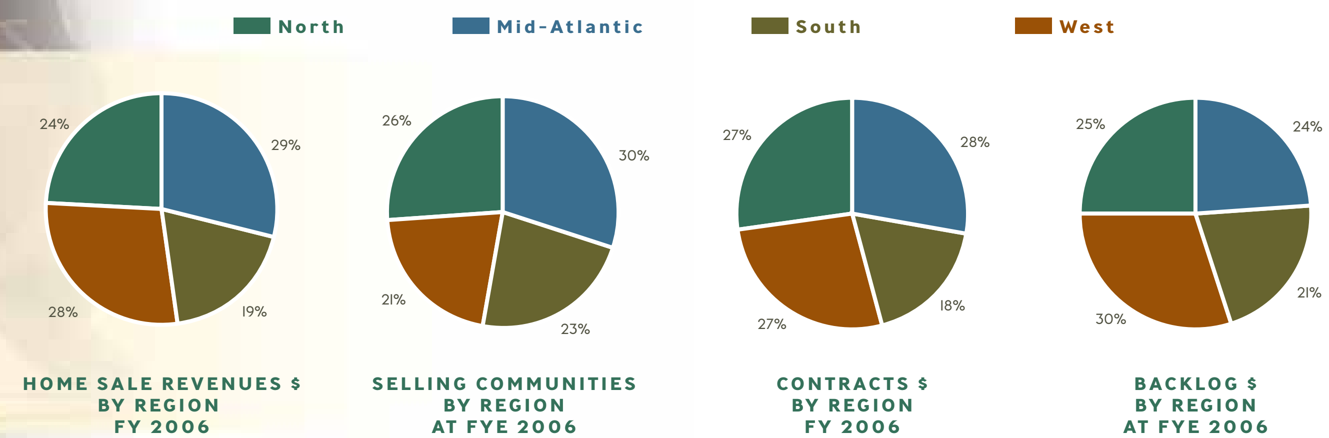
Our management team is tested and proven :: Our top dozen executives average more than 18 years with Toll Brothers and have performed through all cycles in our industry. Their commitment, diligence, and leadership have enabled us to achieve all that we have and will lead us into the future.

VALUE CREATION

STOCK PRICE GROWTH SINCE TOL IPO ON JULY 8, 1986.*



**Prices are at market close Dec. 14, except 1986, which is on July 8, 1986. Adjusted for dividends and splits.*
Source: YAHOO! Finance



Dominion Valley Country Club's 9th hole and Sports Pavilion viewed from the Clubhouse :: Dominion Valley, VA

Opportunity Ahead

Solid Fundamentals Support Our Prospects

The economy is healthy :: The economy's ability this decade to weather two wars, a stock market crash, $70-a-barrel oil, and 17 Fed interest rate hikes since July 2004 is testimony to its resilience. Unemployment remains near historic lows. In nearly all our markets, income and job growth are solid.

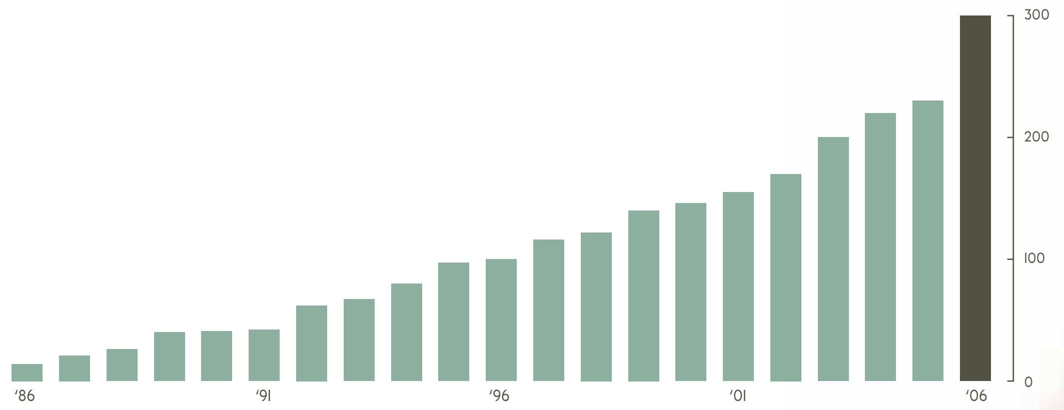
Interest rates are quite attractive :: Today's thirty-year mortgage rate of 6.0% compares very favorably to the average of 9.07 % since 1967, when our Company began. While home prices have risen rapidly in the past two years, our buyers continue to borrow about 70%-72% of their purchase price, a level consistent with our historic norms, and much lower than that of typical first-time home buyers. Toll customers generally are not stretching financially to afford our homes.

Demographics are compelling :: According to a Harvard University study, the number of projected new household formations – 14.6 million – in the next ten years will exceed significantly the 12.6 million formed in the past ten. The maturing baby boomer generation is reaching its peak earning years. Affluent families, who wait longer to have children, are now demanding move-up homes. And baby boomers entering their fifties and sixties desire active-adult, empty-nester, urban, and second homes.

Our affluent customer base continues to grow :: The rise in affluent households continues to outpace that of households in general, as it has for twenty-five years. In the past decade, $100,000-plus income households grew from 13.2 million to 19.7 million and now comprise over 17% of U.S. households.

Ours is a home-grown industry :: We do not face foreign competitors who can destroy our pricing power via cheap labor or subsidized materials. While some components in our homes are subject to price fluctuations from global demand, we employ only U.S.-based labor and, of course, U.S. land.

Land approval constraints continue to restrict supplies :: The trend in every market where we operate is toward more time-consuming, expensive, and complex approval processes. The resources and expertise needed to secure approvals restrict available lot supplies and reduce competition in the luxury niche. To our advantage, given our historic pattern of community growth, we believe the general imbalance between limited lot supplies and increasing demand should accelerate in the coming decade.



NUMBER OF SELLING COMMUNITIES
1986 - 2006 :: FYE OCTOBER 31

The Villarica Spanish Colonial :: Saguaro Estates :: Scottsdale, AZ

"Toll Brothers is the first publicly traded national home builder to develop housing in Manhattan. It's also developing condos in Queens, Brooklyn and nearby Hoboken, NJ. To cater to luxury home buyers, Bob Toll believes his company needs to offer not just spacious single-family houses on golf courses and balmy beaches, but also high-rise units in urban areas."

"Mr. Toll Turns to Towers"
The Wall Street Journal
December 13, 2006

Toll Brothers City Living™ is the brand name under which we market our urban product lines. In Williamsburg, Brooklyn, a recently rezoned industrial area that is home to some of New York's most spectacular real estate, we, in joint venture with a private developer, are building Northside Piers. The first waterfront condominium of 180 units in 29 stories will offer dramatic views of the East River and midtown Manhattan. First deliveries are projected for summer 2007.

Artist rendering of Northside Piers :: Williamsburg, Brooklyn, NY

The Modena Versailles :: Toll Brothers at Red Rock Country Club :: Las Vegas, NV

A Vibrant Outlook for the Next Decade

"Today's households are wealthier than previous generations at comparable ages. Financial market innovations and rising real incomes have made stock and mutual fund ownership much more common today than ten years ago. Soaring home prices have also added to household wealth. Moreover, today's households have inherited substantial wealth, with the aggregate value of legacies received between 2000 and 2004 estimated at $1.4 trillion....Demographic trends over the next ten years are highly favorable for home builders ....Strong household growth, together with rising income and wealth, will likely translate into increased demand for housing across all age groups ...."

Source: The State of the Nation's Housing 2006, Joint Center for Housing Studies of Harvard University

The Villas at Sunnyvale is located in the heart of Silicon Valley, CA. It is a high-density, low-rise condominium community built on a former office site that was converted to residential use. The community includes new urbanist features such as pocket parks and tot lots that foster a sense of neighborhood. Sunnyvale is an example of the creative product lines we can design to succeed in affluent markets where land is scarce and where the approval process is made easier because we seek to build clustered, high-density residences and community amenities.

Villas at Sunnyvale :: Sunnyvale, CA

Financials

Table of Contents

Toll Brothers' 21-Year Financial Summary

1986–2006

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

Year Ended October 31,	2006	2005	2004	2003	2002	2001	2000	1999	1998
Revenues	$6,123,453	$5,793,425	$3,861,942	$2,758,443	$2,315,444	$2,207,999	$1,801,660	$1,455,516	$1,206,290
Income before income taxes and change in accounting	$1,126,616	$1,323,128	$ 647,432	$ 411,153	$ 347,318	$ 337,889	$ 230,966	$ 160,432	$ 132,523
Net income before change in accounting	$ 687,213	$ 806,110	$ 409,111	$ 259,820	$ 219,887	$ 213,673	$ 145,943	$ 101,566	$ 84,704
Net income	$ 687,213	$ 806,110	$ 409,111	$ 259,820	$ 219,887	$ 213,673	$ 145,943	$ 101,566	$ 84,704
Income per share									
Basic									
Income before change in accounting	$ 4.45	$ 5.23	$ 2.75	$ 1.84	$ 1.56	$ 1.49	$ 1.01	$ 0.69	$ 0.58
Net income	$ 4.45	$ 5.23	$ 2.75	$ 1.84	$ 1.56	$ 1.49	$ 1.01	$ 0.69	$ 0.58
Weighted-average number of shares	154,300	154,272	148,646	141,339	140,945	143,340	145,075	146,756	153,441
Diluted									
Income before change in accounting	$ 4.17	$ 4.78	$ 2.52	$ 1.72	$ 1.46	$ 1.38	$ 0.98	$ 0.68	$ 0.55
Net income	$ 4.17	$ 4.78	$ 2.52	$ 1.72	$ 1.46	$ 1.38	$ 0.98	$ 0.68	$ 0.55
Weighted-average number of shares	164,852	168,552	162,330	151,083	150,959	154,734	149,651	149,744	153,441

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

At October 31,	2006	2005	2004	2003	2002	2001	2000	1999	1998
Inventory	$6,095,702	$5,068,624	$3,878,260	$3,080,349	$2,551,061	$2,183,541	$1,712,383	$1,443,282	$1,111,863
Total assets	$7,583,541	$6,343,840	$4,905,578	$3,787,391	$2,895,365	$2,532,200	$2,030,254	$1,668,062	$1,254,468
Debt									
Loans payable	$ 736,934	$ 250,552	$ 340,380	$ 281,697	$ 253,194	$ 362,712	$ 326,537	$ 213,317	$ 182,292
Senior notes	1,141,167	1,140,028	845,665	546,669					
Subordinated notes	350,000	350,000	450,000	620,000	819,663	669,581	469,499	469,418	269,296
Mortgage warehouse line	119,705	89,674	92,053	49,939	48,996	24,754			
Collateralized mortgage obligations								1,145	1,384
Total	$2,347,806	$1,830,254	$1,728,098	$1,498,305	$1,121,853	$1,057,047	$ 796,036	$ 683,880	$ 452,972
Stockholders' equity	$3,415,926	$2,763,571	$1,919,987	$1,476,628	$1,129,509	$ 912,583	$ 745,145	$ 616,334	$ 525,756
Number of shares outstanding	153,899	154,943	149,642	146,644	140,432	139,112	143,580	145,814	147,742
Book value per share	$ 22.20	$ 17.84	$ 12.83	$ 10.07	$ 8.04	$ 6.56	$ 5.19	$ 4.23	$ 3.56
Return on beginning stockholders' equity	24.9%	42.0%	27.7%	23.0%	24.1%	28.7%	23.7%	19.3%	22.0%

Home Data

Year Ended October 31,	2006	2005	2004	2003	2002	2001	2000	1999	1998
Number of homes closed	8,601	8,769	6,627	4,911	4,430	4,358	3,945	3,555	3,099
Sales value of homes closed (in 000's)	$5,945,169	$5,759,301	$3,839,451	$2,731,044	$2,279,261	$2,180,469	$1,762,930	$1,438,171	$1,206,290
Revenues – percentage of completion (in 000's)	$ 170,111								
Number of homes contracted	6,164	10,372	8,684	6,132	5,070	4,314	4,364	3,799	3,387
Sales value of homes contracted (in 000's)	$4,460,734	$7,152,463	$5,641,454	$3,475,992	$2,734,457	$2,158,536	$2,134,522	$1,627,849	$1,383,093
At October 31,	**2006**	**2005**	**2004**	**2003**	**2002**	**2001**	**2000**	**1999**	**1998**
Number of homes in backlog	6,533	8,805	6,709	4,652	3,342	2,702	2,746	2,327	1,892
Sales value of homes in backlog (in 000's) [1]	$4,488,400	$6,014,648	$4,433,895	$2,631,900	$1,858,784	$1,403,588	$1,425,521	$1,053,929	$ 814,714
Number of selling communities	300	230	220	200	170	155	146	140	122
Home sites									
Owned	41,808	35,838	29,804	29,081	25,822	25,981	22,275	23,163	15,578
Optioned	31,960	47,288	30,385	18,977	15,022	13,165	10,843	11,268	14,803
Total	73,768	83,126	60,189	48,058	40,844	39,146	33,118	34,431	30,381

Note: Amounts have been restated to reflect a revised presentation of revenues and two-for-one stock splits in July 2005 and March 2002.

[1] Net of $170.1 million of revenues recognized in fiscal 2006 under the percentage of completion accounting method.

1997	1996	1995	1994	1993	1992	1991	1990	1989	1988	1987	1986
$ 968,253	$ 759,303	$ 643,017	$ 501,822	$ 392,560	$ 279,841	$ 175,971	$ 198,336	$ 176,864	$ 197,027	$ 134,856	$ 124,641
$ 103,215	$ 85,793	$ 79,439	$ 56,840	$ 42,820	$ 27,493	$ 8,444	$ 16,801	$ 21,520	$ 40,803	$ 33,346	$ 23,718
$ 65,075	$ 53,744	$ 49,932	$ 36,177	$ 26,751	$ 16,538	$ 5,013	$ 9,988	$ 13,127	$ 24,074	$ 17,173	$ 11,861
$ 65,075	$ 53,744	$ 49,932	$ 36,177	$ 28,058	$ 16,538	$ 5,013	$ 9,988	$ 13,127	$ 24,074	$ 17,173	$ 11,861
$ 0.48	$ 0.40	$ 0.37	$ 0.27	$ 0.20	$ 0.13	$ 0.04	$ 0.08	$ 0.11	$ 0.20	$ 0.14	$ 0.11
$ 0.48	$ 0.40	$ 0.37	$ 0.27	$ 0.21	$ 0.13	$ 0.04	$ 0.08	$ 0.11	$ 0.20	$ 0.14	$ 0.11
136,508	135,460	134,040	133,592	132,924	132,088	124,992	118,856	119,776	120,612	121,540	111,812
$ 0.44	$ 0.36	$ 0.34	$ 0.25	$ 0.20	$ 0.12	$ 0.04	$ 0.08	$ 0.11	$ 0.20	$ 0.14	$ 0.11
$ 0.44	$ 0.36	$ 0.34	$ 0.25	$ 0.21	$ 0.12	$ 0.04	$ 0.08	$ 0.11	$ 0.20	$ 0.14	$ 0.11
149,049	147,516	145,440	142,620	133,868	132,936	125,648	118,856	119,880	120,612	121,540	111,812

1997	1996	1995	1994	1993	1992	1991	1990	1989	1988	1987	1986
$ 921,595	$ 772,471	$ 623,830	$ 506,347	$ 402,515	$ 287,844	$ 222,775	$ 240,155	$ 256,934	$ 206, 593	$ 143,894	$ 66,543
$1, 118,626	$ 837,926	$ 692,457	$ 586,893	$ 475,998	$ 384,836	$ 312,424	$ 316,534	$ 348,163	$ 256, 611	$ 181,765	$ 108,185
$ 189,579	$ 132,109	$ 59,057	$ 17,506	$ 24,779	$ 25,756	$ 49,943	$ 71,707	$ 95,508	$ 74,048	$ 55,545	$ 12,474
319,924	208,415	221,226	227,969	174,442	128,854	55,513	61,474	69,681	69,635	29,967	29,963
										382	5,969
2,577	2,816	3,912	4,686	10,810	24,403	39,864	45,988	52,617			
$ 512,080	$ 343,340	$ 284,195	$ 250,161	$ 210,031	$ 179,013	$ 145,320	$ 179,169	$ 217,806	$ 143,683	$ 85,894	$ 48,406
$ 385,252	$ 314,677	$ 256,659	$ 204,176	$ 167,006	$ 136,412	$ 117,925	$ 94,599	$ 85,400	$ 72,787	$ 48,842	$ 31,405
137,102	135,674	134,552	133,692	133,276	132,348	131,248	118,736	119,652	120,168	120,268	119,972
$ 2.81	$ 2.32	$ 1.91	$ 1.53	$ 1.25	$ 1.03	$ 0.90	$ 0.80	$ 0.71	$ 0.61	$ 0.41	$ 0.26
20.7%	20.9%	24.5%	21.7%	20.6%	14.0%	5.3%	11.7%	18.0%	49.3%	54.7%	122.5%

1997	1996	1995	1994	1993	1992	1991	1990	1989	1988	1987	1986
2,517	2,109	1,825	1,583	1,324	1,019	676	727	676	778	674	802
$ 968,253	$ 759,303	$ 643,017	$ 501,822	$ 392,560	$ 279,841	$ 175,971	$ 198,336	$ 176,864	$ 197,027	$ 134,856	$ 124,641
2,701	2,398	1,846	1,716	1,595	1,202	863	612	704	656	756	832
$1, 069, 279	$ 884,677	$ 660,467	$ 586,941	$ 490,883	$ 342,811	$ 230,324	$ 163,975	$ 185,255	$ 162,504	$ 190,680	$ 133,369

1997	1996	1995	1994	1993	1992	1991	1990	1989	1988	1987	1986
1,551	1,367	1,078	1,025	892	621	438	251	366	338	460	378
$ 627,220	$ 526,194	$ 400,820	$ 370,560	$ 285,441	$ 187,118	$ 124,148	$ 69,795	$ 104,156	$ 95,765	$ 130,288	$ 74,194
116	100	97	80	67	62	42	41	40	26	21	15
12,820	12,065	9,542	6,779	5,744	5,633	3,974	4,548	5,075	4,724	2,147	1,461
9,145	5,237	5,042	4,445	4,271	3,592	3,281	2,117	2,832	4,041	7,141	4,853
21,965	17,302	14,584	11,224	10,015	9,225	7,255	6,665	7,907	8,765	9,288	6,314

Management's Discussion and Analysis

On December 5, 2006, we filed a Current Report on Form 8-K with the SEC that provided financial guidance related to our expected results of operations for our fiscal year ending October 31, 2007. The guidance contained in this report is the same guidance given in the Form 8-K filed on December 5, 2006, and we are not reconfirming or updating that guidance.

