

Toll Brothers
America's Luxury Home Builder®

2008 annual report



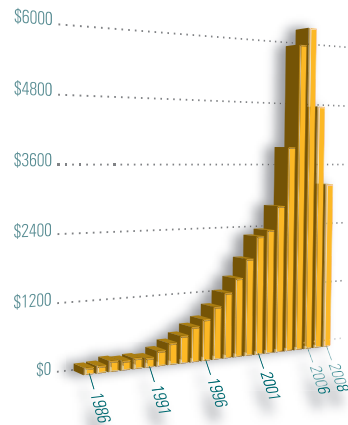


publicly traded since 1986

(NYSE: TOL)

total revenues

FYE October 31,
1986-2008
In Millions



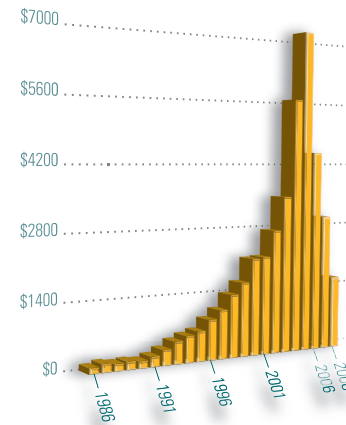
net income

FYE October 31,
1986-2008
In Millions



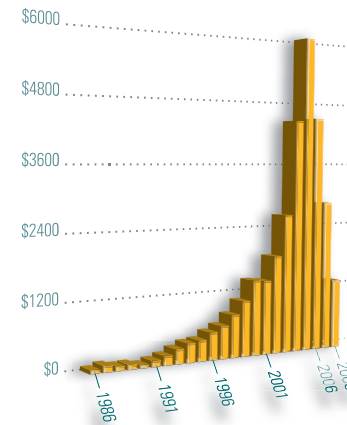
sales contracts

FYE October 31,
1986-2008
In Millions



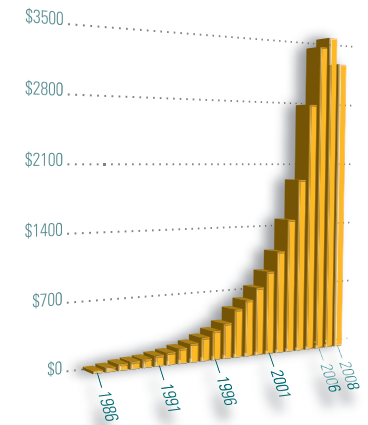
backlog

At FYE October 31,
1986-2008
In Millions



stockholders' equity

At FYE October 31,
1986-2008
In Millions



balance sheet data (amounts in thousands, except per share data)

Fiscal Year Ended October 31,	2008	2007	2006	2005	2004	2003	2002	2001	2000	1999
Cash	\$ 1,633,495	\$ 900,337	\$ 632,524	\$ 689,219	\$ 465,834	\$ 234,489	\$ 102,337	\$ 182,840	\$ 161,860	\$ 96,484
Cash per share	\$ 10.19	\$ 5.73	\$ 4.11	\$ 4.45	\$ 3.11	\$ 1.60	\$ 0.73	\$ 1.31	\$ 1.13	\$ 0.66
Debt										
Loans payable	\$ 613,594	\$ 696,814	\$ 736,934	\$ 250,552	\$ 340,380	\$ 281,697	\$ 253,194	\$ 362,712	\$ 326,537	\$ 213,317
Senior notes	1,143,445	1,142,306	1,141,167	1,140,028	845,665	546,669				
Senior subordinated notes	343,000	350,000	350,000	350,000	450,000	620,000	819,663	669,581	469,499	469,418
Mortgage warehouse line	37,867	76,730	119,705	89,674	92,053	49,939	48,996	24,754		
Collateralized mortgage obligations										1,145
Total	\$ 2,137,906	\$ 2,265,850	\$ 2,347,806	\$ 1,830,254	\$ 1,728,098	\$ 1,498,305	\$ 1,121,853	\$ 1,057,047	\$ 796,036	\$ 683,880
Stockholders' equity	\$ 3,237,653	\$ 3,527,234	\$ 3,415,926	\$ 2,763,571	\$ 1,919,987	\$ 1,476,628	\$ 1,129,509	\$ 912,583	\$ 745,145	\$ 616,334
Book value per share	\$ 20.19	\$ 22.47	\$ 22.20	\$ 17.84	\$ 12.83	\$ 10.07	\$ 8.04	\$ 6.56	\$ 5.19	\$ 4.23
Debt-to-capitalization	39.3%	38.3%	39.5%	38.6%	46.0%	49.5%	48.7%	53.1%	51.7%	52.6%
Net debt-to-capitalization*	12.6%	26.8%	31.8%	27.6%	37.9%	45.1%	46.2%	48.2%	46.0%	48.7%

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

active adult

Active-adult age-qualified communities are targeted to households in which at least one buyer is 55+ years of age. Regency at Monroe is a community of 1,224 homes located in central New Jersey. Its highlights include an Arnold Palmer-designed executive golf course and a 40,000-square-foot clubhouse offering fine dining, indoor and outdoor pools, tennis courts, fitness and business centers, and game rooms. Homes are designed for comfortable single-story living with room to socialize with guests and with upstairs loft areas to host visiting family members.



Focus on Luxury Homes & Communities

National presence in the luxury market
 Average delivered home price of \$655,000*
 Estate and executive 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*

Financial Strength

Strong corporate credit ratings from Standard & Poor's, Moody's, and Fitch*
 Backed by \$1.89 billion credit facility with 32 banks, maturing in March 2011, of which \$1.32 billion was available at FYE 2008
 Raised more than \$1.5 billion in the public capital markets over past 8 years
 Highest average net profit margin of Fortune 500 home building companies during past decade
 Lowest net debt-to-capital ratio** in Company's history of 12.6%*
 Largest U.S. home building company by market capitalization*

Integrated Land & Building Program

Own or control 39,800 home sites*
 Delivered over 35,000 homes in past 5 years
 Selling from 273 communities*
 Land acquisition, approvals, and development skills
 Combine high-volume home production with extensive customization offerings
 Home buyers averaged \$117,000 in upgrades and lot premiums, 19.2% above base house price, in FY 2008
 Pre-design and pre-budget options through Toll Architecture and Toll Integrated Systems
 Ancillary businesses: mortgage, title, golf course development and management, landscape, land development and land sales, home security, and engineering

Brand Name

Founded in 1967
 Publicly traded since 1986 on the New York Stock Exchange (TOL)
 7th largest U.S. home builder (by 2007 home building revenues)
 2008 Fortune 500 company
 2004 APEX Award Winner, *Big Builder*
 1996 America's Best Builder, National Association of Home Builders
 1995 National Housing Quality Award, National Association of Home Builders
 1988 Builder of the Year, *Professional Builder*

The North*

CONNECTICUT
 ILLINOIS
 MASSACHUSETTS
 MICHIGAN
 MINNESOTA
 NEW JERSEY
 NEW YORK
 RHODE ISLAND

Revenues*** (in millions)	\$931.9
Contracts (in millions)	\$412.8
Year-end Backlog (in millions)	\$562.5
Home Sites Controlled	10,655

The Mid-Atlantic*

DELAWARE
 MARYLAND
 PENNSYLVANIA
 VIRGINIA
 WEST VIRGINIA

Revenues*** (in millions)	\$878.6
Contracts (in millions)	\$564.2
Year-end Backlog (in millions)	\$362.3
Home Sites Controlled	14,006



The South*

FLORIDA
 GEORGIA
 NORTH CAROLINA
 SOUTH CAROLINA
 TEXAS

Revenues*** (in millions)	\$560.6
Contracts (in millions)	\$326.1
Year-end Backlog (in millions)	\$205.1
Home Sites Controlled	7,567

The West*

ARIZONA
 CALIFORNIA
 COLORADO
 NEVADA

Revenues*** (in millions)	\$777.1
Contracts (in millions)	\$305.1
Year-end Backlog (in millions)	\$195.6
Home Sites Controlled	7,556

* Information as of October 31, 2008.