Overview

Beginning in the fourth quarter of fiscal 2005 and continuing throughout fiscal 2006, we experienced a slowdown in new contracts signed. We believe this slowdown is attributable to a decline in consumer confidence, an overall softening of demand for new homes, and an oversupply of homes available for sale. We attribute the reduction in demand to concerns on the part of prospective home buyers about the direction of home prices, due in part to many home builders' advertising price reductions and increased sales incentives, and by the prospective home buyers concerns about being able to sell their existing homes. In addition, we believe speculators and investors are no longer helping to fuel demand. We try to avoid selling homes to speculators, and we generally do not build detached homes without having a signed agreement of sale and receiving a substantial down payment from a buyer. Nonetheless, we have been impacted by an overall increase in the supply of homes available for sale in many markets, as speculators attempt to sell the homes they previously purchased or cancel contracts for homes under construction, and as builders, who, as part of their business strategy, were building homes in anticipation of capturing additional sales in a demand-driven market, attempt to reduce their inventories by lowering prices and adding incentives. In addition, based on the high cancellation rates reported by us and other builders, non-speculative buyer cancellations are also adding to the supply of homes in the marketplace. Of the agreements of sale that home buyers executed during fiscal 2006, 2005 and 2004, they canceled approximately 17.1%, 4.6% and 4.6% of them during fiscal 2006, 2005 and 2004, respectively. When we report contracts signed, the number and value of contracts signed are reported net of any cancellations occurring during the reporting period, whether signed in that reporting period or in a prior period. Only outstanding agreements of sale that have been signed by both the home buyer and us as of the end of the period on which we are reporting are included in backlog. Of the value of backlog reported on October 31, 2005, 2004 and 2003, home buyers subsequently canceled approximately 10.0%, 3.7% and 3.0% of them, respectively.

Despite this slowdown, we remain cautiously optimistic about the future of our business. Our industry demographics remain strong due to the continuing regulation-induced constraints on lot supplies and the growing number of affluent households. We continue to believe that the excess supply of available homes is a short-term phenomenon and that the market environment of tight supply and growing demand will eventually return.

We believe geographic and product diversification, access to lower-cost capital, a versatile and abundant home mortgage market, and improving demographics have in the past and will in the future promote demand for those builders who can control land and persevere through the increasingly difficult regulatory approval process. We believe that 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 believe that as the approval process continues to become more difficult, and as the political pressure from no-growth proponents continues to increase, our expertise in taking land through the approval process and our already approved land positions will allow us to grow in the years to come.

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 detached home only after executing an agreement of sale and receiving a substantial down payment from a buyer; and using subcontractors to perform home construction and land development work on a fixed-price basis. In response to current market conditions, we are reevaluating and renegotiating many of our optioned land positions. As a result, we have reduced our land position and ended fiscal 2006 with approximately 73,800 lots controlled, a decline of approximately 19% from our high of approximately 91,200 lots at April 30, 2006. In fiscal 2006, we recognized $90.9 million of write-downs attributable to land under option related to future communities. In addition, due to the slowdown of home sales, we were required to take impairment charges of approximately $61.1 million in fiscal 2006 on several communities in which we are currently selling and on land owned.

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.

Fiscal 2006 revenues of $6.12 billion increased 6% over fiscal 2005 revenues and fiscal 2006 net income of $687.2 million declined 15% as compared to fiscal 2005 net income. New contracts signed in fiscal 2006 amounted to $4.46 billion, a decline of 38% compared to fiscal 2005, and backlog at October 31, 2006 declined 25% compared to the backlog at October 31, 2005. Projecting earnings and revenues is difficult, particularly in the current environment. Due to the decline in backlog at October 31, 2006, and the number of agreements we expect to sign in the first half of fiscal 2007, we expect to deliver in fiscal 2007 between 6,300 and 7,300 homes at an average delivered price of between $660,000 and $670,000, recognize between $180 million and $200 million of revenues using the percentage of completion method of accounting related to several qualifying projects that are under construction, earn net income of between $260 million and $340 million, and achieve diluted earnings per share of between $1.58 and $2.08.

At October 31, 2006, we were selling from 300 communities compared to 230 communities at October 31, 2005. We expect to be selling from approximately 340 communities at October 31, 2007.

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, 2006, we had $632.5 million of cash and cash equivalents and approximately $1.1 billion available under our $1.5 billion bank revolving credit facility, which extends to March 17, 2011. In March 2006, we entered into a five-year, $300 million term loan with our banks, and in June 2005, we issued $300 million of 5.15% Senior Notes due 2015. With our history of success in accessing the bank and public debt markets and our strong cash flow from operations, we believe we have the resources available to grow in years to come.

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" ("SFAS 144"). In addition to direct land acquisition, land development and home construction costs, costs include interest, real estate taxes and direct overhead 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.

Once a parcel of land has been approved for development, it generally takes 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 and the sales and delivery pace of the homes in that 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, under SFAS 144, to regularly 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, the sales pace declines significantly or some other factor indicates a possible impairment in the recoverability of the asset, the asset is reviewed for impairment by comparing the estimated future undiscounted cash flow for the community to its carrying value. If such cash flow is less than the community's carrying value, the carrying value is written down to its estimated fair value by charging cost of revenues in the period the impairment is determined. Fair value is determined by the use of estimates made by management, based upon their judgement at the time the estimate is made, including estimates of sales trends, revenues, and costs.

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 as originally contemplated. Based upon this review, we decide (a) as to land that is under a purchase contract but not owned, whether the contract will likely be terminated or renegotiated, and (b) as to land we own, whether the land will likely 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. We recognized $152.0 million of write-offs of costs related to current and future communities in fiscal 2006, $5.1 million in fiscal 2005 and $7.5 million in fiscal 2004. The write-offs in fiscal 2006 were attributable to the write-off of land deposits and predevelopment costs of land optioned for future communities primarily in California and Florida and the write-down of the carrying cost of several communities primarily located in California and Michigan.

We have a significant number of land purchase contracts, sometimes referred to herein as "options" or "option agreements," and several investments in unconsolidated entities which we evaluate in accordance with the Financial Accounting Standards Board ("FASB") Interpretation No. 46 "Consolidation of Variable Interest Entities, an interpretation of ARB No. 51", as amended by FIN 46R ("FIN 46"). Pursuant to FIN 46, an enterprise that absorbs a majority of the expected losses or receives a majority of the expected residual returns of a variable interest entity ("VIE") is considered to be the primary beneficiary and must consolidate the operations of the VIE. A VIE is an entity with insufficient equity investment or in which the equity investors lack some of the characteristics of a controlling financial interest. For land purchase contracts with sellers meeting the definition of a VIE, we perform a review to determine which party is the primary beneficiary of the VIE. This review requires substantive judgment and estimation. These judgments and estimates involve assigning probabilities to various estimated cash flow possibilities relative to the entity's expected profits and losses and the cash flows associated with changes in the fair value of the land under contract. Because, in most cases, we do not have any ownership interests in the entities with which we contract to purchase land, we generally do not have the ability to compel these entities to provide assistance in our review. At October 31, 2006, we had determined that we were the primary beneficiary of one VIE related to a land purchase contract and had recorded $74.6 million as inventory and recorded $67.1 million as a loan payable.

Revenue and Cost Recognition

Traditional Home Sales

Because the construction time for one of our traditional homes is generally less than one year, revenues and cost of revenues from traditional home sales are recorded at the time each home is delivered and title and possession are 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 to be constructed in each community. Any changes resulting from a change in the estimated number of homes to be constructed or in 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 changes resulting from a change in the estimated number of homes to be constructed or in the estimated costs are allocated to the remaining home sites in each of the communities of the master planned community.

Percentage of Completion

We are developing several high-rise/mid-rise projects that will take substantially more than one year to complete. Revenues from these projects are recognized in accordance with SFAS No. 66, "Accounting for Sales of Real Estate" ("SFAS 66"). Under the provisions of SFAS 66, revenues and costs are recognized using the percentage of completion method of accounting when construction is beyond the preliminary stage, the buyer is committed to the extent of being unable to require a refund except for non-delivery of the unit, sufficient units in the project have been sold to ensure that the property will not be converted to rental property, the sales proceeds are collectible and the aggregate sales proceeds and the total cost of the project can be reasonably estimated. Revenues and costs of individual projects are recognized on the individual project's aggregate value of units for which the home buyers have signed binding agreements of sale, less an allowance for cancellations, and are based on the percentage of total estimated construction costs that have been incurred. Total estimated revenues and construction costs are reviewed periodically, and any change is applied prospectively. The Emerging Issues Task Force (the "EITF") recently issued an interpretation of SFAS 66 regarding the application of certain criteria contained therein. See "New Accounting Pronouncements" in Note 1 of the "Notes to Consolidated Financial Statements" for further information.

Land Sales

Land sales revenues and cost of revenues are recorded at the time that title and possession of the property have been transferred to the buyer. We recognize the pro rata share of revenues and cost of revenues of land sales to entities in which we have a 50% or less interest based upon the ownership percentage attributable to the non-Company investors. Any profit not recognized in a transaction reduces our investment in the entity.

Off-Balance Sheet Arrangements

We have investments in and advances to several joint ventures, to Toll Brothers Realty Trust Group ("Trust") and to Toll Brothers Realty Trust Group II ("Trust II"). At October 31, 2006, we had investments in and advances to these entities of $245.7 million, were committed to invest or advance an additional $369.4 million in the aggregate to these entities if needed and had guaranteed approximately $150.7 million of these entities' indebtedness and/or loan commitments. See Notes 3 and 12 of the "Notes to Consolidated Financial Statements", "Investments in and Advances to Unconsolidated Entities" and "Related Party Transactions," for more information regarding these entities. We do not believe that these arrangements, individually or in the aggregate, have or are reasonably likely to have a current or future material effect on our financial condition, results of operations, liquidity or capital resources. Our investments in these entities are accounted for using the equity method.

Results Of Operations

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

Year ended October 31,	2006		2005		2004	
Revenues						
Traditional home sales	$5,945.2		$5,759.3		$3,839.5	
Percentage of completion	170.1		-		-	
Land sales	8.2		34.1		22.5	
	6,123.5		5,793.4		3,861.9	
Cost of revenues						
Traditional home sales	4,263.2	71.7%	3,902.7	67.8%	2,747.3	71.6%
Percentage of completion	132.3	77.8%	-		-	
Land sales	7.0	85.6%	24.4	71.6%	15.8	70.1%
Interest	122.0	2.0%	125.3	2.2%	93.3	2.4%
	4,524.5	73.9%	4,052.4	69.9%	2,856.4	74.0%
Selling, general and administrative	573.4	9.4%	482.8	8.3%	381.1	9.9%
Income from operations	1,025.6	16.7%	1,258.2	21.7%	624.5	16.2%
Equity earnings from unconsolidated joint ventures	48.4		27.7		15.7	
Interest and other	52.7		41.2		15.4	
Expenses related to early retirement of debt			(4.1)		(8.2)	
Income before income taxes	1,126.6		1,323.1		647.4	
Income taxes	439.4		517.0		238.3	
Net income	$ 687.2		$ 806.1		$ 409.1	

Note: Percentages for cost of revenues for traditional home sales, percentage of completion and land sales are based on the corresponding item under revenues. Percentages for interest expense, selling, general and administrative expenses, and income from operations are based on total revenues. Amounts may not add due to rounding.

Fiscal 2006 Compared to Fiscal 2005

Traditional Home Sales Revenues and Costs

Home sales revenues for fiscal 2006 were higher than those for fiscal 2005 by approximately $185.9 million, or 3%. The increase in revenues was attributable to a 5% increase in the average price of the homes delivered offset in part by a 2% decrease in the number of homes delivered. The increase in the average price of the homes delivered in fiscal 2006 was the result of higher selling prices of homes in backlog at October 31, 2005 compared to the homes in backlog at October 31, 2004 and the delivery in fiscal 2006 of fewer attached homes and age-qualified homes, which have lower average selling prices, as compared to 2005. The decrease in the number of homes delivered was primarily due to the slowdown in new contracts signed in the fourth quarter of fiscal 2005 and the first quarter of fiscal 2006 and a significant number of cancellations of contracts for homes scheduled to be delivered during fiscal 2006 from our backlog at October 31, 2005.

The value of new sales contracts signed was $4.15 billion (5,812 homes) in fiscal 2006, a 41% decrease compared to the value of contracts signed in fiscal 2005 of $7.05 billion (10,213 homes). This decrease was primarily attributable to a 43% decrease in the number of new contracts signed despite having a significantly higher number of communities open for sale in fiscal 2006 compared to fiscal 2005. At October 31, 2006 and 2005, we had 300 and 230 selling communities, respectively. The decrease in the value of new sales contracts signed was partly offset by a 5% increase in the average value of each contract.

We believe this slowdown is attributable to a decline in consumer confidence, an overall softening of demand for new homes and an oversupply of homes available for sale. We attribute the reduction in demand to concerns on the part of prospective home buyers about the direction of home prices, due in part to many home builders' advertising price reductions and increased sales incentives, and concerns by the prospective home buyers about being able to sell their existing homes. In addition, we believe speculators and investors are no longer helping to fuel demand. We try to avoid selling homes to speculators, and we generally do not build detached homes without having a signed agreement of sale. Nonetheless, we have been impacted by an overall increase in the supply of homes available for sale in many markets as speculators attempt to sell the homes they previously purchased or cancel contracts for homes under construction, and as builders, who, as part of their business strategy, were building homes in anticipation of capturing additional sales in a demand-driven market, attempt to reduce their inventories by lowering prices and adding incentives. In addition, based on the high cancellation rates reported by us and by other builders, non-speculative buyer cancellations are also adding to the supply of homes in the marketplace.

Despite this slowdown, we remain cautiously optimistic about the future growth of our business. Our industry demographics remain strong due to the continuing regulation-induced constraints on lot supplies and the growing number of affluent households. We believe that the excess supply of available homes is a short-term phenomenon and that the market environment of tight supply and growing demand will return.

At October 31, 2006, our backlog of traditional homes under contract was $4.05 billion (5,801 homes), 31% lower than the $5.84 billion (8,590 homes) backlog at October 31, 2005. The decrease in backlog at October 31, 2006 compared to the backlog at October 31, 2005 was primarily attributable to the decrease in the value of new contracts signed in fiscal 2006 as compared to fiscal 2005 and to the $185.9 million more of deliveries in fiscal 2006 as compared to fiscal 2005, offset, in part, by a higher backlog at October 31, 2005 as compared to the backlog at October 31, 2004.

Cost of revenues before interest expense as a percentage of home sales revenue was higher in fiscal 2006 as compared to fiscal 2005. The increase was primarily the result of higher inventory write-offs, the costs of land and construction increasing faster than selling prices, higher sales incentives given on the homes delivered in fiscal 2006 as compared to those delivered in fiscal 2005 and higher overhead costs. We recognized $152.0 million of write-downs and/or write-offs of costs related to current and future communities in fiscal 2006 as compared to $5.1 million in fiscal 2005. The fiscal 2006 write-offs were attributable primarily to the write-off of deposits and predevelopment costs attributable to a number of land purchase contracts that we decided not to go forward with (primarily in California and Florida) and the write-down of the carrying cost of several active communities (primarily in California and Michigan.)