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

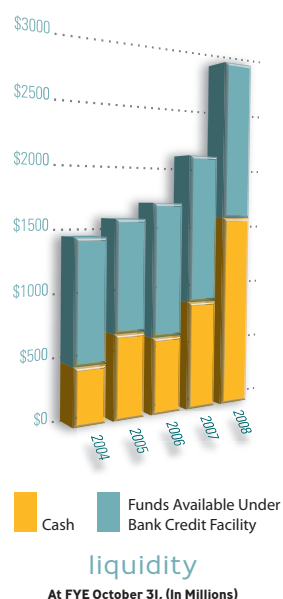
*** Home building revenues only

dear shareholders

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We believe our strong liquidity positions us to manage through the downturn and take advantage of opportunities that will arise in this market. At the end of Fiscal Year 2008, we had nearly \$3 billion of liquidity, including more than \$1.63 billion in cash and \$1.32 billion available under our 32-bank credit facility, which matures in March 2011.



With forty-one years in the home building business, we have seen tough times before, but this year has been the toughest. For the first time in Toll Brothers' history as a public company, after 22 consecutive profitable years, we reported a fiscal year loss — \$297.8 million, or \$1.88 per share diluted — which was driven by \$848.9 million in pretax write-downs, or \$529.8 million posttax. Before write-downs, however, FY 2008 net income was \$232.0 million. Although we were one of just two U.S. public home building companies to be profitable before write-downs and although we ended FY 2008 with the highest market capitalization among the U.S. public home building companies, these milestones offered little consolation.

As we have during previous downturns, we are doing our best to navigate through these very tough times by focusing on our balance sheet and maintaining significant liquidity while searching for opportunities that we expect will arise from the industry's current distress. We are beginning to see some deals that are appealing in terms of quality but not price. We believe our strong capital position will give us an advantage in competing for deals at the appropriate time.

We ended FY 2008 with over \$1.63 billion in cash, or about \$10.19 per share, and more than \$1.32 billion available under our 32-bank credit facility, which matures in March 2011. We have no public debt maturing until February of 2011. Our net debt-to-capital ratio* at FYE 2008 stood at 12.6%, our lowest level ever, compared to 26.8% at FYE 2007. And our stockholders' equity at FYE 2008 was \$3.24 billion, compared to \$3.53 billion at FYE 2007.

The most frustrating aspect of FY 2008 was that the longer it went, the worse it got — this, no doubt, was due largely to the financial crisis that deepened over the course of the year, especially since mid-September. Until the last six weeks of our FY 2008, fourth-quarter net contracts were shaping up to be about the same in units and dollars as FY 2007's. However, the preliminary signs of stability we had seen and discussed with the public in early September were upended by the financial crisis. The turmoil that ensued accelerated fears of all kinds among potential buyers and precipitated a further decline in consumer confidence, a significant credit crunch, increased capital market disruption, and plummeting stock market values.

These factors all contributed to reverse an improving trend and to drive our cancellations in the fourth quarter up to 233 units (about 30% of FY 2008 fourth-quarter contracts, or 9% of beginning-quarter backlog) from 195 units (about 19% of FY 2008 third-quarter contracts, or 6% of beginning-quarter backlog) in the previous quarter.

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

2nd home

The maturing of the baby boom generation points to solid long-term demand for second homes. Our second homes may be in cities, destination locations reached by air, or weekend retreats accessible by car. Whether in an urban high-rise, on a golf course, at the ocean, in the mountains, or in the desert, we aim to appeal to the broadest number of luxury second-home buyers across the spectrum.



THE SAVINO AT MONTEVISTA PHOENIX, AZ

FY 2008 revenues of \$3.16 billion declined 32% from FY 2007. Looking forward, we see FY 2009 as another difficult year. With our FY 2008 net signed contracts of \$1.61 billion down 47% from FY 2007 and our FY 2008 backlog of \$1.33 billion down 54% from FY 2007, we expect that FY 2009 revenues will be significantly below those of FY 2008. We currently estimate that we will deliver between 2,000 and 3,000 homes in FY 2009 at an average delivered price of between \$600,000 and \$625,000 per home.

Faced with slower sales paces, we have been cutting back our number of communities. We ended FY 2008 with 273 selling communities, down from 315 at FY 2007. We expect to end FY 2009 with approximately 255 (or fewer) communities, which would be down 22% from 325 communities at our peak at FY 2007's second-quarter end.

We have also continued to reduce our land position over the past year from 59,250 lots owned or controlled at FY 2007 to 39,800 at FY 2008. We are focused on managing our investments in land and improvements and our overhead costs to match our reduced demand and our projected pace of production. Opening fewer new communities enables us to slow our land development expenditures and conserve cash for other opportunities. Although not spread proportionately across all our regions, approximately 14,000 of our lots, approximately 2,000 of which are committed in backlog, are already substantially improved. This means we do not need to continue to spend as much money as we otherwise would to bring these lots to market.

On the national level, housing starts have sunk to their lowest level since the U.S. Census began tracking the data in 1959. Although builders have essentially eliminated speculative production — starting a home without a committed buyer — the supply of unsold inventory still stands near record levels as new and existing home sales remain near historic lows while foreclosures add to available inventory.

Many experts have suggested that falling home prices are at the root of the current financial crisis and that stabilization of home prices will help stem foreclosures, shore up the value of mortgage-backed securities, and ultimately stabilize the balance sheets of the world's financial institutions.



Reportedly, there are over \$11.3 trillion of U.S. home mortgages outstanding, about 22% or \$2.5 trillion (that's two-thousand five-hundred billion) of which are in some form of distress. This is the scale of the problem that must be addressed. We believe the U.S. government should focus on stabilizing home prices by increasing demand by encouraging buyers to come off the sidelines. This should help reduce excess inventory and get the economy moving again.

According to the National Association of REALTORS®, improved housing affordability is now at a level comparable to the start of the last housing recovery in early 1991. Some experts have argued that, with mortgage rates and home prices plunging, affordability levels are better than at any time in the past several decades. However, one can only take advantage of a buyer's market if one buys.

Two days before Thanksgiving 2008, the U.S. government announced a plan to aid the housing market by stating its willingness to pump hundreds of billions of dollars into the mortgage market, an action that significantly lowered mortgage rates immediately. We hope this initiative, which is a positive first step, combined with already dramatically improved affordability, will be a catalyst to stimulate customer demand.

Most recently, as we write this, there is discussion about a further U.S. government initiative to provide mortgage loans with rates of 4.5% to people buying homes, but not for refinancing. These are rates that buyers may not have seen since 1956. A program such as this, assuming buyers have the equity to meet its guidelines, should go a long way toward soaking up excess inventories and, therefore, putting a floor under home prices. Low interest rates clearly help affordability!

As we look to the future, we see reduced competition from the small and mid-sized private builders who are our primary competitors in the luxury market. Their access to capital already appears to be severely constrained. We envision that, in the future, there will be fewer and more selective lenders serving our industry. We believe those lenders likely will gravitate to the home building companies that offer them the greatest security, the strongest balance sheets, and the broadest array of potential business opportunities. We believe a less crowded playing field, combined with attractive long-term demographics, will reward those well-capitalized builders who can persevere through the current challenging environment.

We thank our shareholders, suppliers, and contractors who have been alongside us during this difficult year. Most of all, we thank our co-workers, the tremendously hard-working and dedicated Toll Brothers team across the United States, for their great efforts.



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

L-R:
Zvi Barzilay
Robert I. Toll
Bruce E. Toll

December 4, 2008

a recent history

The 1980s – 1990s • Going Public, A Housing Recession, Recovery, and Growth

Toll Brothers was formed in 1967. We went public on the New York Stock Exchange in July 1986 and in that first year produced revenues of \$125 million from about 15 communities in three markets: the Philadelphia suburbs; central New Jersey's Princeton corridor; and suburban Wilmington, Delaware.

Following several strong years, the late 1980s ushered in the last major housing downturn in the United States. It quickly swept across our markets, which by then spanned the Baltimore to Boston suburbs. As we have in the current downturn, we began to trim our land positions as early as 1988 and build liquidity because we saw land prices rising faster than we thought justifiable based on home prices and sales paces. Meanwhile, we observed that U.S. housing markets in other regions, with their own unique economic cycles, were still healthy. Coming out of that downturn, we therefore decided to pursue nationwide geographic diversification as a strategy to reduce risk and increase our opportunities for profit.

In the Northeast, the housing market began to recover in the early 1990s. With reduced competition, a strong balance sheet, and financial relationships intact, we were able to take advantage of distressed opportunities, first in markets close to home, and then across the United States. We purchased distressed portfolios of loans and properties from government institutions, banks, and builders.

First, we expanded into the New York City suburbs of Westchester County, New York, and Fairfield County, Connecticut, and into Washington, D.C.'s northern Virginia and Maryland suburbs. Then, in 1994, we jumped cross-country into the still-weak Los Angeles suburbs, purchasing distressed assets there, and started learning the long-distance management skills that have enabled us to build what is now a 21-state, 50-geographic market operation.

We also began to broaden our product offerings beyond move-up housing to reach larger numbers of affluent U.S. households. We introduced active-adult and empty-nester communities and multi-generational, multi-product line, golf course/country club and other resort-style communities. Additionally, we expanded our lines of single-family and multi-family homes. We have since developed urban, high-rise, and suburban high-density products as well.

In the early 1990s, buoyed by strong demographics, a healthy U.S. economy, and a benign interest rate environment, the U.S. housing market began one of its longest periods of prosperity. Unshackled from the savings and loan institutions that had been the primary providers of home loans in earlier decades, the U.S. mortgage market grew in depth and sophistication. There were two periods of Federal Reserve interest rate hikes — in 1995 and 1997. There were several financial crises, including the Long-Term Capital Management collapse of 1998 and separate international financial crises in Asia, Mexico, and Russia. Nonetheless, Toll Brothers grew revenues nearly 10-fold and earnings 20-fold from 1991 to 1999, and began what became a string of 13 consecutive years of record earnings and 15 of record revenues that extended through 2005 and 2006, respectively.



resort style

Toll Brothers is among the nation's leading developers of large master planned resort-style communities. Our communities offer a variety of single-family and multi-family product lines for move-up, empty-nester, and second-home buyers. Lifestyles center around luxurious recreational amenities such as golf courses, country clubs, lakes, and marinas. Our communities are located throughout the United States for buyers who want to enjoy year-round resort-style living. With our land planning, approval, and development expertise, we have the skill to manage these communities from conception through completion.

JUPITER COUNTRY CLUB ENTRANCE JUPITER, FL

suburban high density

Many buyers prefer the lifestyle convenience of attached home communities. With land scarcer and approvals more difficult, these product lines are becoming more appealing both to neighbors and planning boards. We now sell multi-story, high-density living in many suburban locations. These buildings range from two to five stories, with 8 to 200 or more homes each. Our communities often include recreational amenities and our attached homes offer the same high-quality luxurious finishes and interiors that our single-family home buyers enjoy.

HERITAGE AT VISTA DEL VERDE YORBA LINDA, CA

2000 – 2007 • Continued Housing Resilience, Then a Market Downturn

The new millennium began with the bursting of the dot-com bubble and the implosion of the NASDAQ in 2000. However, other than in select northern California markets, which rebounded within a year, the U.S. housing market remained strong.

The tragic events of September 11, 2001, dampened U.S. housing markets for several months and precipitated several major governmental responses that, in retrospect, ultimately fueled the current state of affairs in our industry and the economy. Perhaps the biggest impact was the increased availability of capital at very low cost. Beginning soon after the dot-com bubble and then following the September 11 attacks, the Federal Reserve dropped the Fed Funds interest rate from 6.5% to 1.0% from January 2001 to June 2003, then left it there until June 2004. Its goal was to prime the U.S. economic pump — it did that and more.

Independently, the U.S. government's drive to promote more home ownership through expanded mortgage vehicles such as Fannie Mae and Freddie Mac also contributed to today's crisis. Viewed as a way to help people build equity and climb the economic ladder, it led to the creation of new and creative ways to finance buyer home purchases. As more people climbed onto the first rungs of the home ownership ladder, others moved up to higher rungs. The home ownership rate in the U.S. rose to over 69% by late 2004, up from 64% a decade earlier. As home ownership rose, Fannie Mae and Freddie Mac loan limits did too, paving the way for low-cost loans at higher price points.

Meanwhile, the model for the U.S. mortgage industry was shifting dramatically. No longer did one lender keep a home buyer's loan on its balance sheet until it was repaid. Now most loans were bundled with thousands of others and sold in packages into the capital markets as mortgage-backed securities (MBS). The new model was driven by fees and transaction volumes rather than a long-term, risk-related investment horizon, so underwriting standards began to weaken.

On a national basis, since World War II, U.S. home prices had never fallen in a single year. Therefore, underpinning the U.S. mortgage industry was the belief that home values would continue to rise, thus strengthening the underlying collateral backing these mortgages. With U.S. interest rates low, debt investors seeking higher yields flocked to these MBS products, many of which carried investment-grade credit ratings. Investor appetite for this paper led to the development of riskier mortgage products with higher yields, caused by higher leverage, less equity, more flexible payment requirements, and lower buyer credit quality. The incentive to increase fee-driven transaction volumes led to the expansion of loan products, such as subprime, Alt-A, no-doc, and other structures, that further weakened underwriting standards and the quality of various MBS products.

At Toll Brothers, even at the height of the market, our buyers averaged just over 70% loan-to-value leverage. However, for many home builders, these loan products, combined with low interest rates, enabled their buyers to leverage up at the time of purchase. As home prices surged, especially from 2003 to 2005, this was not a problem, but as home prices began to fall in 2006, many buyers were left with little to no equity in their homes.

By early 2005, the environment of easily available, low-cost capital and rising home prices was attracting more and more speculative investors. The additional demand they generated pushed home prices higher and higher in many markets. Lack of affordability started to become an issue in the lower-priced segments as potential buyers were priced out of some markets by speculators.

A large, classical-style building with a portico of columns, surrounded by trees and a landscaped garden. The building is light-colored with a red roof. In the foreground, there are large trees on the left and a circular garden bed with red flowers and green plants on the right. The word "redevelopment" is overlaid in white text on the left side of the image.

redevelopment

We have the financial strength, creativity, and innovative design and planning capabilities to reposition developed sites to create wonderful communities. We have redeveloped waterfront industrial sites into luxury urban high-rises and created lake communities from former gravel quarries. At our award-winning Naval Square community, we preserved a historic Naval Home and former Naval Academy, which we converted into for-sale residences as the centerpiece of a 626-home, mixed product line community on 20 acres in Center City Philadelphia.



NAVAL SQUARE PHILADELPHIA, PA

Rising prices and excess speculation encouraged some builders to start building more spec homes — homes without a buyer contract in hand — to capture the price appreciation that was occurring during the four to twelve months between the start and completion of a home. We generally refused to start a single-family home on speculation: We required a buyer contract and substantial down payment in hand. We also tried to avoid selling to speculators; however, we still felt their impact.

In late August of 2005, we began to observe a slight decline in the rate of demand growth in some markets. Then, immediately following the tragedy of Hurricane Katrina in the first week of September, we saw a significant drop-off in home buyer activity. Having witnessed this phenomenon several times before — after the dot-com bubble burst; after September 11, 2001; and later during a few brief periods in specific markets — we thought demand would rebound because the economy was robust, the employment picture was strong, interest rates were low, and the stock market was healthy.

However, the housing market did not rebound and the downturn spread rapidly. The speed with which it rolled across markets was different from the region-by-region late 1980s downturn. Perhaps this was due, in part, to the nationwide availability of similar mortgage products and the communication networks and information flows among speculators that moved so quickly in the Age of the Internet. Speculators began canceling contracts and putting recently purchased homes up for sale. As they pulled out of the market in late 2005, many builders were left with half-finished or finished homes they had started to build on speculation. Our cancellation rates began to surge beginning in the third quarter of FY 2006, as buyers in greater numbers began to cancel purchase contracts and walk away from nonrefundable down payments averaging over \$50,000. Industrywide, default rates began to rise on mortgages in the United States in the fourth quarter of 2007 and the supply of available new and existing home inventory began to grow.

move up

Designed for growing families, our move-up homes have been transformed over the past two decades as affluent lifestyles have evolved. Upscale kitchens and family rooms have moved front and center in buyers' lives, replacing formal living rooms in size and stature. Structural options, such as spacious master suites, media and exercise rooms, and guest wings, enhance the lifestyles of today's families. Large play areas for children and teens have become an oasis for indoor activities and magnets for family gatherings.