As we stated in the guidance we provided on December 5, 2006 (which is not being reconfirmed or updated in this report), based on the size of our current backlog and the expected demand for our product, we believe that in fiscal 2007 we will deliver between 6,300 and 7,300 homes and the average delivered price of those homes will be between $660,000 and $670,000, and the cost of revenues before interest expense as a percentage of revenues will be between 77.9% and 77.0% as compared to 71.7% for fiscal 2006. Included in the estimate of the costs of revenues in fiscal 2007 is $60 million for the write-down and/or write-off of costs related to current and future communities although we currently do not know of any required write-downs.

Percentage of Completion Revenues and Costs

We are developing several projects for which we are recognizing revenues and costs using the percentage of completion method of accounting. Revenues and costs of individual projects are recognized on the individual project's aggregate value of units for which home buyers have signed binding agreements of sale and are based on the percentage of total estimated construction costs that have been incurred. Total estimated revenues and construction costs are reviewed periodically and any change is applied to current and future periods. We began recognizing revenue and costs using percentage of completion accounting on several projects in fiscal 2006. In the fiscal 2006, we recognized $170.1 million of revenues and $132.3 million of costs before interest expense on these projects. At October 31, 2006, our backlog of homes in communities that we account for using the percentage of completion method of accounting was $154.3 million (net of $170.1 million of revenue recognized) compared to $152.5 million at October 31, 2005.

The guidance we gave on December 5, 2006 stated that for fiscal 2007, we believe that revenues recognized under the percentage of completion accounting method will be between $180 million and $200 million and costs before interest expense will be approximately 75% of revenues. Due to an expected change in the application of the accounting rules regarding the application of certain criteria contained in SFAS 66, expected revenues under the percentage of completion accounting method will shift from fiscal 2007 to subsequent years. We have estimated that revenues that we had expected to recognize in fiscal 2007 of between $275 million and $350 million will be shifted to fiscal 2008 and beyond and that this shift will have the effect of reducing diluted earnings per share in fiscal 2007 of between $0.22 and $0.29. See "New Accounting Pronouncements" in Note 1 of the "Notes to Consolidated Financial Statements" for further information.

Land Sales Revenues and Costs

We are developing several communities in which we expect to sell a portion of the land to other builders or entities. The amount and profitability of land sales will vary from period to period depending upon the timing of the sale and delivery of the specific land parcels. Land sales were $8.2 million in fiscal 2006 as compared to $34.1 million in fiscal 2005. Cost of land sales before interest expense was approximately $7.0 million in fiscal 2006 as compared to $24.4 million in fiscal 2005.

The guidance we gave on December 5, 2006 stated that for fiscal 2007, land sales are expected to be approximately $5 million, and cost of land sales before interest expense is expected to be approximately 80% of land sales revenue.

Interest Expense

We determine interest expense on a specific lot-by-lot basis for our traditional home building operations and on a parcel-by-parcel basis for land sales. As a percentage of total revenues, interest expense varies depending on many factors, including the period of time that we 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 for projects using the percentage of completion method of revenue recognition is determined based on the total estimated interest for the project and the percentage of total estimated construction costs that have been incurred to date. As a percentage of total revenues, interest was 2.0% in fiscal 2006 as compared to 2.2% in fiscal 2005.

The guidance we gave on December 5, 2006 stated that for fiscal 2007, we expect interest expense as a percentage of total revenues to be approximately 2.1%.

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

SG&A spending increased by $90.6 million, or 19%, in fiscal 2006 as compared to fiscal 2005. The increased spending was principally due to the costs associated with the increase in the number of selling communities that we had during fiscal 2006 as compared to fiscal 2005 and the expensing of stock option awards pursuant to SFAS No. 123 (revised 2004), "Share-Based Payment" in fiscal 2006 of $26.8 million, which expense we did not have in fiscal 2005.

The guidance we gave on December 5, 2006 stated that we expect that SG&A as a percentage of revenues will be between 11.65% and 11.15% of revenues in fiscal 2007.

Income from Operations

Income from operations decreased $232.7 million in fiscal 2006 compared to fiscal 2005. As a percentage of total revenues, income from operations was 16.7% in fiscal 2006 as compared to 21.7% in fiscal 2005.

Equity Earnings from Unconsolidated Entities

We are a participant in several joint ventures with unrelated parties and in the Trust and Trust II. We recognize our proportionate share of the earnings from these entities. See Note 3 of the "Notes to Consolidated Financial Statements", "Investments in and Advances to Unconsolidated Entities" and Note 12, "Related Party Transactions" for more information regarding our investments in and commitments to these entities. Many of our joint ventures are land development projects or high-rise/mid-rise construction projects and do not generate revenues and earnings for a number of years during the development of the property. Once development is complete, the joint ventures will generally, over a relatively short period of time, generate revenues and earnings until all the assets of the entities are sold. Because there is not a steady flow of revenues and earnings from these entities, the earnings recognized from these entities will vary significantly from year to year. In fiscal 2006, we recognized $48.4 million of earnings from unconsolidated entities as compared to $27.7 million in fiscal 2005.

The guidance we gave on December 5, 2006 stated that we expect to recognize approximately $21.5 million of earnings from our investments in these joint ventures and in Trust and Trust II in fiscal 2007.

Interest and Other Income

Interest and other income was $52.7 million in fiscal 2006, an increase of $11.5 million from the $41.2 million recognized in fiscal 2005. The increase was primarily the result of higher forfeited customer deposits and higher interest income, offset, in part, by lower broker fees and lower income realized from our ancillary businesses.

The guidance we gave on December 5, 2006 stated that for fiscal 2007, we expect interest and other income to be approximately $36.0 million.

Income Before Income Taxes

Fiscal 2006 income before income taxes was $1.13 billion, a 15% decrease from the $1.32 billion realized in fiscal 2005.

Income Taxes

Income taxes were provided at an effective rate of 39.0% for fiscal 2006 compared to 39.1% for fiscal 2005. The difference in rate in fiscal 2006 as compared to fiscal 2005 was primarily due to a manufacturing tax credit that we first became eligible for in fiscal 2006, the reversal of prior year tax provisions in the fiscal 2006 period that we no longer need due to the expiration of tax statutes, offset in part by an increase in the blended state income tax rate in fiscal 2006 compared to fiscal 2005, the recognition of a higher amount of estimated interest expense (net of estimated interest income) in fiscal 2006 compared to fiscal 2005 on expected tax assessments and recoveries due to ongoing tax audits and the effect on the fiscal 2005 rate to recomputing our net deferred tax liability to reflect the increase in our fiscal 2005 state tax rate.

The guidance we gave on December 5, 2006 stated that we expect that our effective tax rate will be approximately 39.0% in fiscal 2007.

Geographic Segments

Based on our revised aggregation of operating segments, we have restated fiscal 2005 and 2004 amounts to conform to the fiscal 2006 presentation.

We operate in four geographic segments around the United States: the North, consisting of Connecticut, Illinois, Massachusetts, Michigan, Minnesota, New Hampshire, New Jersey, New York, Ohio and Rhode Island; the Mid-Atlantic, consisting of Delaware, Maryland, Pennsylvania, Virginia and West Virginia; the South, consisting of Florida, North Carolina, South Carolina, Tennessee and Texas; and the West, consisting of Arizona, California, Colorado and Nevada. We stopped selling homes in Tennessee, New Hampshire and Ohio in fiscal 2004, 2004 and 2005, respectively, and delivered its last home in each of those states in fiscal 2004, 2004 and 2006, respectively. The operations in these states were immaterial to the applicable geographic segment.

The following table summarizes by geographic segment total revenues and income before income taxes for each of the years ended October 31, 2006 and 2005 (dollars in millions):

	Revenues				Income before income taxes	
	2006 units	2005 units	2006	2005	2006	2005
North(a)	1,983	1,870	$1,444.2	$1,134.5	$ 281.9	$ 240.2
Mid-Atlantic(b)	2,697	3,290	1,777.9	2,062.8	491.8	679.1
South(c)	2,017	1,312	1,192.4	721.1	161.8	81.6
West	1,904	2,297	1,709.0	1,875.0	338.5	450.8
Corporate and other					(147.4)	(128.6)
Total	8,601	8,769	$6,123.5	$5,793.4	$1,126.6	$1,323.1

(a) Includes percentage of completion revenues of $110.3 million in fiscal 2006 and land revenues of $0.4 million and $8.2 million in fiscal 2006 and 2005, respectively.

(b) Includes land revenues of $0.2 million and $6.2 million in fiscal 2006 and 2005, respectively.

(c) Includes percentage of completion revenues of $59.8 million in fiscal 2006 and land revenues of $7.4 million and $19.8 million in fiscal 2006 and 2005, respectively.

North

Revenues in fiscal 2006 were higher than those for fiscal 2005 by approximately $309.7 million, or 27%. The increase in revenues was attributable to the initial recognition of revenue using percentage of completion accounting in two communities of $110.3 million in fiscal 2006, and a 12% and 6% increase in fiscal 2006 as compared to fiscal 2005 in the average sales price and the number of traditional homes delivered, respectively. The increase in the average price of the homes delivered in fiscal 2006 was primarily the result of higher selling prices of homes in backlog at October 31, 2005 compared to those in backlog at October 31, 2004. The value of new contracts signed in fiscal 2006 was approximately $1.18 billion, a 22% decline from the $1.52 billion of contracts signed in fiscal 2005. This decrease is attributable to a 27% decrease in the number of net new contracts signed, despite an increase in the number of selling communities that we had in fiscal 2006 compared to fiscal 2005, offset in part by a 7% increase in the average value of each contract. We had 77 selling communities at October 31, 2006 compared to 60 selling communities at October 31, 2005. The decline in new contracts signed in fiscal 2006 was primarily due to a slowdown in the housing market, which began in the fourth quarter of fiscal 2005 and continued throughout fiscal 2006, and a significantly higher number of contract cancellations in fiscal 2006 than in fiscal 2005.

Income before income taxes in fiscal 2006 was $281.9 million, an increase of $41.7 million from the $240.2 million reported for fiscal 2005. This increase was due to the profits realized on the increased revenues in fiscal 2006, increased income realized from unconsolidated entities in fiscal 2006 compared to fiscal 2005, offset in part by higher costs of revenues, principally from the write-down of communities under development and land owned or controlled for future communities. We recognized inventory write-downs and write-offs of $46.7 million in fiscal 2006 compared to $2.7 million in fiscal 2005.

Mid-Atlantic

Revenues in fiscal 2006 were lower than those for fiscal 2005 by approximately $284.9 million, or 14%. The decrease in revenues was attributable to an 18% decrease in the number of homes delivered (primarily in Virginia), offset in part by a 5% increase in the average sales price of the homes delivered. The decrease in the number of homes delivered was principally due to a 43% decrease in the number of net new contracts signed in fiscal year 2006 as compared to fiscal 2005, partially offset by the higher number of homes in backlog at October 31, 2005 as compared to the backlog at October 31, 2004. The decrease in net new contracts signed in fiscal 2006 as compared to fiscal 2005 was due primarily to weak demand and a significantly higher number of contract cancellations in fiscal 2006 than in fiscal 2005. At October 31, 2006 and 2005, we had 91 and 83 selling communities, respectively.

Income before income taxes in fiscal 2006 was $491.8 million, a decrease of $187.3 million from the $679.1 million reported for fiscal 2005. This decrease was attributable to lower revenues and higher cost of revenues in fiscal 2006 as compared to fiscal 2005. The higher cost of revenues is primarily due to, costs of land and construction increasing faster than selling prices, higher sales incentives given on the homes delivered in fiscal 2006 as compared to those delivered in fiscal 2005 and higher overhead costs. We recognized inventory write-downs and write-offs of $7.7 million and $1.4 million in 2006 and 2005, respectively.

South

Revenues in fiscal 2006 were higher than those of fiscal 2005 by approximately $471.3 million, or 65%. The increase in revenues was attributable to the initial recognition of revenue using percentage of completion accounting for two communities of $59.8 million in fiscal 2006, and a 54% increase in the number of traditional homes delivered. The increase in the number of homes delivered was primarily due to Florida and Texas, which had a higher number of homes in backlog at October 31, 2005 as compared to October 31, 2004. The value of net new contracts signed in fiscal 2006 was approximately $800.3 million, a 39% decline from the $1.3 billion of contracts signed in fiscal 2005. This decline was due to a 44% decrease in the number of new contracts signed, which was primarily the result of weak market conditions in Florida, despite an increase in the number of selling communities in fiscal 2006 as compared to fiscal 2005, and a significantly higher number of contract cancellations in fiscal 2006 than in fiscal 2005, partially offset by a 10% increase in the average selling price of new signed contracts. At October 31, 2006, we had 70 selling communities compared to 49 selling communities at October 31, 2005.

Income before income taxes in fiscal 2006 was $161.8 million, an increase of $80.2 million from fiscal 2005 income before income taxes of $81.6 million. This increase was due to the profits realized on the increased revenues in fiscal 2006, selling, general and administrative costs decreasing as a percentage of revenues as the result of efficiencies gained from the increase in the number of homes delivered and lower cost of revenues as a percentage of total revenues. The lower cost of revenues percentage is principally due to selling prices increasing faster than costs of land and construction, offset in part by higher inventory write-downs and write-offs. We recognized inventory write-downs and write-offs of $16.6 million in fiscal 2006 compared to $0.7 million in fiscal 2005.

West

Revenues in fiscal 2006 were lower than those of fiscal 2005 by approximately $166.0 million, or 9%. The decrease in revenues was attributable to a 17% decrease in the number of homes delivered offset by a 10% increase in the average sales price. The decrease in the number of homes delivered was primarily due to California which had a lower number of homes in backlog at October 31, 2005 as compared to October 31, 2004, and a significantly higher number of contract cancellations in fiscal 2006 than in fiscal 2005, offset in part by an increase in the number of homes closed in the other states in the geographic segment which had a higher number of homes in backlog at October 31, 2005 as compared to October 31, 2004. At October 31, 2006 and 2005, we had 62 and 38 selling communities, respectively. The increase in the average sales price of the homes delivered in fiscal 2006 was the result of higher selling prices of homes in backlog at October 31, 2005 compared to the homes in backlog at October 31, 2004, and the delivery of fewer lower-priced homes. The value of net new contracts signed in fiscal 2006, approximately $1.2 billion, decreased 41% from fiscal 2005 new contracts signed of approximately $2.1 billion. The decline was due primarily to weak demand and higher than normal contract cancellations in fiscal 2006, offset in part by the higher number of selling communities.

Income before income taxes in fiscal 2006 was $338.5 million, a decrease of $112.3 million from fiscal 2005 income before income taxes of $450.8

million. This decrease was due to the decrease in revenues in fiscal 2006, the higher cost of revenues as a percentage of total revenues (principally related to the write-downs and write-offs of communities under development and land owned or controlled for future communities and higher costs related to the inefficiencies related to the slowdown in construction) and higher selling, general and administrative costs, partially offset by increased income realized from unconsolidated entities in fiscal 2006 compared to fiscal 2005. We recognized inventory write-downs and write-offs of $81.0 million in fiscal 2006 compared to $0.1 million in fiscal 2005.

Fiscal 2005 Compared to Fiscal 2004

Home Sales Revenues and Costs

Home sales revenues in fiscal 2005 of $5.76 billion (8,769 homes) were higher than the $3.84 billion (6,627 homes) reported in fiscal 2004 by approximately $1.92 billion, or 50%. The increase was attributable to a 32% increase in the number of homes delivered and a 13% increase in the average price of the homes delivered. The increase in the number of homes delivered in fiscal 2005 was primarily due to the higher backlog of homes at October 31, 2004 as compared to October 31, 2003, which was primarily the result of a 42% increase in the number of new contracts signed in fiscal 2004 over fiscal 2003, and the 30% increase in the number of new contracts signed in the first six months of fiscal 2005 (5,354 homes) as compared to the first six months of fiscal 2004 (4,107 homes). The increase in the average price of the homes delivered in fiscal 2005 was the result of increased selling prices in our communities and a shift in the location of homes delivered to more expensive areas.

The value of new sales contracts signed in fiscal 2005 was $7.15 billion (10,372 homes), a 27% increase over the $5.64 billion (8,684 homes) value of new sales contracts signed in fiscal 2004. The increase in fiscal 2005 was attributable to a 19% increase in the number of new contracts signed and a 6% increase in the average value of each contract, due primarily to the location and size of homes sold and increases in base selling prices. The increase in the number of new contracts signed was attributable to the continued demand for our homes and an increase in the number of communities from which we were selling homes. At October 31, 2005, we were selling from 230 communities compared to 220 communities at October 31, 2004.

The value of new contracts signed in the quarter ended October 31, 2005 increased 4% over the comparable period of fiscal 2004. The increase in the 2005 quarter was attributable to a 3% increase in the average value of each contract signed and a 1% increase in the number of new contracts signed.

We believe that 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, attractive mortgage rates and the belief of potential customers that the purchase of a home is a stable investment. At October 31, 2005, we had over 83,000 home sites under our control nationwide in markets we consider to be affluent.

At October 31, 2005, our backlog of homes under contract was $6.01 billion (8,805 homes), 36% higher than the $4.43 billion (6,709 homes) backlog at October 31, 2004. The increase in backlog at October 31, 2005 compared to the backlog at October 31, 2004 was primarily attributable to a 19% increase in the number of new contracts signed in fiscal 2005 as compared to fiscal 2004, a 6% increase in the average value of each contract signed in fiscal 2005 as compared to fiscal 2004, and the backlog of homes acquired in the acquisition of the Orlando division of Landstar Homes, offset, in part, by a 32% increase in the number of homes delivered in fiscal 2005 compared to fiscal 2004, and a 13% increase in the price of the homes delivered in fiscal 2005 as compared to fiscal 2004.

Home costs as a percentage of home sales revenues decreased by 380 basis points (3.8%) in fiscal 2005 compared to fiscal 2004. The decrease was largely the result of selling prices increasing at a greater rate than costs and efficiencies realized from the increased number of homes delivered.

Land Sales Revenues and Costs

We are developing several communities in which we expect to sell a portion of the land to other builders or entities. The amount of land sales and the profitability of such sales will vary from year to year depending upon the sale and delivery of the specific land parcels. Land sales were $34.1 million in fiscal 2005 compared to $22.5 million in fiscal 2004. Cost of land sales was approximately 72% of land sales revenues in fiscal 2005, as compared to approximately 70% in fiscal 2004.

Interest Expense

We determine interest expense on a specific home site-by-home site 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 2.2% of total revenues in fiscal 2005, slightly lower than the 2.4% of total revenues in fiscal 2004.

Selling, General and Administrative Expenses (“SG&A”)

SG&A spending increased by $101.7 million, or 27%, in fiscal 2005 compared to fiscal 2004. The increased spending was principally due to the costs incurred to support the increased levels of construction and sales activity in fiscal 2005 as compared to fiscal 2004 and the continued costs incurred in the search for new land to replace the home sites that were sold during the period and to expand our land position to enable us to grow in the future. As a percentage of revenues, SG&A decreased in fiscal 2005 compared to fiscal 2004.

Income from Operations

Based upon the above, income from operations increased $633.7 million in fiscal 2005 over fiscal 2004. As a percentage of total revenues, income from operations was 21.7% in fiscal 2005 as compared to 16.2% in fiscal 2004.

Equity Earnings from Unconsolidated Entities

We are a participant in several joint ventures and in the Trust and Trust II. We recognize our proportionate share of the earnings from these entities. See Notes 3 and 12 to the Consolidated Financial Statements, “Investments in and Advances to Unconsolidated Entities” and “Related Party Transactions,” for more information regarding our investments in and commitments to these entities. Many of our joint ventures are land development projects or high-rise/mid-rise construction projects and do not generate revenues and earnings for a number of years during the development of the property. Once development is complete, the joint ventures will generally, over a relatively short period of time, generate revenues and earnings until all the assets of the entities are sold. Because there is not a steady flow of revenues and earnings from these entities, the earnings recognized from these entities will vary significantly from year to year. In fiscal 2005, we recognized $27.7 million of earnings from unconsolidated entities as compared to $15.7 million in fiscal 2004.

Interest and Other

In fiscal 2005, interest and other was $41.2 million, an increase of $25.8 million from the $15.4 million recognized in fiscal 2004. The increase was primarily the result of higher interest income and higher income recognized from our ancillary businesses.

Expenses Related to Early Retirement of Debt

We recognized a pretax charge of $4.1 million in fiscal 2005, representing the premium paid on the early redemption of our 8% Senior Subordinated Notes due 2009, the write-off of unamortized bond issuance costs related to those notes, and the bank loan termination charge related to the repayment of our $222.5 million bank term loan in June 2005. 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 $1.2 billion bank revolving credit agreement that expires in July 2009.

Income Before Income Taxes

Income before income taxes increased $675.7 million in fiscal 2005 over fiscal 2004.

Income Taxes

Income taxes were provided at an effective rate of 39.1% and 36.8% in fiscal 2005 and fiscal 2004, respectively. The difference in the rate in fiscal 2005 compared to the rate in fiscal 2004 was due primarily to a change in our estimated combined federal and state income tax rate before providing for the effect of permanent book-tax differences ("Base Rate") for fiscal 2005 and the impact of recalculating our net deferred tax liability using the new Base Rate. The change in the Base Rate was due to the combination of changes in tax legislation and regulations and an expected shift in income to states with higher tax rates in fiscal 2005. See Note 6 to the Consolidated Financial Statements, "Income Taxes," for additional information regarding the change in the income tax rates and the impact on the financial statements.

Geographic Segments

The following table summarizes by geographic segment total revenues and income before income taxes for years ended October 31, 2005 and 2004 (dollars in millions):

	Revenues				Income before income taxes	
	2005 units	2004 units	2005	2004	2005	2004
North(a)	1,870	1,494	$1,134.5	$ 846.9	$ 240.2	$ 152.5
Mid-Atlantic(b)	3,290	2,398	2,062.8	1,261.8	679.1	329.6
South(c)	1,312	964	721.1	475.6	81.6	44.1
West	2,297	1,771	1,875.0	1,277.6	450.8	243.1
Corporate and other					(128.6)	(121.9)
Total	8,769	6,627	$5,793.4	$3,861.9	$1,323.1	$ 647.4

(a) Includes land revenues of $8.2 million in fiscal 2005.

(b) Includes land revenues of $6.2 million and $9.3 million in fiscal 2005 and 2004, respectively.

(c) Includes land revenues of $19.8 million and $13.2 million in fiscal 2005 and 2004, respectively.

North

Revenues in fiscal 2005 were higher than those of fiscal 2004 by approximately $287.6 million, or 34%. The increase in revenues was attributable to a 25% increase in the number of homes delivered and a 6% increase in the average sales price of the homes delivered. The increase in the number of homes delivered in fiscal 2005 was the result of the higher backlog of homes at October 31, 2004 as compared to the backlog at October 31, 2003, which was primarily the result of a 19% increase in the number of new contracts signed in fiscal 2004 over fiscal 2003. This increase in net new signed contracts was primarily due to increased demand and to an increase in the number of selling communities in fiscal year 2004 as compared to fiscal 2003. We had 60 selling communities at October 31, 2005, 67 selling communities at October 31, 2004 and 61 selling communities at October 31, 2003.

Income before income taxes in fiscal 2005 was $240.2 million, an increase of $87.7 million from fiscal 2004 income before income taxes of $152.5 million. This increase was due to the profits realized on the increased sales revenues in fiscal 2005, a decrease in cost of revenues as a percentage of total revenues in fiscal 2005 as compared to fiscal 2004 and increased income realized from unconsolidated entities in fiscal 2005 compared to fiscal 2004. The decrease in the cost of revenues percentage was largely the result of selling prices increasing faster than costs and efficiencies realized from the increased number of homes delivered.

Mid-Atlantic

Revenues in fiscal 2005 were higher than those of fiscal 2004 by approximately $801.0 million, or 63%. The increase in revenues was attributable to a 37% increase in the number of homes delivered and a 20% increase in the average sales price of the homes delivered. The increase in the number of homes delivered in fiscal 2005 was the result of the higher backlog of homes at October 31, 2004 as compared to the backlog at October 31, 2003, which was primarily the result of a 27% increase in the number of new contracts signed in fiscal 2004 over fiscal 2003. This increase in new signed contracts was primarily due to increased demand and to an increase in the number of selling communities in fiscal year 2004 as compared to fiscal 2003. At October 31, 2005, 2004 and 2003, we had 83, 70 and 59 selling communities, respectively.

Income before income taxes in fiscal 2005 was $679.1 million, an increase of $349.5 million from fiscal 2004 income before income taxes of $329.6 million. This increase was due to the profits realized on the increased sales revenues in fiscal 2005 and a decrease in cost of revenues as a percentage of total revenues in fiscal 2005 as compared to fiscal 2004. The decrease in the cost of revenues percentage was largely the result of selling prices increasing faster than costs and efficiencies realized from the increased number of homes delivered.

South

Revenues in fiscal 2005 were higher than those of fiscal 2004 by approximately $245.5 million, or 52%. The increase in revenues was attributable to a 36% increase in the number of homes delivered, a 11% increase in the average sales price of the homes delivered and an increase in land sales of $6.6 million. The increase in the number of homes delivered in fiscal 2005 was primarily the result of a 82% increase in number of new contracts signed in fiscal 2004 over fiscal 2003, resulting in a higher backlog of homes at October 31, 2004 as compared to October 31, 2003, and the acquisition of Landstar Homes, Central Florida Division in June 2005 and its related backlog of homes at the date of acquisition. We had 49 selling communities at October 31, 2005, 44 selling communities at October 31, 2004 and 41 selling communities at October 31, 2003.

Income before income taxes in fiscal 2005 was $81.6 million, an increase of $37.5 million from fiscal 2004 income before income taxes of $44.1 million. This increase was due to the profits realized on the increased sales revenues in fiscal 2005, a decrease in cost of revenues as a percentage of total revenues in fiscal 2005 as compared to fiscal 2004 and increased income realized from unconsolidated entities in fiscal 2005 compared to fiscal 2004. The decrease in the cost of revenues percentage was largely the result of selling prices increasing faster than costs and efficiencies realized from the increased number of homes delivered.

West

Revenues in fiscal 2005 were higher than those of fiscal 2004 by approximately $597.4 million, or 47%. The increase in revenues was attributable to a 30% increase in number of homes delivered and a 13% increase in average sales price of the homes delivered. The increase in the number of homes delivered in fiscal 2005 was the result of the higher backlog of homes at October 31, 2004 as compared to the backlog at October 31, 2003, which was primarily the result of a 64% increase in the number of new contracts signed in fiscal 2004 over fiscal 2003. The increase in the number of new contracts signed in fiscal 2005 was primarily due to increased demand for our product. At October 31, 2005, 2004 and 2003, we had 38, 39 and 39 selling communities, respectively.

Income before income taxes in fiscal 2005 was $450.8 million, an increase of $207.7 million from fiscal 2004 income before income taxes of $243.1 million. This increase was due to the profits realized on the increased sales revenues in fiscal 2005 and a decrease in cost of revenues as a percentage of total revenues in fiscal 2005 as compared to fiscal 2004, offset by a decrease in income realized from unconsolidated entities in fiscal 2005 compared to fiscal 2004. The decrease in the cost of revenues percentage was largely the result of selling prices increasing faster than costs and efficiencies realized from the increased number of homes delivered.

Capital Resources and Liquidity

Funding for our business has been provided principally by cash flow from operating activities, unsecured bank borrowings and the public debt and equity markets. We have used our cash flow from operating activities, 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 backlog and the increasing number of communities in which we are offering homes for sale, invest in unconsolidated entities, repurchase our stock, and repay debt. We were a net user of cash in our operating activities in fiscal 2006 due primarily to increased spending for land and construction in progress. Cash flow from operating activities increased in fiscal 2005 compared to fiscal 2004 and in fiscal 2004 compared to fiscal 2003. These increases were primarily the result of our strong revenue growth in fiscal 2005 and fiscal 2004.

We expect that we will continue to be a net user of cash in our operating activities in fiscal 2007. We expect that our inventory will continue to increase, as we purchase land that we currently have under contract or place under contract in the future. We are currently negotiating and searching for additional opportunities to obtain control of land for future communities. At October 31, 2006, the aggregate purchase price of land parcels under option and purchase agreements was approximately $2.96 billion (including $1.22 billion of land to be acquired from joint ventures which we have invested in, made advances to or made loan guarantees on behalf of), of which we had paid or deposited approximately $173.1 million and have $164.4 million invested in the joint ventures.

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. In addition, we generally do not begin construction of our traditional single-family detached homes until we have a signed contract with the home buyer, although in fiscal 2006, due to an extremely high cancellation rate of customer contracts and the increase in the number of attached home communities that we are operating from, the number of speculative homes in our inventory has increased significantly. In fiscal 2006, the value of new contracts signed with home buyers decreased by 38% from fiscal 2005. Should our business continue to decline significantly, we believe that 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, we might continue to delay or curtail our acquisition of additional land, as we did in the later part of fiscal 2006, which would further reduce our inventory levels and cash needs. We decreased our home sites owned and controlled by approximately 19% from April 30, 2006 to October 31, 2006 in response to the deterioration of the housing market.

During the past three fiscal years, we have had a significant amount of cash invested in either short-term cash equivalents or short-term interest-bearing marketable securities. In addition, we have made a number of investments in unconsolidated entities related to the acquisition and development of land for future home sites or in entities that are constructing or converting apartment buildings into luxury condominiums. Our investment activities related to marketable securities and investments in and distributions of investments from unconsolidated entities are contained in the Consolidated Statements of Cash Flows in the section "Cash flow from investing activities."

We have a $1.8 billion credit facility consisting of a $1.5 billion unsecured revolving credit facility and a $300 million term loan facility (collectively, the "Credit Facility") with 33 banks, which extends to March 2011. At October 31, 2006, interest was payable on borrowings under the revolving credit facility at 0.475% (subject to adjustment 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, 2006, we had no outstanding borrowings against the revolving credit facility but had letters of credit of approximately $408.2 million outstanding under it. Under the term loan facility, interest is payable at 0.50% (subject to adjustment 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, 2006, interest was payable on the $300 million term loan at 5.89%. Prior to our expanding our credit facility to encompass a term loan that provides outstanding borrowings under our Credit Facility, we had periodically maintained a loan balance outstanding on our revolving credit facility; such borrowing was purely elective by us and was not required by the terms of our revolving credit facility.

To reduce borrowing costs, extend the maturities of our long-term debt and raise additional funds for general corporate purposes, during the last four fiscal years we issued four series of senior notes aggregating $1.15 billion, and used the proceeds to redeem $470 million of senior subordinated notes and, together with other available cash, to repay a $222.5 million bank term loan. These financing activities are contained in the Consolidated Statements of Cash Flows in the section "Cash flow from financing activities."

We believe that we will be able to continue to fund our operations and meet our contractual obligations through a combination of existing cash resources and our existing sources of credit and the public debt markets.

Contractual Obligations

The following table summarizes our estimated contractual obligations at October 31, 2006 (amounts in millions):

	2007	2008-2009	2010-2011	Thereafter	Total
Senior and senior subordinated notes (a)	$ 94.6	$ 189.4	$ 381.1	$1,437.0	$2,102.1
Loans payable (a)	194.0	115.7	556.9	14.0	880.6
Mortgage company warehouse loan (a)	123.6				123.6
Operating lease obligations	18.8	25.5	13.3	26.5	84.1
Purchase obligations (b)	1,234.3	1,035.8	411.9	658.9	3,340.9
Retirement plans (c)	5.3	6.9	6.5	33.4	52.1
Other	0.7	1.4	0.7		2.8
	$1,671.3	$1,374.7	$1,370.4	$2,169.8	$6,586.2

(a) Amounts include estimated annual interest payments until maturity of the debt. Of the amounts indicated, $1.5 billion of the senior and senior subordinated notes, $736.9 million of loans payable, $119.7 million of the mortgage company warehouse loan and $43.6 million of accrued interest were recorded on the October 31, 2006 Consolidated Balance Sheet.

(b) Amounts represent our expected acquisition of land under options or purchase agreements 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 401(k), deferred compensation and supplemental executive retirement plans. Of the total amount indicated, $31.0 million has been recorded on the October 31, 2006 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 and 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 affect 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, 2006, 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
2007	$ 154,295	7.24%	$ 119,855	6.53%
2008	47,131	5.70%	150	3.62%
2009	3,178	6.34%	150	3.62%
2010	800	10.00%	148,086	6.09%
2011	269,150	7.76%	300,150	5.89%
Thereafter	1,300,849	6.01%	12,845	3.62%
Discount	(8,833)			
Total	$1,766,570	6.70%	$ 581,236	6.02%
Fair value at October 31, 2006	$1,726,453		$ 581,236	

(a) We have a $1.8 billion credit facility consisting of a $1.5 billion unsecured revolving credit facility and a $300 million term loan facility (collectively, the "Credit Facility") with 33 banks, which extends to March 17, 2011. At October 31, 2006, interest was payable on borrowings under the revolving credit facility at 0.475% (subject to adjustment 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, 2006, we had no outstanding borrowings against the revolving credit facility, but had letters of credit of approximately $408.2 million outstanding under it. Under the term loan facility, interest is payable at 0.50% (subject to adjustment 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, 2006, interest was payable on the $300 million term loan at 5.89%.

(b) Our mortgage subsidiary has a $125 million line of credit with four 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, 2006, the subsidiary had $119.7 million outstanding under the line at an average interest rate of 6.53%. Borrowings under this line are included in the fiscal 2007 maturities.