THE HAMPTON MANOR AT GREEN LEVEL CROSSING CARY, NC

2008 • A Very Tough Market and Strong Government Intervention

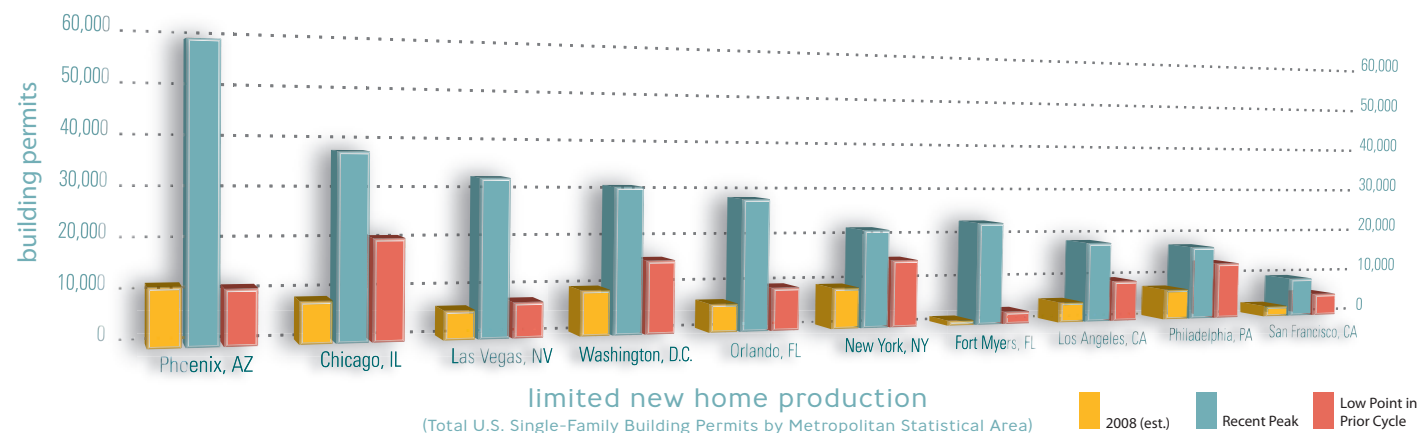
2008 started unpromisingly with weak consumer confidence, discussions of impending foreclosures, a constricted mortgage market, and housing production reaching new lows during this downturn. The demise of Bear Stearns in the spring of 2008 and evident problems with Fannie Mae and Freddie Mac revealed serious cracks in the foundation of the U.S. financial system.

The 2008 Presidential election energized Americans as the country began to look to the future. By late summer, modest signs of stabilizing housing demand raised hopes. Then, beginning in mid-September, Americans witnessed the fall of Lehman Brothers, Merrill Lynch, and several other pillars of the U.S. financial community. Their disappearance as independent institutions eliminated several major financial players from our industry. This, coupled with a dramatic swoon in capital markets globally, reduced the amount of capital available to our sector and precipitated a credit and liquidity crunch around the world.

According to the Mortgage Bankers Association (MBA), homeowner mortgage delinquencies and foreclosures have reached their highest level since the MBA began gathering statistics in 1974, as buyers in greater numbers — by choice or necessity — have stopped paying their loans. The delinquency rate of U.S. home mortgages now stands at 7%. Impending job losses do not bode well for these trends. Studies show that foreclosures, currently at 3% of total mortgages, are most concentrated in specific markets, which suggests that other markets may recover earlier than those hardest hit.

The U.S. government continues to seek ways to stem foreclosures, keep more people in their homes, and, consequently, slow the growth in housing inventories. Although initial plans to renegotiate existing mortgages have been put forth by various government agencies and by major U.S. banks, these have not gained traction by reducing foreclosure rates or improving buyer confidence. However, the Treasury's efforts to stabilize the banking system have, for now, reduced concern about one major impediment to eventual recovery.

Housing inventory remains high as foreclosures come on the market and potential home buyers remain on the sidelines, due to depleted net worths, job loss fears, inability to obtain mortgages or sell their current homes, or concerns over home price stability. Their reticence has persisted despite attractive interest rates, strong home price affordability, and several aggressive government efforts to stabilize the housing industry. U.S. home builders have sharply curtailed their production. Annualized total new home starts in November 2008 were 625,000, the lowest level since the U.S. Census Bureau began gathering data in 1959, and down from their peak in January 2006 of 2.3 million annualized units. In many markets, new home production, based on single-family building permits, is now below the lowest production levels (see chart) in the last housing recession.

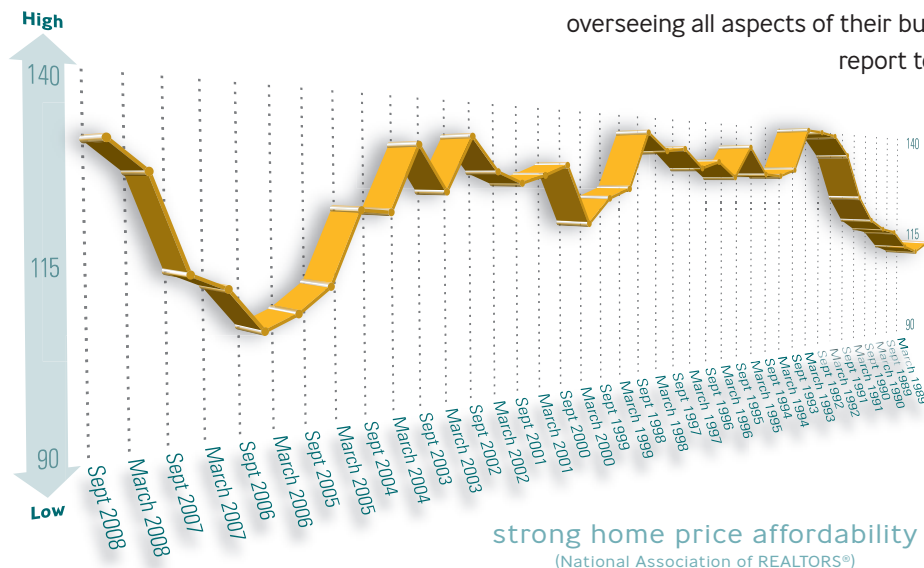


In many of our major markets, new home production has dropped below the low point of production during the last housing cycle in the late 1980s to 1990s. Less land has been going through the approval process in recent years. When individual markets recover, there may be shortages of new homes to meet stronger demand.

a great time to buy

16 17

According to the NAR Housing Affordability Index, which compares median household income against median home prices, housing is as affordable today as it was in January 1991, the low point of the last housing cycle. A reading of 100 means that a family with the median household income can qualify for a mortgage on a median-priced house. In October 2008 the index was over 140.



We believe that now is a great time to be a home buyer. Supply is abundant. Interest rates are attractive by historical standards. Sellers are motivated. And, according to the National Association of REALTORS® (NAR) Housing Affordability Index (see chart), housing is at a more affordable level than January 1991, which is generally acknowledged to be the bottom of the last housing cycle.

Ironically, although supply is presently elevated, we believe there may be a shortage of approved land in a number of markets during the initial stages of a recovery, once the pent-up demand that has built over the past few years begins to be released. Very little new land inventory has been working its way through the approval process. With buyers on the sidelines, most builders have little reason (or wherewithal) to spend money on approvals. With approximately 12,000 substantially improved and uncommitted lots available in all our markets, we are positioned to capture some of this anticipated demand.

In the past few months, the U.S. government has taken unprecedented steps to stabilize the housing market. Its support of Fannie Mae, Freddie Mac, and the Federal Housing Authority has demonstrated a commitment to maintaining a thriving and healthy mortgage market with attractive interest rates and available capital. Although the jury is still out on the success of these measures — and we believe more is needed — the intention to help is clear.

In this market, we believe Toll Brothers offers luxury home buyers the best combination of financial stability, appealing locations, and diverse home designs and product lines. We offer a stress-free new-home buying experience and the greatest opportunity to customize in our industry. Toll Brothers' business model is not based on being the largest builder in any market or building the most homes. We evaluate each parcel of land and each community we operate as a stand-alone business. We then staff it through our Project Management system to maximize customer service. Our Project Managers (PMs) operate as small builders do, overseeing all aspects of their business. Sales, construction, customer service, and all other project teams

report to them. With our PMs' ability to solve problems in the field, buyers receive personal attention comparable to that from a custom builder, combined with the dependability and value that a well-capitalized Fortune 500 company such as Toll Brothers can provide.

While the industry changes and evolves and our customers' tastes do too, our buyers and shareholders can be confident that we will continue to take great corporate pride in maintaining the highest standards of excellence in planning and building our homes and communities and serving our customers.

empty nester

Serving smaller-sized families, empty-nester communities have become a core part of our business. Our empty-nester homes are characterized by first-floor master suites, sunrooms, home offices, hobby rooms, and wide-open floorplans for active entertaining. Buyers who enjoy this single-story lifestyle can add second- and third-story options with elevators, playrooms for visiting grandchildren, and extra guest bedrooms. These highly amenitized homes are in communities with fitness centers, walking trails, tennis and swimming facilities, and other active lifestyle features.



urban high rise

The resurgence of many U.S. cities has been a draw for young people seeking the allure of urban living, empty nesters attracted to fine dining and cultural offerings, and growing families who find the convenience of luxuriously amenitized high-rise living irresistible. We already have completed more than 1,000 high-rise residences in Manhattan, Brooklyn, and Queens, New York, and across the Hudson River in northern New Jersey's Hoboken and Jersey City waterfront markets.

learning from the past: looking to the future

Long-term demographics point to healthy demand for housing in the coming years. According to Harvard University's Joint Center for Housing Studies, new household formations are projected to reach 14.4 million from 2010 to 2020, compared to 12.6 million from 1995 to 2005. Additionally, based on demographic trends, experts estimate that appetite for second homes will increase. Finally, with the average U.S. home now 35 years old, the need to replace existing and obsolescent housing is projected to generate additional demand.