Based upon the amount of variable-rate debt outstanding at October 31, 2006, and holding the variable-rate debt balance constant, each 1% increase in interest rates would increase the interest incurred by us by approximately $5.8 million per year.

Management's Annual Report on Internal Control Over Financial Reporting

Our management is responsible for establishing and maintaining adequate internal control over financial reporting, as such term is defined in the Securities Exchange Act Rule 13a-15(f). Internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. Internal control over financial reporting includes those policies and procedures that: pertain to the maintenance of records that in reasonable detail accurately and fairly reflect the transactions and dispositions of the assets of the company; provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements. Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Under the supervision and with the participation of our management, including our principal executive officer and our principal financial officer, we conducted an evaluation of the effectiveness of our internal control over financial reporting based on the framework in *Internal Control – Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on this evaluation under the framework in *Internal Control – Integrated Framework*, our management concluded that our internal control over financial reporting was effective as of October 31, 2006.

Our management's assessment of the effectiveness of internal control over financial reporting as of October 31, 2006 has been audited by Ernst & Young LLP, an independent registered public accounting firm, as stated in their report, which is included herein.

Financial Statements

Consolidated Statements of Income

(Amounts in thousands, except per share data)

Year ended October 31,	2006	2005	2004
Revenues			
Traditional home sales	$5,945,169	$5,759,301	$3,839,451
Percentage of completion	170,111		
Land sales	8,173	34,124	22,491
	6,123,453	5,793,425	3,861,942
Cost of revenues			
Traditional home sales	4,263,200	3,902,697	2,747,274
Percentage of completion	132,268		
Land sales	6,997	24,416	15,775
Interest	121,993	125,283	93,303
	4,524,458	4,052,396	2,856,352
Selling, general and administrative	573,404	482,786	381,080
Income from operations	1,025,591	1,258,243	624,510
Other:			
Equity earnings from unconsolidated entities	48,361	27,744	15,731
Interest and other income	52,664	41,197	15,420
Expenses related to early retirement of debt		(4,056)	(8,229)
Income before income taxes	1,126,616	1,323,128	647,432
Income taxes	439,403	517,018	238,321
Net income	$ 687,213	$ 806,110	$ 409,111
Earnings per share			
Basic	$ 4.45	$ 5.23	$ 2.75
Diluted	$ 4.17	$ 4.78	$ 2.52
Weighted-average number of shares			
Basic	154,300	154,272	148,646
Diluted	164,852	168,552	162,330

See accompanying notes.

Consolidated Balance Sheets

(Amounts in thousands)

October 31,	2006	2005
ASSETS		
Cash and cash equivalents	$ 632,524	$ 689,219
Inventory	6,095,702	5,068,624
Property, construction and office equipment, net	99,089	79,524
Receivables, prepaid expenses and other assets	160,446	185,620
Contracts receivable	170,111	
Mortgage loans receivable	130,326	99,858
Customer deposits held in escrow	49,676	68,601
Investments in and advances to unconsolidated entities	245,667	152,394
	$7,583,541	$6,343,840
LIABILITIES AND STOCKHOLDERS' EQUITY		
Liabilities		
Loans payable	$ 736,934	$ 250,552
Senior notes	1,141,167	1,140,028
Senior subordinated notes	350,000	350,000
Mortgage company warehouse loan	119,705	89,674
Customer deposits	360,147	415,602
Accounts payable	292,171	256,557
Accrued expenses	825,288	791,769
Income taxes payable	334,500	282,147
Total liabilities	4,159,912	3,576,329
Minority interest	7,703	3,940
Stockholders' equity		
Preferred stock, none issued		
Common stock, 156,292 issued at October 31, 2006 and 2005	1,563	1,563
Additional paid-in capital	220,783	242,546
Retained earnings	3,263,274	2,576,061
Treasury stock, at cost - 2,393 shares and 1,349 shares at October 31, 2006 and 2005, respectively	(69,694)	(56,599)
Total stockholders' equity	3,415,926	2,763,571
	$7,583,541	$6,343,840

See accompanying notes.

Consolidated Statements Of Cash Flows

(Amounts in thousands)

Year ended October 31,	2006	2005	2004
Cash flow from operating activities:			
Net income	$ 687,213	$ 806,110	$ 409,111
Adjustments to reconcile net income to net cash (used in) provided by operating activities:			
Depreciation and amortization	30,357	20,345	15,032
Stock-based compensation	27,082		
Excess tax benefits from stock-based compensation	(16,110)		
Amortization of initial benefit obligation	1,957	3,802	6,735
Amortization of unearned compensation		200	
Equity earnings from unconsolidated entities	(48,361)	(27,744)	(15,731)
Distribution of earnings from unconsolidated entities	10,534	13,401	12,083
Deferred tax provision	8,773	26,763	32,377
Provision for inventory write-offs	152,045	5,079	7,452
Write-off of unamortized debt discount and financing costs		416	1,322
Changes in operating assets and liabilities, net of assets and liabilities acquired			
Increase in inventory	(877,746)	(1,025,421)	(692,400)
Origination of mortgage loans	(1,022,663)	(873,404)	(744,380)
Sale of mortgage loans	992,196	873,459	701,967
Increase in contract receivables	(170,111)		
Decrease (increase) in receivables, prepaid expenses and other assets	22,345	(39,169)	(26,210)
(Decrease) increase in customer deposits	(36,530)	109,506	92,332
Increase in accounts payable and accrued expenses	71,520	314,949	265,387
Increase in current income taxes payable	63,045	126,404	58,618
Net cash (used in) provided by operating activities	(104,454)	334,696	123,695
Cash flow from investing activities:			
Purchase of property and equipment, net	(41,740)	(43,029)	(20,408)
Purchase of marketable securities	(2,844,810)	(4,575,434)	(1,976,767)
Sale of marketable securities	2,844,810	4,690,463	2,052,500
Investment in and advances to unconsolidated entities	(120,540)	(55,059)	(84,729)
Acquisition of interests in unconsolidated entities	(44,750)		
Return of investments in unconsolidated entities	32,521	14,631	22,005
Net cash (used in) provided by investing activities	(174,509)	31,572	(7,399)
Cash flow from financing activities:			
Proceeds from loans payable	1,614,087	1,125,951	981,621
Principal payments of loans payable	(1,316,950)	(1,391,833)	(988,488)
Net proceeds from issuance of public debt		293,097	297,432
Redemption of senior subordinated notes		(100,000)	(170,000)
Proceeds from stock-based benefit plans	15,103	44,729	14,725
Excess tax benefits from stock-based compensation	16,110		
Purchase of treasury stock	(109,845)	(118,767)	(20,241)
Change in minority interest	3,763	3,940	
Net cash provided by (used in) financing activities	222,268	(142,883)	115,049
Net (decrease) increase in cash and cash equivalents	(56,695)	223,385	231,345
Cash and cash equivalents, beginning of year	689,219	465,834	234,489
Cash and cash equivalents, end of year	$ 632,524	$ 689,219	$ 465,834

See accompanying notes.

Summary Consolidated Quarterly Financial Data (Unaudited)*

(Amounts in thousands, except per share data)

Three Months Ended Fiscal 2006	Oct. 31	July 31	April 30	Jan. 31
Revenues	$1,808,751	$1,531,213	$1,442,533	$1,340,956
Gross profit[1]	$ 402,849	$ 416,383	$ 402,834	$ 376,929
Income before income taxes	$ 291,157	$ 285,234	$ 284,578	$ 265,647
Net income	$ 173,794	$ 174,632	$ 174,937	$ 163,850
Earnings per share[2]				
Basic	$ 1.13	$ 1.14	$ 1.13	$ 1.06
Diluted	$ 1.07	$ 1.07	$ 1.06	$ 0.98
Weighted-average number of shares				
Basic	153,641	153,723	154,763	155,076
Diluted	163,139	163,514	165,727	167,027

Fiscal 2005	Oct. 31	July 31	April 30	Jan. 31
Revenues	$2,020,223	$1,547,082	$1,235,798	$ 990,322
Gross profit	$ 608,951	$ 478,133	$ 371,707	$ 282,238
Income before income taxes	$ 508,698	$ 362,608	$ 267,831	$ 183,991
Net income	$ 310,252	$ 215,532	$ 170,133	$ 110,193
Earnings per share[2]				
Basic	$ 1.99	$ 1.39	$ 1.10	$ 0.73
Diluted	$ 1.84	$ 1.27	$ 1.00	$ 0.66
Weighted-average number of shares				
Basic	155,536	155,274	154,627	151,653
Diluted	168,930	169,843	169,352	166,084

[1] In the quarter ended October 31, 2006, the Company provided for inventory write-downs and the expensing of costs that it believed not to be recoverable of $115.0 million. This charge reduced diluted earnings per share by $0.42 and basic earnings per share by $0.44.

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

Notes to Consolidated Financial Statements

1. Significant Accounting Policies

Basis of Presentation

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

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.

Revenue and Cost Recognition

Traditional Home Sales

The Company is primarily engaged in the development, construction and sale of residential homes. Because the construction time of one of the Company's traditional homes is generally less than one year, revenues and cost of revenues 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.

Percentage of Completion

The Company is developing several high-rise/mid-rise projects that will take substantially more than one year to complete. Revenues are recognized in accordance with Statement of Financial Accounting Standards ("SFAS") No. 66, "Accounting for Sales of Real Estate" ("SFAS 66"). Under the provisions of SFAS 66, revenues and costs are to be recognized using the percentage of completion method of accounting when construction is beyond the preliminary stage, the buyer is committed to the extent of being unable to require a refund except for non-delivery of the unit, sufficient units in the project have been sold to ensure that the property will not be converted to rental property, the sales prices are collectible and the aggregate sales proceeds and the total cost of the project can be reasonably estimated. Revenues and costs of individual projects are recognized on an individual project's aggregate value of units for which home buyers have signed binding agreements of sale, less an allowance for cancellations, and are based on the percentage of total estimated construction costs that have been incurred. Total estimated revenues and construction costs are reviewed periodically and any changes are applied prospectively. The Emerging Issues Task Force (the "EITF") recently issued, and the Financial Accounting Standards Board (the "FASB") has ratified, subject to a comment period, an interpretation regarding the application of certain criteria contained in SFAS 66. See "New Accounting Pronouncements" in this Note for further information.

Land Sales

Land sales revenues and cost of revenues are recorded at the time that title and possession of the property have been transferred to the buyer. The Company recognizes the pro rata share of revenues and cost of revenues of land sales to entities in which the Company has a 50% or less interest based upon the ownership percentage attributable to the non-Company investors. Any profit not recognized in a transaction reduces the Company's investment in the entity.

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 $97.8 million and $78.7 million at October 31, 2006 and 2005, respectively. Depreciation is recorded 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 SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets" ("SFAS 144"). In addition to direct land acquisition, land development and home construction costs, costs include interest, real estate taxes and direct overhead 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.

Once a piece of land has been approved for development, it generally takes 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, and the sales and delivery pace of the homes in that 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, under SFAS 144, to review the carrying value of each of its communities and write down the value of those communities to the extent to which it believes the values are not recoverable. When the profitability of a current community deteriorates, the sales pace declines significantly or some other factor indicates a possible impairment in the recoverability of the asset, the asset is reviewed for impairment by comparing the estimated future undiscounted cash flow for the community to its carrying value. If such cash flow is less than the community's carrying value, the carrying value is written down to its estimated fair value by charging cost of revenues in the period the impairment is determined. Fair value is determined by the use of estimates made by management, based upon its judgment at the time the estimate is made, including estimates of future sales trends, revenues and costs.

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 will likely 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 has a significant number of land purchase contracts, sometimes referred to as "options" or "option agreements," and investments in unconsolidated entities which it evaluates in accordance with FASB Interpretation No. 46, "Consolidation of Variable Interest Entities, an interpretation of ARB No. 51" as amended by FIN 46R ("FIN 46"). Pursuant to FIN 46, an enterprise that absorbs a majority of the expected losses or receives a majority of the expected residual returns of a variable interest entity ("VIE") is considered to be the primary beneficiary and must consolidate the operations of the VIE. A VIE is an entity with insufficient equity investment or in which the equity investors lack some of the characteristics of a controlling financial interest. For land purchase contracts with sellers meeting the definition of a VIE, the Company performs a review to determine which party is the primary beneficiary of the VIE. This review requires substantive judgment and estimation. These judgments and estimates involve assigning probabilities to various estimated cash flow possibilities relative to the entity's expected profits and losses and the cash flows associated with changes in the fair value of the land under contract. Because, in most cases, the Company does not have any ownership interests in the entities with which it contracts to purchase land, it generally does not have the ability to compel these entities to provide assistance in its review.

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

Investments in and Advances to Unconsolidated Entities

The Company is a party to several joint ventures with independent third parties to develop and sell land that was 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, effectively owns one-third of the Toll Brothers Realty Trust Group ("Trust") and owns 50% of Toll Brothers Realty Trust Group II ("Trust II"). The Company recognizes its proportionate share of the earnings of these entities.

Mortgage Loans Receivable

Mortgage loans, classified as held for sale, include the value of mortgage loans funded to borrowers plus the deferral of expenses directly associated with the loans less any points collected at closing. The carrying value of these loans approximates their fair value.

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. Advertising costs were $36.0 million, $24.0 million and $20.8 million for the fiscal years ended October 31, 2006, 2005 and 2004, respectively.

Warranty Costs

The Company provides all of its home buyers with a limited warranty as to workmanship and mechanical equipment. The Company 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 under 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 home building operations primarily involve four reportable geographic segments: North, Mid-Atlantic, South and West. The states comprising each geographic segment are as follows:

North:	Connecticut, Illinois, Massachusetts, Michigan, Minnesota, New Hampshire, New Jersey, New York, Ohio and Rhode Island
Mid-Atlantic:	Delaware, Maryland, Pennsylvania, Virginia and West Virginia
South:	Florida, North Carolina, South Carolina, Tennessee and Texas
West:	Arizona, California, Colorado and Nevada

The Company stopped selling homes in Tennessee, New Hampshire and Ohio in fiscal 2004, 2004 and 2005, respectively, and delivered its last home in each of those states in fiscal 2004, 2004 and 2006, respectively. The operations in these states were immaterial to the applicable geographic segment.

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, 2006 and 2005, the Company had $12.2 million of goodwill.

Acquisitions

In June 2005, the Company acquired substantially all of the assets of the home building operations of the Central Florida Division of Landstar Homes ("Landstar"). Landstar designed, constructed, marketed and sold homes in the Orlando metropolitan area. For the full calendar year 2005, Landstar anticipated delivering approximately 520 homes and producing revenues of approximately $150 million. Of the approximately $209.0 million (566 homes) of homes sold but not delivered at the acquisition date of Landstar, the Company delivered approximately $66.0 million (202 homes) of homes between the acquisition date and October 31, 2005. Under purchase accounting rules, the Company allocated a portion of the purchase price to the unrealized profit on these homes at the acquisition date. The Company did not recognize revenues on $21.3 million (73 homes) of home deliveries in the quarter ended July 31, 2005 but reduced the value of the acquired inventory by the $21.3 million. The acquisition had a minimal impact on the Company's earnings in fiscal 2005.

In January 2004, the Company entered into a joint venture in which it had a 50% interest with an unrelated party to develop Maxwell Place, a luxury condominium community of approximately 800 units in Hoboken, New Jersey. In November 2005, the Company acquired its partner's 50% equity ownership interest in this joint venture. As a result of the acquisition, the Company now owns 100% of the joint venture and the joint venture has been included as a consolidated subsidiary of the Company as of the acquisition date. As of the acquisition date, the joint venture had open contracts of sale to deliver 165 units with a sales value of approximately $128.3 million. The Company's investment in and subsequent purchase of the partner's interest in the joint venture was not material to the financial position of the Company. The Company is recognizing revenue and costs related to a portion of this project using the percentage of completion method of accounting.

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

New Accounting Pronouncements

On December 16, 2004, the FASB issued SFAS No. 123 (revised 2004), "Share-Based Payment" ("SFAS 123R"). In April 2005, the Securities and Exchange Commission (the "SEC") adopted a rule permitting implementation of SFAS 123R at the beginning of the fiscal year commencing after June 15, 2005. Under the provisions of SFAS 123R, an entity is required to treat all stock-based compensation as a cost that is reflected in the financial statements. The Company was required to adopt SFAS 123R beginning in its fiscal quarter ended January 31, 2006. The Company adopted SFAS 123R using the modified prospective method whereby the Company recognized the expense only for periods beginning after October 31, 2005. See Note 8, "Stock-Based Benefit Plans," for information regarding expensing of stock options in fiscal 2006 and for pro forma information regarding the Company's expensing of stock options for fiscal 2005 and 2004.

In June 2005, the EITF released Issue No. 04-5, "Determining Whether a General Partner, or the General Partner as a Group, Controls a Limited Partnership or Similar Entity When the Limited Partners Have Certain Rights" ("EITF 04-5"). EITF 04-5 provides guidance in determining whether a general partner controls a limited partnership and therefore should consolidate the limited partnership. EITF 04-5 states that the general partner in a limited partnership is presumed to control that limited partnership and that the presumption may be overcome if the limited partners have either (1) the substantive ability to dissolve or liquidate the limited partnership or otherwise remove the general partner without cause, or (2) substantive participating rights. The effective date for applying the guidance in EITF 04-5 was (1) June 29, 2005 for all new limited partnerships and existing limited partnerships for which the partnership agreement was modified after that date, and (2) no later than the beginning of the first reporting period in fiscal years beginning after December 15, 2005, for all other limited partnerships. Implementation of EITF 04-5 did not have a material impact on the Company's financial position in fiscal 2005.

In June 2006, the FASB issued FASB Interpretation No. 48, "Accounting for Uncertainty in Income Taxes" ("FIN 48"). FIN 48 clarifies the accounting for uncertainty in income taxes recognized in accordance with SFAS No. 109, "Accounting for Income Taxes" and prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. FIN 48 will be effective for the Company's fiscal year beginning November 1, 2007. The Company is currently reviewing the effect FIN 48 will have on its financial statements.

In September 2006, the FASB issued SFAS No. 158, "Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans, an amendment of FASB Statements No. 87, 88, 106, and 132(R)" ("SFAS 158"). SFAS 158 requires the Company to (a) recognize in its statement of financial position the overfunded or underfunded status of a defined benefit postretirement plan measured as the difference between the fair value of plan assets and the benefit obligation, (b) recognize as a component of other comprehensive income, net of tax, the actuarial gains and losses and the prior service costs and credits that arise during the period, (c) measure defined benefit plan assets and defined benefit plan obligations as of the date of the Company's statement of financial position, and (d) disclose additional information about certain effects on net periodic benefit costs in the upcoming fiscal year that arise from the delayed recognition of the actuarial gains and losses and the prior service costs and credits. SFAS 158 is effective for the Company's fiscal year beginning November 1, 2007. The Company does not expect that adoption of SFAS 158 will have a material effect on its financial statements.

In September 2006, the EITF issued EITF Issue No. 06-8, "Applicability of the Assessment of a Buyer's Continuing Investment under SFAS No. 66 for the Sale of Condominiums" ("EITF 06-8"). EITF 06-8 states that in assessing the collectibility of the sales price pursuant to paragraph 37(d) of SFAS 66, an entity should evaluate the adequacy of the buyer's initial and continuing investment to conclude that the sales price is collectible. If an entity is unable to meet the criteria of paragraph 37, including an assessment of collectibility using the initial and continuing investment tests described in paragraphs 8-12 of SFAS 66, then the entity should apply the deposit method as described in paragraphs 65-67 of SFAS 66. EITF 06-8 is effective for the Company's fiscal year beginning November 1, 2007. In November 2006, the FASB ratified the EITF's recommendation, subject to a comment period. The Company expects that EITF 06-8 will be adopted. The application of the continuing investment criteria on the collectibility of the sales price will limit the Company's ability to recognize revenues and costs using the percentage of completion accounting method. The Company does not expect that this change in criteria would affect any revenues or costs reported under percentage of completion accounting in fiscal 2006.

In September 2006, the FASB issued SFAS No. 157, "Fair Value Measurements" ("SFAS 157"). SFAS 157 provides guidance for using fair value to measure assets and liabilities. The standard also responds to investors' request for expanded information about the extent to which a company measures assets and liabilities at fair value, the information used to measure fair value, and the effect of fair value measurements on earnings. SFAS 157 will be effective for the Company's fiscal year beginning November 1, 2008. The Company is currently reviewing the effect SFAS 157 will have on its financial statements.

Stock Split

On June 9, 2005, the Company's Board of Directors declared a two-for-one split of the Company's common stock in the form of a stock dividend to stockholders of record on June 21, 2005. The additional shares of stock were distributed as of the close of business on July 8, 2005. All share and per share information has been adjusted and restated to reflect this split.

Reclassification

Certain prior year amounts have been reclassified to conform to the fiscal 2006 presentation.

2. Inventory

Inventory at October 31, 2006 and 2005 consisted of the following (amounts in thousands):

	2006	2005
Land and land development costs	$2,193,850	$1,717,825
Construction in progress - completed contract	3,174,483	2,669,148
Construction in progress - percentage of completion	153,452	40,647
Sample homes and sales offices	244,097	202,286
Land deposits and costs of future development	315,041	427,192
Other	14,779	11,526
	$6,095,702	$5,068,624

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 capitalizes certain interest costs to inventory during the development and construction period. Capitalized interest is charged to cost of revenues when the related inventory is delivered for traditional homes or when the related inventory is charged to cost of revenues under percentage of completion accounting. Interest incurred, capitalized and expensed for each of the three years ended October 31, 2006, 2005 and 2004, were as follows (amounts in thousands):

	2006	2005	2004
Interest capitalized, beginning of year	$162,672	$173,442	$154,314
Interest incurred	135,166	115,449	113,448
Capitalized interest in inventory acquired	6,100		
Interest expensed to cost of sales	(121,993)	(125,283)	(93,303)
Write-off against other income	(480)	(936)	(1,017)
Interest capitalized, end of year	$181,465	$162,672	$173,442

Interest included in cost of revenues for each of the three years ended October 31, 2006, 2005 and 2004, were as follows (amounts in thousands):

	2006	2005	2004
Traditional home sales	$116,405	$122,451	$92,825
Percentage of completion	4,552		
Land sales	1,036	2,832	478
	$121,993	$125,283	$93,303

The Company recognized inventory write-downs and the expensing of costs that it believed not to be recoverable for each of the three years ended October 31, 2006, 2005 and 2004, as follows (amounts in thousands):

	2006	2005	2004
Land controlled for future communities	$ 90,925	$3,279	$5,236
Operating communities	61,120	1,800	2,216
Total	$152,045	$5,079	$7,452

The Company has evaluated its land purchase contracts to determine if the selling entity is a VIE and if it is, whether the Company is the primary beneficiary of the entity. The Company does not possess legal title to the land and its risk is generally limited to deposits paid to the seller. The creditors of the seller generally have no recourse against the Company. At October 31, 2006, the Company had determined that it was the primary beneficiary of one VIE related to a land purchase contract and had recorded $74.6 million as inventory and recorded $67.1 million as a loan payable.

3. Investments in and Advances to 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, 2006, the Company had approximately $165.2 million invested in or advanced to these joint ventures and was committed to contributing additional capital in an aggregate amount of approximately $238.1 million (net of the Company's $129.7 million of loan guarantees related to two of the joint ventures' loans) if required by the joint ventures. At October 31, 2006, three of the joint ventures had an aggregate of $1.33 billion of loan commitments, and had approximately $1.11 billion borrowed against the commitments, of which the Company's guarantee of its pro-rata share of the borrowings was $107.9 million.

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, 2006, the Company had investments in and advances to the joint venture of $47.4 million, and was committed to making up to $1.5 million of additional investments in and advances to the joint venture.

The Company has investments in and advances to two joint ventures with unrelated parties to develop luxury condominium projects, including for-sale residential units and commercial space. At October 31, 2006, the Company had investments in and advances to the joint ventures of $18.1 million, was committed to making up to $116.8 million of additional investments in and advances to the joint ventures if required by the joint ventures, and guaranteed $21 million of joint venture loans. At October 31, 2006, these joint ventures had an aggregate of $292.6 million of loan commitments and had approximately $119.8 million borrowed against the commitments.

In fiscal 2005, the Company, together with the Pennsylvania State Employees Retirement System ("PASERS"), formed Toll Brothers Realty Trust Group II ("Trust II") to be in a position to take advantage of commercial real estate opportunities. Trust II is owned 50% by the Company and 50% by PASERS. At October 31, 2006, the Company had an investment of $8.3 million in Trust II. In addition, the Company and PASERS each entered into subscription agreements that expire in September 2007, whereby each agreed to invest additional capital in an amount not to exceed $11.1 million if required by Trust II. In September 2005, the Company sold a 26-acre commercially zoned parcel of land at its Dominion Valley Country Club in Virginia and a 30-acre commercially zoned parcel of land at its South Riding master planned community in Virginia to Trust II for a total of $12.3 million. Because the Company owns 50% of Trust II, it recognized only 50% of the profit on the sale. The remaining 50% of the profit on the sale reduced the Company's investment in Trust II. The Company provides development and management services to Trust II and recognized fees for such services under the terms of various agreements in the amounts of $1.4 million and $1.1 million in the fiscal years ended October 31, 2006 and 2005, respectively. Prior to the formation of Trust II, the Company used Toll Brothers Realty Trust Group ("Trust") to invest in commercial real estate opportunities. See Note 12, "Related Party Transactions," for a description of the Company's investment in the Trust.

The Company's investments in these entities are accounted for using the equity method.

4. Loans Payable, Senior Notes, Senior Subordinated Notes and Mortgage Company Warehouse Loan

Loans Payable

Loans payable at October 31, 2006 and 2005 consisted of the following (amounts in thousands):

	2006	2005
Term loan due March 2011 (a)	$300,000	
Other (b)	436,934	$250,552
	$736,934	$250,552

(a) The Company has a $1.8 billion credit facility consisting of a $1.5 billion unsecured revolving credit facility and a $300 million term loan facility (collectively, the "Credit Facility") with 33 banks, which extends to March 17, 2011. At October 31, 2006, interest was payable on borrowings under the revolving credit facility at 0.475% (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, 2006, the Company had no outstanding borrowings against the revolving credit facility but had letters of credit of approximately $408.2 million outstanding under it, of which the Company had recorded $80.5 million as liabilities under land purchase agreements. Under the term loan facility, interest is payable at 0.50% (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, 2006, interest was payable on the $300 million term loan at 5.89%. Under the terms of the Credit Facility, the Company is not permitted to allow its maximum leverage ratio (as defined in the agreement) to exceed 2.00 to 1.00 and was required to maintain a minimum tangible net worth (as defined in the agreement) of approximately $2.32 billion at October 31, 2006. At October 31, 2006, the Company's leverage ratio was approximately 0.53 to 1.00 and its tangible net worth was approximately $3.45 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 $1.05 billion at October 31, 2006.

(b) The weighted average interest rate on these loans was 5.97% at October 31, 2006 and ranged from 3.62% to 10.0%. At October 31, 2006, $436.9 million of loans payable were secured by assets of approximately $654.1 million.

At October 31, 2006, the aggregate estimated fair value of the Company's loans payable was approximately $737.8 million. The fair value of loans was estimated based upon the interest rates at October 31, 2006 that the Company believed were available to it for loans with similar terms and remaining maturities.

Senior Notes

During fiscal 2005, the Company issued $300 million of 5.15% Senior Notes due 2015 and used the proceeds from the transaction to redeem its $100 million outstanding of 8% Senior Subordinated Notes due 2009 and, with additional available funds, to retire its $222.5 million bank term loan.

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

At October 31, 2006 and 2005, the Company's senior notes consisted of the following (amounts in thousands):

	2006	2005
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	300,000
5.15% Senior Notes due May 15, 2015	300,000	300,000
Bond discount	(8,833)	(9,972)
	$1,141,167	$1,140,028

The senior notes are the unsecured obligations of Toll Brothers Finance Corp., a 100%-owned subsidiary of the Company. The payment of principal and interest is fully and unconditionally guaranteed, jointly and severally, by the Company and substantially all of its home building subsidiaries (together with Toll Brothers Finance Corp., the "Senior Note Parties"). The senior notes rank equally in right of payment with all the Senior Note Parties' existing and future unsecured senior indebtedness, including the Credit Facility. The senior notes are structurally subordinated to the prior claims of creditors, including trade creditors, of the subsidiaries of the Company 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.

At October 31, 2006, the aggregate fair value of the Company's senior notes, based upon their indicated market prices, was approximately $1.09 billion.

Senior Subordinated Notes

At October 31, 2006 and 2005, the Company's senior subordinated notes consisted of the following (amounts in thousands):

	2006	2005
Senior subordinated notes:		
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
	$ 350,000	$ 350,000

The senior subordinated notes are the unsecured obligations of Toll Corp., a 100%-owned subsidiary of the Company; these obligations are guaranteed on a senior subordinated basis by the Company. All issues of senior subordinated notes are subordinated to all existing and future senior indebtedness of the Company and are structurally subordinated to the prior claims of creditors, including trade creditors, of the Company's subsidiaries other than Toll Corp. 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, 2006, the aggregate fair value of the Company's senior subordinated notes, based upon their indicated market prices, was approximately $356.9 million.

Mortgage Company Warehouse Loan

A subsidiary of the Company has a $125 million bank line of credit with four banks to fund home mortgage originations. The line of credit 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, 2006, the subsidiary had borrowed $119.7 million under the line of credit at an average interest rate of 6.53%. The line of credit is collateralized by all the assets of the subsidiary, which amounted to approximately $134.1 million at October 31, 2006.

The annual aggregate maturities of the Company's loans and notes during each of the next five fiscal years are 2007 - $274.2 million; 2008 - $47.3 million; 2009 - $3.3 million; 2010 - $148.9 million; and 2011 - $569.3 million.

5. Accrued Expenses

Accrued expenses at October 31, 2006 and 2005 consisted of the following (amounts in thousands):

	2006	2005
Land, land development and construction	$376,114	$385,031
Compensation and employee benefits	127,433	122,836
Insurance and litigation	130,244	92,809
Warranty	57,414	54,722
Interest	43,629	34,431
Other	90,454	101,940
	$825,288	$791,769

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 2006, 2005 and 2004 were as follows (amounts in thousands):

	2006	2005	2004
Balance, beginning of year	$54,722	$42,133	$33,752
Additions	36,405	41,771	27,674
Charges incurred	(33,713)	(29,182)	(19,293)
Balance, end of year	$57,414	$54,722	$42,133

6. Income Taxes

Provisions for federal and state income taxes are calculated on reported pre-tax earnings based on current tax law and also include, in the applicable period, the cumulative effect of any changes in tax rates from those used previously in determining deferred tax assets and liabilities. Such provisions differ from the amounts currently receivable or payable because certain items of income and expense are recognized for financial reporting purposes in different periods than for income tax purposes. Significant judgment is required in determining income tax provisions and evaluating tax positions. The Company establishes reserves for income taxes when, despite the belief that its tax positions are fully supportable, it believes that its positions may be challenged and disallowed by various tax authorities. The consolidated tax provision and related accruals include the impact of such reasonably estimable disallowances as deemed appropriate. To the extent that the probable tax outcome of these matters changes, such changes in estimates will impact the income tax provision in the period in which such determination is made.

The Company operates in 21 states and is subject to various state tax jurisdictions. The Company estimates its state tax liability based upon the individual taxing authorities' regulations, estimates of income by taxing jurisdiction, and the Company's ability to utilize certain tax-saving strategies. Due primarily to a change in the Company's estimate of the allocation of income among the various taxing jurisdictions and changes in tax regulations and their impact on the Company's tax strategies, the Company's estimated rate for state income taxes was 7.0% for fiscal 2006, 6.3% for fiscal 2005 and 3.0% for fiscal 2004.

A reconciliation of the Company's effective tax rate from the federal statutory tax rate for the fiscal years ended October 31, 2006, 2005 and 2004 is as follows:

	2006	2005	2004
Federal statutory rate	35.0%	35.0%	35.0%
State income taxes, net of federal benefit	4.5	4.1	2.0
Benefit from manufacturing credit	(0.7)		
FAS 109 Adjustment		0.3	
Other	0.2	(0.3)	(0.2)
	39.0%	39.1%	36.8%

The provision for income taxes for each of the three years ended October 31, 2006, 2005 and 2004 was as follows (amounts in thousands):

	2006	2005	2004
Federal	$361,543	$428,221	$223,076
State	77,860	88,797	15,245
	$439,403	$517,018	$238,321
Current	$430,630	$490,254	$205,944
Deferred	8,773	26,764	32,377
	$439,403	$517,018	$238,321

The components of income taxes payable at October 31, 2006 and 2005 consisted of the following (amounts in thousands):

	2006	2005
Current	$215,194	$171,614
Deferred	119,306	110,533
	$334,500	$282,147

The components of net deferred taxes payable at October 31, 2006 and 2005 consisted of the following (amounts in thousands):

	2006	2005
Deferred tax liabilities:		
Capitalized interest	$ 61,936	$ 69,426
Deferred income	127,394	76,651
Depreciation	10,337	7,667
Total	199,667	153,744
Deferred tax assets:		
Accrued expenses	38,390	19,222
Inventory valuation differences	10,193	12,102
State taxes	6,771	5,371
Stock based compensation	9,078	
Other	15,929	6,516
Total	80,361	43,211
Net deferred tax liability	$119,306	$110,533

7. Stockholders' Equity

The Company's authorized capital stock consists of 200 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 400 million shares and the number of shares of authorized preferred stock to 15 million shares. At October 31, 2006, the Company had approximately 153.9 million shares of common stock issued and outstanding (net of approximately 2.4 million shares of common stock held in Treasury), approximately 25.2 million shares of common stock reserved for outstanding stock options, approximately 8.5 million shares of common stock reserved for future stock option and award issuances and approximately 0.8 million shares of common stock reserved for issuance under the Company's employee stock purchase plan. As of October 31, 2006, the Company had not issued any shares of preferred stock.