We have been through five housing cycles since 1967 and have learned many lessons over the past 41 years. We know that, during downturns in our industry, capital becomes scarce and our primary assets (mainly land) become less liquid and thus harder to monetize. Therefore, maintaining a strong balance sheet, low leverage, and adequate liquidity is most important in downturns. We seek to finance our longest-lived asset — land — using equity and long-term debt. When the nation emerges from the current recession, we believe, in part due to capital constraints, that the number of our competitors will be significantly reduced. The biggest builders — those with the strongest balance sheets — will be able to attract capital from the fewer lending institutions that remain.

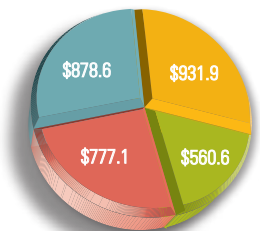
We take some comfort in our diversification across many aspects of our business. To maintain as much flexibility as possible, we have tried to diversify across capital markets, tapping the long-term public debt markets, corporate bank borrowings through our 32-bank credit facility, and, in some few cases where appropriate, project-specific financings. We have also diversified across upscale product lines and geographic markets, which we believe provides some protection in our business: The builders most punished in the current downturn were those most concentrated in one or a few geographic markets or in a single product line. We have also made some preliminary exploratory forays overseas to evaluate bringing our brand into non-U.S. markets.

Through past downturns, we have seen that opportunities arise for those who have harbored their capital. As the industry emerged from the last downturn, we purchased attractively priced assets at a time when many others were cash-constrained. We hope to replicate this strategy coming out of this downturn. With this in mind, we continue to hunt for deals in most of our 50 markets. We are also in conversations with dozens of global financial institutions to identify land opportunities and discuss potential relationships in which we can acquire and develop projects together.

Although our industry faces many changes ahead, there is one thing we know must remain the same — Toll Brothers' focus on providing our buyers with high quality, extensive choice, and great value. The attention to detail we invest in designing our homes and planning our communities, our exceptional customer service, and our unique blend of high-production efficiency and high-level customization will always set us apart and remain hallmarks of our brand.

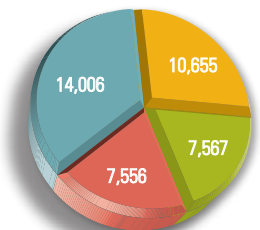


diversification



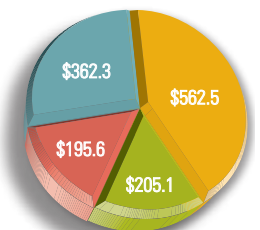
housing revenues

By Region in FY 2008
(In Millions)



home sites controlled

By Region at FYE 2008



backlog

By Region at FYE 2008
(In Millions)

customized lifestyles



Toll Brothers' customization systems, developed over our 41-year history, are unique among the major public home building companies. In FY 2008, typical Toll Brothers buyers added an average of \$117,000 in options to their base house. We pre-design and pre-budget all the options we offer to make customizing as easy as possible. Some features, such as media rooms, wine cellars, conservatories, and pools, enhance indoor and outdoor lifestyles for families and friends. Other options, such as upsized bathrooms, enlarged kitchens, and expanded family rooms, increase central living spaces for greater comfort.



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Toll Brothers' 23-year financial summary 1986 - 2008

SUMMARY CONSOLIDATED STATEMENT OF OPERATIONS DATA (Amounts in thousands, except per share data)

Year Ended October 31,	2008	2007	2006	2005	2004	2003	2002	2001	2000
Revenues	\$3,158,213	\$4,646,979	\$6,123,453	\$5,793,425	\$3,861,942	\$2,758,443	\$2,315,444	\$2,207,999	\$1,801,660
(Loss) income before income taxes	\$ (466,787)	\$ 70,680	\$1,126,616	\$1,323,128	\$ 647,432	\$ 411,153	\$ 347,318	\$ 337,889	\$ 230,966
Net (loss) income	\$ (297,810)	\$ 35,651	\$ 687,213	\$ 806,110	\$ 409,111	\$ 259,820	\$ 219,887	\$ 213,673	\$ 145,943
(Loss) income per share – Basic	\$ (1.88)	\$ 0.23	\$ 4.45	\$ 5.23	\$ 2.75	\$ 1.84	\$ 1.56	\$ 1.49	\$ 1.01
Weighted-average number of shares	158,730	155,318	154,300	154,272	148,646	141,339	140,945	143,340	145,075
(Loss) income per share – Diluted	\$ (1.88)	\$ 0.22	\$ 4.17	\$ 4.78	\$ 2.52	\$ 1.72	\$ 1.46	\$ 1.38	\$ 0.98
Weighted-average number of shares	158,730	164,166	164,852	168,552	162,330	151,083	150,959	154,734	149,651

SUMMARY CONSOLIDATED BALANCE SHEET DATA (Amounts in thousands, except per share data)

At October 31,	2008	2007	2006	2005	2004	2003	2002	2001	2000
Cash	\$1,633,495	\$ 900,337	\$ 632,524	\$ 689,219	\$ 465,834	\$ 234,489	\$ 102,337	\$ 182,840	\$ 161,860
Inventory	\$4,127,475	\$5,572,655	\$6,095,702	\$5,068,624	\$3,878,260	\$3,080,349	\$2,551,061	\$2,183,541	\$1,712,383
Total assets	\$6,586,836	\$7,220,316	\$7,583,541	\$6,343,840	\$4,905,578	\$3,787,391	\$2,895,365	\$2,532,200	\$2,030,254
Debt									
Loans payable	\$ 613,594	\$ 696,814	\$ 736,934	\$ 250,552	\$ 340,380	\$ 281,697	\$ 253,194	\$ 362,712	\$ 326,537
Senior notes	1,143,445	1,142,306	1,141,167	1,140,028	845,665	546,669			
Subordinated notes	343,000	350,000	350,000	350,000	450,000	620,000	819,663	669,581	469,499
Mortgage warehouse line	37,867	76,730	119,705	89,674	92,053	49,939	48,996	24,754	
Collateralized mortgage obligations									
Total	\$2,137,906	\$2,265,850	\$2,347,806	\$1,830,254	\$1,728,098	\$1,498,305	\$1,121,853	\$1,057,047	\$ 796,036
Stockholders' equity	\$3,237,653	\$3,527,234	\$3,415,926	\$2,763,571	\$1,919,987	\$1,476,628	\$1,129,509	\$ 912,583	\$ 745,145
Number of shares outstanding	160,369	157,008	153,899	154,943	149,642	146,644	140,432	139,112	143,580
Book value per share	\$ 20.19	\$ 22.47	\$ 22.20	\$ 17.84	\$ 12.83	\$ 10.07	\$ 8.04	\$ 6.56	\$ 5.19
Return on beginning stockholders' equity	(8.4%)	1.0%	24.9%	42.0%	27.7%	23.0%	24.1%	28.7%	23.7%

HOME DATA

Year Ended October 31,	2008	2007	2006	2005	2004	2003	2002	2001	2000
Number of homes closed ⁽¹⁾	4,743	6,687	8,601	8,769	6,627	4,911	4,430	4,358	3,945
Sales value of homes closed (in 000s) ⁽¹⁾	\$3,106,291	\$4,495,600	\$5,945,169	\$5,759,301	\$3,839,451	\$2,731,044	\$2,279,261	\$2,180,469	\$1,762,930
Revenues – percentage of completion (in 000s)	\$ 41,873	\$ 139,493	\$ 170,111						
Number of homes contracted	2,927	4,440	6,164	10,372	8,684	6,132	5,070	4,314	4,364
Sales value of homes contracted (in 000s)	1,608,191	\$3,010,013	\$4,460,734	\$7,152,463	\$5,641,454	\$3,475,992	\$2,734,457	\$2,158,536	\$2,134,522
At October 31,	2008	2007	2006	2005	2004	2003	2002	2001	2000
Number of homes in backlog	2,046	3,950	6,533	8,805	6,709	4,652	3,342	2,702	2,746
Sales value of homes in backlog (in 000s) ⁽²⁾	\$1,325,491	\$2,854,435	\$4,488,400	\$6,014,648	\$4,433,895	\$2,631,900	\$1,858,784	\$1,403,588	\$1,425,521
Number of selling communities	273	315	300	230	220	200	170	155	146
Home sites									
Owned	32,081	37,139	41,808	35,838	29,804	29,081	25,822	25,981	22,275
Optioned	7,703	22,112	31,960	47,288	30,385	18,977	15,022	13,165	10,843
Total	39,784	59,251	73,768	83,126	60,189	48,058	40,844	39,146	33,118

⁽¹⁾ Excludes 88 units with an aggregate delivered value of \$86.1 million in fiscal 2008 and 336 units with an aggregate delivered value of \$263.3 million in fiscal 2007 that were accounted for using the percentage of completion accounting method.