Issuance of Common Stock

In fiscal 2006 and 2005, the Company issued 1,000 and 22,000 shares of restricted common stock pursuant to its Stock Incentive Plan (1998), respectively. The fiscal 2006 awards were to certain outside directors and in fiscal 2005 to certain outside directors and an employee. The Company is amortizing the fair market value of the awards on the date of grant over the period of time that each award vests. At October 31, 2006, the Company had 15,582 shares of unvested restricted stock awards outstanding.

Stock Repurchase Program

In March 2003, the Company's Board of Directors authorized the repurchase of up to 20 million shares of its common stock 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, 2006, the Company had approximately 12.1 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, 2006.

Changes in Stockholders' Equity

Changes in stockholders' equity for each of the three years ended October 31, 2006, 2005 and 2004 were as follows (amounts in thousands):

	Common Stock Shares	Common Stock Amount	Additional Paid-In Capital	Retained Earnings	Treasury Stock	Total
Balance, November 1, 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
Net income				806,110		806,110
Purchase of treasury stock	(2,396)				(118,767)	(118,767)
Exercise of stock options	3,887	14	26,780		97,504	124,298
Executive bonus award	656		14,930		15,466	30,396
Employee benefit plan issuances	22		506		871	1,377
Issuance of restricted shares	11		(778)		778	-
Amortization of unearned compensation			170			170
Two-for-one stock split	77,942	779		(779)		-
Balance, October 31, 2005	154,943	1,563	242,546	2,576,061	(56,599)	2,763,571
Net income				687,213		687,213
Purchase of treasury stock	(3,632)				(109,845)	(109,845)
Exercise of stock options	2,181		(48,576)		81,925	33,349
Executive bonus award	296		(125)		11,051	10,926
Employee benefit plan issuances	110		(123)		3,727	3,604
Issuance of restricted shares	1				47	47
Stock based compensation			26,748			26,748
Amortization of unearned compensation			313			313
Balance, October 31, 2006	153,899	$1,563	$220,783	$3,263,274	$(69,694)	$3,415,926

8. Stock-Based Benefit Plans

Stock-Based Compensation Plans

Effective November 1, 2005, the Company adopted SFAS 123R and recognized compensation expense in its financial statements in fiscal 2006. Prior to the adoption of SFAS 123R, the Company accounted for its stock option plans according to Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees." Accordingly, no compensation costs were recognized upon issuance or exercise of stock options for fiscal 2005 or 2004.

SFAS No. 123, "Accounting for Stock-Based Compensation," required the disclosure of the estimated fair 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.

For the purposes of providing the pro forma disclosures, prior to November 1, 2004, the fair value of options granted was estimated using the Black-Scholes option pricing model for grants. To better value option grants as required by SFAS 123R, the Company has developed a lattice model, which it believes better reflects the establishment of the fair value of option grants for non-executive officers. The Company used a lattice model for the fiscal 2006 and 2005 valuation for non-executive officers and the Black-Scholes option pricing model for executive officers and members of the Board of Directors.

The weighted-average assumptions and fair value used for stock option grants in each of the three years ended October 31, 2006, 2005 and 2004 were as follows:

	2006	2005	2004
Expected volatility	36.33% - 38.28%	27.00% - 33.46%	41.34% - 43.92%
Weighted-average volatility	37.55%	31.31%	42.97%
Risk-free interest rate	4.38% - 4.51%	3.13% - 4.2 %	3.19% - 4.45%
Expected life (years)	4.11 - 9.07	2.80 - 9.07	6.00 - 10.00
Dividends	none	none	none
Weighted-average fair value per share of options granted	$15.30	$11.67	$9.74

Expected volatilities are based on implied volatilities from traded options on the Company's stock and the historical volatility of the Company's stock. The expected life of options granted is derived from the historical exercise patterns and anticipated future patterns and represents the period of time that options granted are expected to be outstanding; the range given above results from certain groups of employees exhibiting different behavior. The risk-free rate for periods within the contractual life of the option is based on the U.S. Treasury yield curve in effect at the time of grant.

The fair value of stock option awards is recognized evenly over the vesting period of the options or over the period between the grant date and the time the option becomes non-forfeitable by the employee, whichever is shorter. Stock option expense is included in the Company's selling, general and administrative expenses. In fiscal 2006, the Company recognized $26.8 million of expense and an income tax benefit of $9.1 million related to option awards. The impact of the adoption of SFAS 123R on fiscal 2006 diluted earnings per share was approximately $0.11. At October 31, 2006, total compensation cost related to non-vested awards not yet recognized was approximately $30.9 million, unrecognized income tax benefits from non-vested awards was approximately $11.1 million and the weighted-average period over which the Company expects to recognize such compensation costs and tax benefit is 1.2 years.

At October 31, 2006, the Company's stock-based compensation plans primarily consisted of its stock option plans.

Had the Company adopted SFAS 123R as of November 1, 2004, income before taxes, income taxes, net income and net income per share for fiscal 2005 and 2004 would have been as follows (amounts in thousands, except per share amounts):

	As Reported	SFAS 123R Adjustment	Pro Forma
2005			
Income before income taxes	$1,323,128	$(22,722)	$1,300,406
Income taxes	517,018	(6,989)	510,029
Net income	$ 806,110	$(15,733)	$ 790,377
Income per share			
Basic	$5.23		$5.12
Diluted	$4.78		$4.69
2004			
Income before income taxes	$ 647,432	$(22,557)	$ 624,875
Income taxes	238,321	(5,344)	232,977
Net income	$ 409,111	$(17,213)	$ 391,898
Income per share			
Basic	$2.75		$2.64
Diluted	$2.52		$2.41

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-qualified 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. Options granted generally vest over a four-year period for employees and a two-year period for non-employee directors. 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). Shares issued upon the exercise of a stock option are either from shares held in treasury or newly issued shares.

The Company's Stock Incentive Plan (1998) provides for automatic increases each November 1 in the number of shares available for grant by 2.5% of the number of shares issued (including treasury shares). The 1998 Plan restricts the number of shares available for grant in a year to a maximum of ten million shares.

The following table summarizes stock option activity for the four plans during each of the three years ended October 31, 2006, 2005 and 2004 (amounts in thousands, except per share amounts):

	2006		2005		2004	
	Number of Options	Weighted-Average Exercise Price	Number of Options	Weighted-Average Exercise Price	Number of Options	Weighted-Average Exercise Price
Balance, beginning of period	26,155	$ 11.04	30,490	$ 8.21	31,066	$ 6.96
Granted	1,433	35.97	2,736	32.55	2,704	20.14
Exercised	(2,185)	6.43	(6,769)	6.56	(3,018)	5.55
Cancelled	(225)	28.72	(302)	20.79	(262)	13.39
Balance, end of period	25,178	$ 12.70	26,155	$ 11.04	30,490	$ 8.21
Options exercisable, at October 31,	20,398	$ 9.02	19,627	$ 7.34	23,070	$ 6.37
Options available for grant at October 31,	8,462		6,161		6,336	

At October 31, 2006, the exercise price of approximately 3.9 million options was higher than the closing price of the Company's common stock on the New York Stock Exchange (the "NYSE"), on October 31, 2006.

The Company realized a tax benefit from the exercise of non-qualified stock options and the exercise and disqualifying disposition of incentive stock options of $19.5 million, $80.9 million and $18.2 million in fiscal 2006, 2005 and 2004, respectively.

The intrinsic value of options outstanding and exercisable is the difference between the fair market value of the Company's common stock on the applicable date ("Measurement Value") and the exercise price of those options that had an exercise price that was less than the Measurement Value. The intrinsic value of options exercised is the difference between the fair market value of the Company's common stock on the date of exercise and the exercise price.

Information pertaining to the intrinsic value of options outstanding and exercisable at October 31, 2006, 2005 and 2004 is provided below (amounts in thousands):

	2006	2005	2004
Intrinsic value of options			
Outstanding	$408,186	$676,700	$456,061
Exercisable	$405,764	$580,363	$387,371

Information pertaining to the intrinsic value of options exercised and the fair value of options which became vested in each of the three years ended October 31, 2006, 2005 and 2004 is provided below (amounts in thousands):

	2006	2005	2004
Intrinsic value of options exercised	$ 56,133	$227,693	$ 47,585
Fair value of options vested	$ 23,551	$ 20,365	$ 17,345

Pursuant to the provisions of the Company's stock option plans, participants are permitted to use the value of the Company's common stock that they own to pay for the exercise of options. The Company received 4,172 shares with an average fair market value per share of $35.43 for the exercise of stock options in fiscal 2006, 26,980 shares with an average fair market value per share of $36.91 for the exercise of stock options in fiscal 2005 and 121,460 shares with an average fair market value per share of $21.41 for the exercise of stock options in fiscal 2004.

The following table summarizes information about stock options outstanding and exercisable at October 31, 2006:

	Options Outstanding			Options Exercisable	
Range of Exercise Prices	Number Outstanding (in 000)	Weighted-Average Remaining Contractual Life (in years)	Weighted-Average Exercise Price	Number Exercisable (in 000)	Weighted-Average Exercise Price
$ 4.38 - $ 6.86	10,431	2.3	$ 5.33	10,431	$ 5.33
$ 6.87 - $ 9.66	3,252	3.4	9.03	3,252	9.03
$ 9.67 - $10.88	5,290	5.5	10.74	4,787	10.77
$10.89 - $20.14	2,314	7.1	20.14	1,233	20.14
$20.15 - $35.97	3,891	8.5	33.75	695	32.55
	25,178	4.5	$12.70	20,398	$ 9.02

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 specified conditions) in shares of the Company's common stock using the value of the stock as of the date of the agreement ($9.66 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 of $30.4 million, which represented the fair market value of shares that were issued to Mr. Toll (1.31 million shares). Had Mr. Toll and the Board of Directors not amended Mr. Toll's bonus program for fiscal 2004, Mr. Toll would have received 2.15 million shares with a fair market value of $49.8 million.

In December 2004, Mr. Toll and the Board of Directors agreed to further amend the Cash Bonus Plan such that the value of future awards would be calculated based upon the difference between the closing price of the Company's common stock on the NYSE on the last trading day of the Company's 2004 fiscal year [$23.18 as of October 29, 2004 (the "Award Conversion Price")] and the closing price of the Company's common stock on the NYSE on the last day of the fiscal year for which the cash bonus is being calculated. The amount calculated under this revised stock award formula (the "Stock Award Formula") is limited to price appreciation up to $13.90 per share and 2.9% of the Company's pre-tax earnings, as defined by the plan (together, the "Award Caps"). The bonus award will be paid to Mr. Toll 60% in cash and 40% in shares of the Company's common stock based upon the closing price of the Company's common stock on the NYSE on the last day of the fiscal year for which the cash bonus is being calculated. The stockholders approved the plan at the Company's 2005 Annual Meeting.

Mr. Toll and the Executive Compensation Committee of the Board of Directors subsequently amended the Cash Bonus Plan to limit Mr. Toll's bonus for fiscal 2005 to an amount equal to $27.3 million. Had Mr. Toll and the Executive Compensation Committee of the Board of Directors not amended Mr. Toll's bonus program for fiscal 2005, Mr. Toll would have received $39.2 million. The Company recognized compensation expense in 2005 of $27.3 million for Mr. Toll's bonus. The bonus was paid in the form of 296,099 shares of the Company's common stock with a fair market value of $10.9 million (based on the $36.91 closing price of the Company's common stock on the NYSE on October 31, 2005) and $16.4 million in cash. The Cash Bonus Plan was also amended for fiscal 2006 and fiscal 2007 to (a) eliminate the Stock Award Formula to the extent the Company's common stock on the NYSE on the last trading day of the fiscal year for which the cash bonus is being calculated is less than or equal to $36.91 and greater than or equal to the Award Conversion Price, and (b) in addition to the Award Caps, further limit the amount of the bonus payable under the Cash Bonus Plan if the Company's common stock on the NYSE on the last trading day of the fiscal year for which Mr. Toll's cash bonus is being calculated is greater than $36.91.

Based upon the terms of the Company's Cash Bonus Plan in place in fiscal 2006, Mr. Toll was entitled to a $21.5 million bonus for fiscal 2006. In December 2006, Mr. Toll and the Executive Compensation Committee of the Board of Directors amended the Cash Bonus Plan to limit Mr. Toll's bonus for fiscal 2006 to an amount equal to $17.5 million, payable in 242,560 shares of the Company's common stock with a fair market value of $7.0 million (based on the $28.91 closing price of the Company's common stock on the NYSE on October 31, 2006) and $10.5 million in cash. Mr. Toll's bonus payment was further revised to provide that $3.0 million ($1.8 million of cash and $1.2 million of stock valued as of the date of the bonus payment) be exchanged for restricted shares on the date of the bonus payment, which restricted shares will vest over a two-year period.

On October 31, 2006, 2005 and 2004, the closing price of the Company's Common Stock on the NYSE was $28.91, $36.91 and $23.18, respectively.

Under the Company's deferred compensation plan, Mr. Toll can elect to defer receipt of his bonus until a future date. In prior years, Mr. Toll elected to defer receipt of some of his bonus award shares. In December 2005 and 2004, Mr. Toll received 480,166 shares of his 2001 bonus and 471,100 shares of his 2002 bonus, respectively. In December 2006, Mr. Toll will receive an additional 471,100 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 1.2 million shares be reserved for purchase. At October 31, 2006, 760,573 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, 2006, 2005 and 2004 were 39,535 shares and $26.54, 35,026 shares and $38.09, and 31,248 shares and $19.12, respectively. In fiscal 2006, the Company recognized $144 thousand of compensation expense related to this plan.

9. Earnings Per Share Information

Information pertaining to the calculation of earnings per share for each of the three years ended October 31, 2006, 2005 and 2004 is as follows (amounts in thousands):

	2006	2005	2004
Basic weighted-average shares	154,300	154,272	148,646
Common stock equivalents	10,552	14,280	13,684
Diluted weighted-average shares	164,852	168,552	162,330

10. Employee Retirement and 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 were approximately $9.4 million, $7.2 million and $5.4 million for the years ended October 31, 2006, 2005 and 2004, 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 has been 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, 2006 and 2005, the Company had accrued $8.5 million and $6.3 million, respectively, for its obligations under the plan.

In October 2004, the Company established a defined benefit retirement plan effective as of September 1, 2004, which covers four current or former senior executives and a director of the Company. Effective as of February 1, 2006, the Company adopted an additional unfunded defined benefit retirement plan for nine other executives. The retirement plans are unfunded and vest when the participant has completed 20 years of service with the Company and reaches normal retirement age (age 62). Unrecognized prior service costs are being amortized over the period from the effective date of the plans until the participants are fully vested. The Company used a 5.65%, 5.69% and 5.69% discount rate in its calculation of the present value of its projected benefit obligations for fiscal 2006, 2005 and 2004, respectively, which represented the approximate long-term investment rate at October 31 of the preceding fiscal year for which the present value was calculated.

Information related to the Company's plans for each of the fiscal years ended October 31, 2006, 2005 and 2004 are as follows (amounts in thousands):

	2006	2005	2004
Projected benefit obligation, beginning of year	$14,966	$13,882	
Adoption of plan	2,583		$13,702
Service cost	370	311	50
Interest cost	929	776	130
Unrecognized gain	(401)	(3)	
Projected benefit obligation, end of year	$18,447	$14,966	$13,882

	2006	2005	2004
Unamortized prior service cost, beginning of year	$ 3,165	$ 6,967	
Adoption of plan	2,583		$13,702
Amortization of prior service cost	(1,957)	(3,802)	(6,735)
Unamortized prior service cost, end of year	$ 3,791	$ 3,165	$ 6,967
Accrued pension obligation, end of year	$18,851	$14,969	$13,879
Unrecognized actuarial gains, end of year	$ 404	$ 3	

The Company recognized the following costs related to the plans in each of the fiscal years ended October 31, 2006, 2005 and 2004 (amounts in thousands):

	2006	2005	2004
Service cost	$ 370	$ 311	$ 50
Interest cost	929	776	130
Amortization of initial benefit obligation	1,957	3,802	6,735
	$ 3,256	$ 4,889	$ 6,915

11. Commitments and Contingencies

At October 31, 2006, the aggregate purchase price of land parcels under option and purchase agreements, excluding parcels that the Company does not expect to acquire, was approximately $2.96 billion (including $1.22 billion of land to be acquired from joint ventures which the Company has investments in, made advances to or made loan guarantees on behalf of), of which it had paid or deposited approximately $173.1 million and had investments of $164.4 million. The Company's option agreements to acquire the home sites do not require the Company to buy the home sites, although the Company may, in some cases, forfeit any deposit balance outstanding if and when it terminates an option contract. Of the $173.1 million the Company had paid or deposited on these purchase agreements, $133.2 million was non-refundable at October 31, 2006. Any deposit in the form of a standby letter of credit is recorded as a liability at the time the standby letter of credit is issued. Included in accrued liabilities is $80.5 million representing the Company's outstanding standby letters of credit issued in connection with its options to purchase home sites.