⁽²⁾ Net of \$55.2 million of revenues recognized in fiscal 2007, respectively, under the percentage of completion accounting method.

I999	I998	I997	I996	I995	I994	I993	I992	I991	I990	I989	I988	I987	I986
\$1,455,516	\$1,206,290	\$ 968,253	\$ 759,303	\$ 643,017	\$ 501,822	\$ 392,560	\$ 279,841	\$ 175,971	\$ 198,336	\$ 176,864	\$ 197,027	\$ 134,856	\$ 124,641
\$ 160,432	\$ 132,523	\$ 103,215	\$ 85,793	\$ 79,439	\$ 56,840	\$ 42,820	\$ 27,493	\$ 8,444	\$ 16,801	\$ 21,520	\$ 40,803	\$ 33,346	\$ 23,718
\$ 101,566	\$ 84,704	\$ 65,075	\$ 53,744	\$ 49,932	\$ 36,177	\$ 28,058	\$ 16,538	\$ 5,013	\$ 9,988	\$ 13,127	\$ 24,074	\$ 17,173	\$ 11,861
\$ 0.69	\$ 0.58	\$ 0.48	\$ 0.40	\$ 0.37	\$ 0.27	\$ 0.21	\$ 0.13	\$ 0.04	\$ 0.08	\$ 0.11	\$ 0.20	\$ 0.14	\$ 0.11
146,756	153,441	136,508	135,460	134,040	133,592	132,924	132,088	124,992	118,856	119,776	120,612	121,540	111,812
\$ 0.68	\$ 0.55	\$ 0.44	\$ 0.36	\$ 0.34	\$ 0.25	\$ 0.21	\$ 0.12	\$ 0.04	\$ 0.08	\$ 0.11	\$ 0.20	\$ 0.14	\$ 0.11
149,744	153,441	149,049	147,516	145,440	142,620	133,868	132,936	125,648	118,856	119,880	120,612	121,540	111,812

I999	I998	I997	I996	I995	I994	I993	I992	I991	I990	I989	I988	I987	I986
\$ 96,484	\$ 80,143	\$ 147,575	\$ 22,891	\$ 27,772	\$ 38,026	\$ 32,329	\$ 33,407	\$ 31,475	\$ 10,379	\$ 9,160	\$ 27,110	\$ 18,009	\$ 14,720
\$1,443,282	\$1,111,863	\$ 921,595	\$ 772,471	\$ 623,830	\$ 506,347	\$ 402,515	\$ 287,844	\$ 222,775	\$ 240,155	\$ 256,934	\$ 206,593	\$ 143,894	\$ 66,543
\$1,668,062	\$1,254,468	\$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
\$ 213,317	\$ 182,292	\$ 189,579	\$ 132,109	\$ 59,057	\$ 17,506	\$ 24,779	\$ 25,756	\$ 49,943	\$ 71,707	\$ 95,508	\$ 74,048	\$ 55,545	\$ 12,474
469,418	269,296	319,924	208,415	221,226	227,969	174,442	128,854	55,513	61,474	69,681	69,635	29,967 382	29,963 5,969
1,145	1,384	2,577	2,816	3,912	4,686	10,810	24,403	39,864	45,988	52,617			
\$ 683,880	\$ 452,972	\$ 512,080	\$ 343,340	\$ 284,195	\$ 250,161	\$ 210,031	\$ 179,013	\$ 145,320	\$ 179,169	\$ 217,806	\$ 143,683	\$ 85,894	\$ 48,406
\$ 616,334	\$ 525,756	\$ 385,252	\$ 314,677	\$ 256,659	\$ 204,176	\$ 167,006	\$ 136,412	\$ 117,925	\$ 94,599	\$ 85,400	\$ 72,787	\$ 48,842	\$ 31,405
145,814	147,742	137,102	135,674	134,552	133,692	133,276	132,348	131,248	118,736	119,652	120,168	120,268	119,972
\$ 4.23	\$ 3.56	\$ 2.81	\$ 2.32	\$ 1.91	\$ 1.53	\$ 1.25	\$ 1.03	\$ 0.90	\$ 0.80	\$ 0.71	\$ 0.61	\$ 0.41	\$ 0.26
19.3%	22.0%	20.7%	20.9%	24.5%	21.7%	20.6%	14.0%	5.3%	11.7%	18.0%	49.3%	54.7%	122.5%

I999	I998	I997	I996	I995	I994	I993	I992	I991	I990	I989	I988	I987	I986
3,555	3,099	2,517	2,109	1,825	1,583	1,324	1,019	676	727	676	778	674	802
\$1,438,171	\$1,206,290	\$ 968,253	\$ 759,303	\$ 643,017	\$ 501,822	\$ 392,560	\$ 279,841	\$ 175,971	\$ 198,336	\$ 176,864	\$ 197,027	\$ 134,856	\$ 124,641
3,799	3,387	2,701	2,398	1,846	1,716	1,595	1,202	863	612	704	656	756	832
\$1,627,849	\$1,383,093	\$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
I999	I998	I997	I996	I995	I994	I993	I992	I991	I990	I989	I988	I987	I986
2,327	1,892	1,551	1,367	1,078	1,025	892	621	438	251	366	338	460	378
\$1,053,929	\$ 814,714	\$ 627,220	\$ 526,194	\$ 400,820	\$ 370,560	\$ 285,441	\$ 187,118	\$ 124,148	\$ 69,795	\$ 104,156	\$ 95,765	\$ 130,288	\$ 74,194
140	122	116	100	97	80	67	62	42	41	40	26	21	15
23,163	15,578	12,820	12,065	9,542	6,779	5,744	5,633	3,974	4,548	5,075	4,724	2,147	1,461
11,268	14,803	9,145	5,237	5,042	4,445	4,271	3,592	3,281	2,117	2,832	4,041	7,141	4,853
34,431	30,381	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

RESULTS OF OPERATIONS

On December 4, 2008, we issued a press release and held a conference call to review the results of operations for our fiscal year ended October 31, 2008 and to discuss the current state of our business. The information and estimates contained in this report are consistent with those given in the press release and on the conference call on December 4, 2008, and we are not reconfirming or updating that information.

OVERVIEW

In fiscal 2008, we recognized \$3.16 billion of revenues and recorded a net loss of \$297.8 million, compared to \$4.65 billion of revenues and \$35.7 million of net income in fiscal 2007. The loss recognized in fiscal 2008, as compared to the income recognized in fiscal 2007, was due primarily to the higher inventory impairment charges and write-offs and joint venture impairment charges recognized in fiscal 2008, as compared to fiscal 2007, a 32% decline in revenues in fiscal 2008, as compared to fiscal 2007, and the negative impact on profit margins due to the higher sales incentives given on the homes delivered in fiscal 2008, as compared to fiscal 2007, offset in part by the positive impact on cost of sales on homes settled in fiscal 2008 from communities that had reduced inventory values as a result of impairments previously recognized. We recognized inventory impairment charges and write-offs, joint venture impairment charges and goodwill impairment charges of \$848.9 million in fiscal 2008, as compared to \$687.7 million in fiscal 2007. Cost of sales was reduced by approximately \$121.7 million and \$21.1 million in fiscal 2008 and 2007, respectively, due to reduced inventory values as a result of impairments previously recognized.

The value of net new contracts signed declined by 47% in fiscal 2008, as compared to fiscal 2007. The decrease in the value of net new contracts signed was the result of a 34% decrease in the number of net new contracts signed and a 19% decline in the average value of the contracts signed. When we report the number and value of net new contracts signed, we report such totals net of any cancellations that occur during the reporting period, whether signed in that reporting period or in a prior period. The decrease in the number of net new contracts signed was due to the slowdown in our business discussed below. The decrease in the average value of contracts signed in fiscal 2008, as compared to fiscal 2007, was due primarily to higher sales incentives given to home buyers in fiscal 2008, as compared to fiscal 2007 and a shift in the number of contracts signed to less expensive areas and/or products in fiscal 2008, as compared to fiscal 2007. During fiscal 2008, our customers cancelled 993 contracts with an aggregate sales value of \$733.3 million, as compared to 1,585 cancelled contracts with an aggregate sales value of \$1.17 billion in fiscal 2007. In fiscal 2008 and 2007, these cancellations represented 25.3% and 26.3%, respectively, of the gross number of contracts signed, and 31.3% and 27.9%, respectively, of the gross value of contracts signed.

Our backlog at October 31, 2008 of \$1.33 billion decreased 54%, as compared to our backlog at October 31, 2007, of \$2.85 billion. Backlog consists of homes under contract but not yet delivered to our home buyers for our communities accounted for using the completed contract method of accounting. Only outstanding agreements of sale that have been signed by both the home buyer and us as of the end of the period for which we are reporting are included in backlog. Of the value of backlog reported on October 31, 2007, 2006 and 2005, home buyers subsequently cancelled approximately 20.9%, 19.9% and 19.2%, respectively.

Since the fourth quarter of fiscal 2005, we have experienced a slowdown in our business. This slowdown has worsened over the past several months. The value of net new contracts signed in fiscal 2008 is 78% lower than the value of contracts signed in fiscal 2005. This slowdown, which we believe started with a decline in consumer confidence, an overall softening of demand for new homes and an oversupply of homes available for sale, has been exacerbated by, among other things, a decline in the overall economy, increasing unemployment, fear of job loss, a significant decline in the securities markets, the continuing decline in home prices, the large number of homes that are or will be available due to foreclosures, the inability of some of our home buyers to sell their current home, the deterioration in the credit markets, and the direct and indirect impact of the turmoil in the mortgage loan market. We believe that the key to a recovery in our business is the return of consumer confidence and a stabilization of financial markets and home prices.

We continue to seek a balance between our short-term goal of selling homes in a tough market and our long-term goal of maximizing the value of our communities. We believe that many of our communities are in locations that are difficult to replace and in markets where approvals have been increasingly difficult to achieve. We believe that many of these communities have substantial embedded value that will be realizable in the future and that this value should not necessarily be sacrificed in the current soft market.

We are concerned about the dislocation in the secondary mortgage market. We maintain relationships with a widely diversified group of mortgage financial institutions, most of which are among the largest and, we believe, most reliable in the industry. Our buyers generally have been able to obtain adequate financing. Nevertheless, tightening credit standards have shrunk the pool of potential home buyers and the availability of certain loan products previously available to our home buyers. Mortgage market liquidity issues and higher borrowing rates may impede some of our home buyers from closing, while others may find it more difficult to sell their existing homes as their prospective buyers face the problem of obtaining a mortgage. We believe that our home buyers generally should be able to continue to secure mortgages, due to their typically lower loan-to-value ratios and attractive credit profiles, as compared to the average home buyer. Because we cannot predict the short- and long-term liquidity of the credit markets, we continue to caution that, with the uncertainties in these markets, the pace of home sales could slow further until these markets stabilize.

Based on our experience during prior downturns in the housing market, we believe that unexpected opportunities may arise in difficult times for those builders that are well-prepared. In the current challenging environment, we believe our strong balance sheet, liquidity and access to capital, our broad geographic presence, our diversified product lines, our experienced personnel and our national brand name all position us well for such opportunities now and in the future. At October 31, 2008, we had \$1.63 billion of cash and cash equivalents on hand and approximately \$1.32 billion available under our revolving credit facility which extends to 2011. We believe we have the resources available to fund attractive opportunities, should they arise.

When our industry recovers, we believe that we will see reduced competition from the small and mid-sized private builders who are our primary competitors in the luxury market. We believe that the access of these private builders to capital already appears to be severely constrained. We envision that there will be fewer and more selective lenders serving our industry at that time. Those lenders likely will gravitate to the home building companies that offer them the greatest security, the strongest balance sheets and the broadest array of potential business opportunities. We believe that this reduced competition, combined with attractive long-term demographics, will reward those well-capitalized builders who can persevere through the current challenging environment.

Notwithstanding the current market conditions, we believe that geographic and product diversification, access to lower-cost capital, and strong demographics have in the past and will in the future, as market conditions improve over time, benefit those builders that can control land and persevere through the increasingly difficult regulatory approval process. We believe that these factors favor the large publicly traded home building companies with the capital and expertise to control home sites and gain market share. We believe that, as builders reduce the number of home sites being taken through the approval process and this process continues to become more difficult, and if 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, as market conditions improve.

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 (also referred to herein as "land purchase contracts," "contracts," "purchase agreements" or "option agreements") whenever we can, thus allowing the necessary governmental approvals to be obtained 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 the buyer; and using subcontractors to perform home construction and land development work on a fixed-price basis. Our risk reduction strategy of generally not commencing the construction of a home until we had an agreement of sale with a buyer was effective in the past, but due to the significant number of cancellations of agreements of sale, that we have had in the current

downturn in the housing market, many of which were for homes on which we had commenced construction, and the increase in the number of multi-family communities that we have under construction, the number of homes under construction for which we do not have an agreement of sale has increased from our historical levels.

In response to current market conditions, we have been reevaluating and renegotiating or canceling many of our land purchase contracts. As a result, we have reduced our land position from a high of approximately 91,200 home sites at April 30, 2006, to approximately 39,800 home sites at October 31, 2008. Of the 39,800 home sites that we controlled at October 31, 2008, we owned approximately 32,100 of them. Of the 32,100 home sites owned at October 31, 2008, significant improvements have been completed on approximately 14,000 of them.

At October 31, 2008, we were selling from 273 communities compared to 315 communities at October 31, 2007. We expect to be selling from approximately 255 communities at October 31, 2009.

Given the current business climate in which we are operating and the numerous uncertainties related to sales paces, sales prices, mortgage markets, cancellations, market direction and the potential for and magnitude of future impairments, it is difficult to provide guidance for fiscal 2009. Subject to our caveats and risks reported elsewhere and the preceding caveats, we currently estimate that we will deliver between 2,000 and 3,000 homes in fiscal 2009 at an average sales price of between \$600,000 and \$625,000 per home. We believe that, as a result of continuing sales incentives given to our home buyers and slower sales per community, our cost of sales as a percentage of revenues, before impairment charges and write-downs, will be higher in fiscal 2009 than in fiscal 2008. Additionally, based on fiscal 2009's lower projected revenues, our selling, general and administrative expenses, which we expect to be lower in fiscal 2009 than in fiscal 2008, will be higher as a percentage of revenues.

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, as determined 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 also include interest, real estate taxes and direct overhead related to development and construction, which are capitalized to inventory during the period beginning with the commencement of development and ending with the completion of construction. For those communities that have been temporarily closed, no additional interest is allocated to the community's inventory until it re-opens and other carrying costs are expensed as incurred. Once a parcel of land has been approved for development and we open the community, it may take 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 a community. Our master planned communities, consisting of several smaller communities, may take up to ten years or more to complete. Because of the downturn in our business, the aforementioned estimated community lives will likely be significantly longer. 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.

Current Communities: 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 the estimated future undiscounted cash flow is less than the community's carrying value, the carrying value is written down to its estimated fair value. Estimated fair value is primarily determined by discounting the estimated future cash flow of each community. The impairment is charged to cost of revenues in the period in which the impairment is determined. In estimating the future undiscounted cash flow of a community, we use various estimates such as: (a) the expected sales pace in a community, based upon general economic conditions that will have a short-term or long-term impact on the market in which the community

is located and on competition within the market, including the number of home sites available and pricing and incentives being offered in other communities owned by us or by other builders; (b) the expected sales prices and sales incentives to be offered in a community; (c) costs expended to date and expected to be incurred in the future, including, but not limited to, land and land development costs, home construction costs, interest costs and overhead costs; (d) alternative product offerings that may be offered in a community that will have an impact on sales pace, sales price, building cost or the number of homes that can be built on a particular site; and (e) alternative uses for the property such as the possibility of a sale of the entire community to another builder or the sale of individual home sites.