At October 31, 2006, the Company had outstanding surety bonds amounting to approximately $758.3 million, related primarily to its obligations to various governmental entities to construct improvements in the Company's various communities. The Company estimates that approximately $318.4 million of work remains on these improvements. The Company has an additional $127.8 million of surety bonds outstanding that guarantee other obligations of the Company. The Company does not believe it is likely that any outstanding bonds will be drawn upon.

At October 31, 2006, the Company had agreements of sale outstanding to deliver 6,533 homes with an aggregate sales value of approximately $4.66 billion, of which the Company has recognized $170.1 million of revenues using percentage of completion accounting.

At October 31, 2006, the Company was committed to providing approximately $853.2 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 leases certain facilities and equipment under non-cancelable operating leases. Rental expense incurred by the Company amounted to $13.1 million in 2006, $11.8 million in 2005 and $7.2 million in 2004. At October 31, 2006 future minimum rent payments under these operating leases were $18.8 million for 2007, $13.9 million for 2008, $11.6 million for 2009, $7.8 million for 2010, $5.4 million for 2011 and $26.2 million thereafter.

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.

In January 2006, the Company received a request for information pursuant to Section 308 of the Clean Water Act from Region 3 of the Environmental Protection Agency (the "EPA") requesting information about storm water discharge practices in connection with our home building projects in the states that comprise EPA Region 3. To the extent the EPA's review were to lead the EPA to assert violations of state and/or federal regulatory requirements and request injunctive relief and/or civil penalties, the Company would defend and attempt to resolve any such asserted violations. At this time the Company cannot predict the outcome of the EPA's review.

12. Related Party Transactions

To take advantage of commercial real estate opportunities, the Company formed Toll Brothers Realty Trust Group ("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 current and former senior management; and one-third by PASERS (collectively, the "Shareholders"). The Shareholders entered into subscription agreements whereby each group has agreed to invest additional capital in an amount not to exceed $1.9 million if required by the Trust. The subscription agreements that were due to expire in August 2006 were extended until August 2008. At October 31, 2006, the Company had an investment of $6.6 million in the Trust. This investment is accounted for on the equity method. The Company provides development, finance and management services to the Trust and received fees under the terms of various agreements in the amounts of $2.5 million, $2.2 million and $1.7 million in fiscal 2006, 2005 and 2004, respectively. The Company believes that the transactions between itself and the Trust were on terms no less favorable than it would have agreed to with unrelated parties.

13. Information on Business Segments

During the fourth quarter of fiscal 2006, the Company reassessed the aggregation of its operating segments, and as a result, restated its disclosure to include four reportable segments. The restatement has no impact on the Company's financial position, results of operations or cash flows for the years ended October 31, 2005 and 2004.

The table below summarizes revenue and income before income taxes for each of the Company's geographic segments (amounts in thousands):

	2006	2005 *Restated*	2004 *Restated*
Revenues:			
North	$1,444,167	$1,134,539	$ 846,893
Mid-Atlantic	1,777,891	2,062,778	1,261,787
South	1,192,388	721,118	475,652
West	1,709,007	1,874,990	1,277,610
Total	$6,123,453	$5,793,425	$3,861,942
Income before income taxes:			
North	$ 281,917	$ 240,256	$ 152,505
Mid-Atlantic	491,803	679,102	329,555
South	161,811	81,567	44,120
West	338,516	450,841	243,129
Corporate and other	(147,431)	(128,638)	(121,877)
Total	$1,126,616	$1,323,128	$ 647,432

Corporate and other income is comprised principally of general corporate expenses such as the Offices of the Chief Executive Officer and President, and the corporate finance, accounting, audit, tax, human resources, risk management, marketing and legal groups, offset in part, by interest income and income from our ancillary businesses.

The Company provided for inventory write-downs and the expensing of costs that it believed not to be recoverable for each of the three years ended October 31, 2006, 2005 and 2004, as follows (amounts in thousands):

	2006	2005 *Restated*	2004 *Restated*
Land controlled for future communities:			
North	$ 9,309	$ 1,595	$ 2,851
Mid-Atlantic	7,725	1,430	796
South	14,096	109	403
West	59,795	145	1,186
	90,925	3,279	5,236
Operating communities:			
North	37,420	1,100	1,510
South	2,500	700	706
West	21,200		
	61,120	1,800	2,216
Total	$ 152,045	$ 5,079	$ 7,452

The table below summarizes total assets for each of the Company's geographic segments at October 31, 2006, 2005, and 2004 (amounts in thousands):

	2006	2005 *Restated*	2004 *Restated*
North	$1,776,723	$ 1,313,319	$1,046,937
Mid-Atlantic	1,729,057	1,405,930	1,018,236
South	1,338,344	1,096,648	603,569
West	1,843,395	1,619,151	1,381,518
Corporate and other	896,022	908,792	855,318
Total	$7,583,541	$ 6,343,840	$4,905,578

Corporate and other is comprised principally of cash and cash equivalents and the assets of our manufacturing facilities and mortgage company.

14. 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, 2006, 2005 and 2004 (amounts in thousands):

	2006	2005	2004
Cash flow information:			
Interest paid, net of amount capitalized	$ 61,196	$ 52,353	$ 50,157
Income taxes paid	$ 367,585	$ 363,850	$ 147,326
Non-cash activity:			
Cost of inventory acquired through seller financing	$ 147,224	$ 173,675	$ 107,664
Contribution of inventory, net of related debt, related to unconsolidated entities	$ 4,500		
Income tax benefit related to exercise of employee stock options	$ 3,355	$ 80,915	$ 18,175
Stock bonus awards	$ 10,926	$ 30,396	$ 20,288
Contributions to employee retirement plan	$ 2,411		$ 1,301
Adoption of supplemental retirement plan	$ 2,583		$ 13,702
Investment in unconsolidated entities made by letter of credit	$ 4,600		
Acquisition of unconsolidated entities' assets and liabilities:			
Fair value of assets acquired	$ 189,773		
Liabilities assumed	$ 111,320		
Cash paid	$ 44,750		
Reduction in investment and advances to unconsolidated entities	$ 33,703		

Stock Prices*

Three Months Ended

2006	Oct. 31	July 31	April 30	Jan. 31
High	$30.90	$32.10	$36.05	$41.65
Low	$23.82	$22.22	$28.70	$33.04
2005	**Oct. 31**	**July 31**	**April 30**	**Jan. 31**
High	$56.50	$58.67	$45.58	$39.07
Low	$34.60	$37.14	$36.05	$23.13

**Amounts have been adjusted and restated to reflect a two-for-one stock split distributed in the form of a stock dividend on July 8, 2005.*

Report of Independent Registered Public Accounting Firm

The Board of Directors and Stockholders of Toll Brothers, Inc.

We have audited management's assessment, included in the accompanying Management's Annual Report on Internal Control Over Financial Reporting, that Toll Brothers, Inc. maintained effective internal control over financial reporting as of October 31, 2006, based on criteria established in *Internal Control – Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (the COSO criteria). Toll Brothers, Inc.'s management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting. Our responsibility is to express an opinion on management's assessment and an opinion on the effectiveness of the Company's internal control over financial reporting based on our audit.

We conducted our audit 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 effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, evaluating management's assessment, testing and evaluating the design and operating effectiveness of internal control, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, management's assessment that Toll Brothers, Inc. maintained effective internal control over financial reporting as of October 31, 2006, is fairly stated, in all material respects, based on the COSO criteria. Also, in our opinion, Toll Brothers, Inc. maintained, in all material respects, effective internal control over financial reporting as of October 31, 2006, based on the COSO criteria.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of Toll Brothers, Inc. and subsidiaries as of October 31, 2006 and 2005, and the related consolidated statements of income and cash flows for each of the three years in the period ended October 31, 2006 of Toll Brothers, Inc. and our report dated December 20, 2006 expressed an unqualified opinion thereon.

Ernst & Young LLP

Philadelphia, Pennsylvania
December 20, 2006

Report of Independent Registered Public Accounting Firm

To the Board of Directors and Stockholders of Toll Brothers, Inc.

We have audited the accompanying consolidated balance sheets of Toll Brothers, Inc. and subsidiaries as of October 31, 2006 and 2005, and the related consolidated statements of income and cash flows for each of the three years in the period ended October 31, 2006. 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, 2006 and 2005, and the consolidated results of their operations and their cash flows for each of the three years in the period ended October 31, 2006, in conformity with U.S. generally accepted accounting principles.

As discussed in Note 13 to the consolidated financial statements, the Company has restated its segment disclosures for fiscal years ended October 31, 2005 and 2004.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the effectiveness of Toll Brothers, Inc.'s internal control over financial reporting as of October 31, 2006, based on criteria established in *Internal Control – Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated December 20, 2006 expressed an unqualified opinion thereon.

As discussed in Note 8 to the consolidated financial statements, the Company changed its method of accounting for stock-based compensation effective November 1, 2005.

Ernst & Young LLP

Philadelphia, Pennsylvania
December 20, 2006

Corporate Officers

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
Co-Chairman & Co-CEO - Whitney Communications Company and
Senior Partner - Whitcom Partners, media companies

Edward G. Boehne
Retired President - Federal Reserve Bank of Philadelphia

Executive Officer and Director of the Company

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
Senior Advisor - The Andrea and Charles Bronfman Philanthropies

Joel H. Rassman*
Executive Vice President, Treasurer and Chief Financial Officer

Paul E. Shapiro
Chairman - Q Capital Strategies, LLC, a life settlement company

Corporate Administration

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Jonathan C. Downs	*Human Resources*
Don H. Liu	*General Counsel & Chief Compliance Officer*
Kira McCarron	*Chief Marketing Officer*
Kevin J. McMaster	*Controller*
George W. Nelson	*Chief Information Officer*
Joseph R. Sicree	*Chief Accounting Officer*
Michael I. Snyder	*Secretary & Corporate Planning*
Werner Thiessen	*Acquisitions*

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Sandy Colden
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Evan G. Ernest
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Robert Girvin
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Linda M. Hart
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Michael LaPat
Mitchell Laskowitz
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Division Vice Presidents

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Eric Anderson
Jeffrey Bartos
William J. Bestimt
Ronald Blum
Charles T. Breder
Joseph Caulfield
John Christensen
Gregory Cole
Scott L. Coleman
Charles M. Connors
Robert L. Craig
Mark O. Davis
Dennis M. Devino
Alan E. Euvrard
Robert L. Flaherty
Michael D. Glenn
Robert M. Hodak
P. Scott Hare
John D. Harris
Thomas Hausle
William Holmes
Gordon Ivascu
Robert A. Johnson
Robert J. Kardos
Gregory J. LaGreca
Brian F. Loftus
Sheila McGuire
Lloyd Miller
Cynthia Morse
Brad H. Nelson
Scott Nodland
Mark Nosal
Robert Paul
William D. Perry
Anthony J. Rocco
David K. Sadler
William Schmidt
Richard N. Schoonmaker
Kevin Stine
John P. Szakats
David Torres
Alan R. Truitt
David Von Spreckelsen
Ryan D. Walter
Adam Wilson

Land Acquisition and Land Development

Senior Vice Presidents

James L. Meek
Joseph J. Palka

Vice Presidents

Donald Barnes
Paul Brukardt
Robert B. Fuller
Charles M. Hare
James Harrington, Jr.
Terry Hodge
James Manners
Robert N. McCarron
William Morrison, Jr.
Michael T. Noles
Edward Oliu
Russel Powell
Mark Simms
Ronnie E. Snyder
Christopher S. Utschig

Subsidiary and Affiliate Operations

Eastern States Engineering, Inc.	Christopher Stocke - *Vice President*
TBI Mortgage Company	Donald L. Salmon - *President*
Toll Architecture, Inc.	Jed Gibson - *President*
Toll Brothers Realty Trust	James M. Steuterman - *Senior Vice President*
Toll Landscape, L.L.C.	Mark Culichia - *Vice President*
Westminster Security Company	Felicia Ratka - *President*
Westminster Title Company, Inc.	William T. Unkel - *President*

Employee listings are as of 11/1/06.

Corporate Office

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

Transfer Agent and Registrar

American Stock Transfer & 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, 2006, we had 5,542 full-time employees.

Stockholders

As of October 31, 2006, we had 1,572 stockholders of record.

Stock Listing

Our common stock is traded on the New York Stock Exchange (symbol "TOL").

Certifications

Our Chief Executive Officer and Chief Financial Officer have filed their certifications as required by the SEC regarding the quality of our public disclosure for each of the periods ended during our fiscal year ended October 31, 2006. Further, our Chief Executive Officer has certified to the New York Stock Exchange ("NYSE") that he is not aware of any violation by our Company of NYSE corporate governance listing standards, as required by Section 303A.12(a) of the NYSE Listed Company Manual.

Production Notes

Photography

James B. Abbott, John Benson, Mark Boisclair, Mert Carpenter, Levi Ellyson - Opulence Studio, Steve McBride, Kim Sargent, John Spaulding, William Taylor, Kim Wendell Design

Photos

Front Cover: Terreno Tuscan at Saguaro Estates, Scottsdale, AZ

Back Cover: Malvern Chateau at Brandywine Hunt, Wilmington, DE

Demographic and Other Data

Sources for the data included in this annual report include Banc of America Securities; Bloomberg L.P.; Citigroup; Claritas; Credit Suisse; Federal National Mortgage Association; Federal Reserve Bank; Federal Reserve Board; Federal Home Loan Mortgage Corporation; Federal Housing Finance Board; Harvard Institute of Economic Research; International Strategy & Investment Group; Joint Center for Housing Studies – Harvard University; Mortgage Bankers Association; National Association of Home Builders; National Association of Realtors®; The New York Times; Office of Federal Housing Enterprises Oversight; UBS Securities; U.S. Census Bureau; U.S. Commerce Department; U.S. Department of Labor; Wachovia Securities; The Wall Street Journal; YAHOO! Finance.

Investor Relations Information Requests

Our Annual Report on Form 10-K, Quarterly Reports on Form 10-Q, and other Company information are available on or through our website, TollBrothers.com, or upon request from the Co-Directors of Investor Relations at our Corporate Office:

Frederick N. Cooper, Senior Vice President – Finance & Investor Relations
fcooper@tollbrothersinc.com • 215-938-8312

Joseph R. Sicree, Senior Vice President – Chief Accounting Officer
jsicree@tollbrothersinc.com • 215-938-8045

Our Board of Directors has an audit committee, an executive compensation committee, and a nominating and corporate governance committee. Each of these committees has a formal charter. We also have Corporate Governance guidelines, a Code of Ethics for Principal Executive Officer and Senior Financial Officers, and a Code of Ethics and Business Conduct for Directors, Officers, and Employees. Copies of these charters, guidelines, and codes can be obtained on our website and are also available upon request from the Co-Directors of Investor Relations listed above.

Statement on Forward-Looking Information

Certain information included herein and in other Company reports, SEC filings, oral or written statements, and presentations is forward-looking within the meaning of the Private Securities Litigation Reform Act of 1995. You can identify these statements by the fact that they do not relate strictly to historical or current facts. They contain words such as "anticipate," "estimate," "expect," "project," "intend," "plan," "believe," "may," "can," "could," "might" and other words or phrases of similar meaning in connection with any discussion of future operating or financial performance. Such statements include information relating to anticipated operating results, financial resources, changes in revenues, changes in profitability, changes in margins, changes in accounting treatment, interest expense, land-related write-downs, effects of home buyer cancellations, growth and expansion, anticipated income to be realized from our investments in unconsolidated entities, the ability to acquire land, the ability to gain approvals and to open new communities, the ability to sell homes and properties, the ability to deliver homes from backlog, the ability to secure materials and subcontractors, the ability to produce the liquidity and capital necessary to expand and take advantage of opportunities in the future, industry trends, and stock market valuations. From time to time, forward-looking statements also are included in our SEC filings, in press releases, in presentations, on our website, and in other material released to the public.

Any or all of the forward-looking statements included herein and in any Company reports or public statements are not guarantees of future performance and may turn out to be inaccurate. This can occur as a result of incorrect assumptions or as a consequence of known or unknown risks and uncertainties. Many factors mentioned herein or in other Company reports or public statements, such as government regulation and the competitive environment, will be important in determining our future performance. Consequently, actual results may differ materially from those that might be anticipated from our forward-looking statements.

Forward-looking statements speak only as of the date they are made. We undertake no obligation to publicly update any forward-looking statements, whether as a result of new information, future events, or otherwise. However, any further disclosures made on related subjects in our current or future SEC filings should be consulted.

TOL
LISTED
NYSE


The Malvern Classic :: Byers Station :: Chester Springs, PA

250 Gibraltar Road :: Horsham, Pennsylvania 19044
TollBrothers.com