Future Communities: We evaluate 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. This evaluation encompasses the same types of estimates used for current communities described above, as well as an evaluation of the regulatory environment in which the land is located and the estimated probability of obtaining the necessary approvals, the estimated time and cost it will take to obtain the approvals and the possible concessions that will be required to be given in order to obtain the approvals. Concessions may include cash payments to fund improvements to public places such as parks and streets, dedication of a portion of the property for use by the public or as open space or a reduction in the density or size of the homes to be built. Based upon this review, we decide (a) as to land under contract to be purchased, 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 whether costs that have been capitalized to the community are recoverable or should be written off. The write-off is charged to cost of revenues in the period in which the need for the write-off is determined.

The estimates used in the determination of the estimated cash flows and fair value of both current and future communities are based on factors known to us at the time such estimates are made and our expectations of future operations and economic conditions. Should the estimates or expectations used in determining estimated fair value deteriorate in the future, we may be required to recognize additional impairment charges and write-offs related to current and future communities.

Variable Interest Entities: We have a significant number of land purchase contracts 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 FASB Interpretation No. 46R (collectively referred to as "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 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 substantial 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. At October 31, 2008, we determined that we were the primary beneficiary of two VIEs related to land purchase contracts and had recorded \$20.9 million of inventory and \$17.3 million of accrued expenses.

REVENUE AND COST RECOGNITION

Home Sales-Completed Contract Method: The construction time of our homes is generally less than one year, although some homes may take more than one year to complete. Revenues and cost of revenues from these 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. In addition, we have several high-rise/mid-rise projects which do not qualify for percentage of completion accounting in accordance with SFAS No. 66, "Accounting for Sales of Real Estate" ("SFAS 66"), which are included in this category of revenues and costs.

For our standard attached and detached homes, 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.

For high-rise/mid-rise projects that do not qualify for percentage of completion accounting, land, land development, construction and related costs, both incurred and estimated to be incurred in the future, are generally amortized to the cost of units closed based upon an estimated relative sales value of the units closed to the total estimated sales value. Any changes resulting from a change in the estimated total costs or revenues of the project are allocated to the remaining units to be delivered.

Forfeited customer deposits are recognized in other income in the period in which we determine that the customer will not complete the purchase of the home and when we determine that we have the right to retain the deposit.

Home Sales-Percentage of Completion Method: During the past two years, we completed construction on four projects for which we used the percentage of completion accounting method to recognize revenues and costs; the remaining units in these projects will be accounted for using the completed contract method of accounting. Based upon the current accounting rules and interpretations, we do not believe that any of our current or future communities qualify for percentage of completion accounting. Under the provisions of SFAS 66, revenues and costs are recognized using the percentage of completion method of accounting for those communities that qualify 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 costs are reviewed periodically, and any change is applied to current and future periods.

Forfeited customer deposits are recognized as a reduction in the amount of revenues reversed in the period in which we determine that the customer will not complete the purchase of the home and when we determine that we have the right to retain the deposit.

Sales Incentives: In order to promote sales of our homes, we grant our home buyers sales incentives from time to time. These incentives will vary by type of incentive and by amount on a community-by-community and home-by-home basis. Incentives that impact the value of the home or the sales price paid, such as special or additional options, are generally reflected as a reduction in sales revenues. Incentives that we pay to an outside party, such as paying some or all of a home buyer's closing costs, are recorded as an additional cost of revenues. Incentives are recognized at the time the home is delivered to the home buyer and we receive the sales proceeds.

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 land sales revenues and cost of land sales revenues to entities in which we have a 50% or less interest based upon the ownership percentage attributable to the non-Company partners. Any profit not recognized in a transaction reduces our investment in the entity or is recorded as an accrued expense on our consolidated balance sheets.

OFF-BALANCE SHEET ARRANGEMENTS

We have investments in and advances to various joint ventures and to Toll Brothers Realty Trust Group ("Trust") and Toll Brothers Realty Trust Group II ("Trust II"). At October 31, 2008, we had investments in and advances to these entities of \$151.8 million, and were committed to invest or advance additional funds to these entities if needed and had guaranteed several of these entities' indebtedness and/or loan commitments. See Note 3 of the "Notes to Consolidated Financial Statements," "Investments in and Advances to Unconsolidated Entities" for more information regarding these entities. Our investments in these entities are accounted for using the equity method.

RESULTS OF OPERATIONS

The following table compares certain statement of operations items related to fiscal 2008, 2007 and 2006 (\$ amounts in millions):

	Year ended October 31,					
	2008		2007		2006	
Revenues						
Completed contract	\$	3,106.3	\$	4,495.6	\$	5,945.2
Percentage of completion		41.9		139.5		170.1
Land sales		10.0		11.9		8.2
		<u>3,158.2</u>		<u>4,647.0</u>		<u>6,123.5</u>
Cost of revenues						
Completed contract	2,995.7	96.4%	3,905.9	86.9%	4,263.2	71.7%
Percentage of completion	36.2	86.5%	109.0	78.1%	132.3	77.8%
Land sales	4.8	48.0%	8.1	67.9%	7.0	85.6%
Interest	88.9	2.8%	102.4	2.2%	122.0	2.0%
	<u>3,125.6</u>	<u>99.0%</u>	<u>4,125.4</u>	<u>88.8%</u>	<u>4,524.5</u>	<u>73.9%</u>
Selling, general and administrative	429.9	13.6%	516.7	11.1%	573.4	9.4%
Goodwill impairment	3.2		9.0			
(Loss) income from operations	<u>(400.5)</u>		<u>(4.1)</u>		<u>1,025.6</u>	
(Loss) earnings from unconsolidated entities	(186.4)		(40.4)		48.4	
Interest and other	120.1		115.1		52.7	
(Loss) income before income taxes	<u>(466.8)</u>		<u>70.7</u>		<u>1,126.6</u>	
Income tax (benefit) provision	(169.0)		35.0		439.4	
Net (loss) income	<u>\$ (297.8)</u>		<u>\$ 35.7</u>		<u>\$ 687.2</u>	

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

FISCAL 2008 COMPARED TO FISCAL 2007

Unless otherwise stated, contracts signed represents a number or amount equal to the gross number or amount of contracts signed during the relevant period, less the number or amount of contracts cancelled during the relevant period, which includes contracts that were signed during the relevant period and contracts signed in prior periods.

REVENUES AND COSTS – COMPLETED CONTRACT

Revenues in fiscal 2008 were lower than those for fiscal 2007 by \$1.39 billion, or 31%. The decrease was primarily attributable to a 29% decrease in the number of homes delivered and a 3% decrease in the average price of the homes delivered. The decrease in the number of homes delivered was primarily due to the lower backlog of homes at October 31, 2007 as compared to October 31, 2006. This lower backlog of homes was primarily the result of a 28% decrease in the number of net new contracts signed in fiscal 2007 over fiscal 2006. The decline in the average price of the homes delivered in fiscal 2008, as compared to fiscal 2007, was due primarily to higher sales incentives given on homes closed in fiscal 2008, as compared to fiscal 2007, which was offset by the settlement of units in several of our higher priced high-rise projects (not accounted for under the percentage of completion accounting method) in fiscal 2008 that did not have settlements in fiscal 2007, and a shift in product mix during fiscal 2008 to higher priced product. Sales incentives given on homes delivered in fiscal 2008 averaged \$70,200 per home, as compared to \$34,100 per home in fiscal 2007.

The aggregate value of net new sales contracts signed decreased 46% in fiscal 2008, as compared to fiscal 2007. The value of net new sales contracts signed was \$1.61 billion (2,922 homes) in fiscal 2008 and \$2.99 billion (4,413 homes) in fiscal 2007. The decrease in fiscal 2008 was the result of a 34% decrease in the number of net new contracts signed and a 19% decrease in the average value of each contract signed. We believe the decrease in the number of new contracts signed was attributable to the overall softening of demand for new homes. (See “Overview” above for an expanded discussion related to the decrease in the number of signed contracts and the slowdown in our business.)

The decrease in the average value of net new contracts signed in fiscal 2008, as compared to fiscal 2007, was due primarily to the higher sales incentives given to home buyers in fiscal 2008, as compared to fiscal 2007, and a shift in the number of contracts signed to less expensive areas and/or products in fiscal 2008, as compared to fiscal 2007. At October 31, 2008, we were offering sales incentives that averaged approximately 9.5% of the sales price of the home, as compared to an average of approximately 7.5% at October 31, 2007.

At October 31, 2008, our backlog of homes under contract was \$1.33 billion (2,046 homes), 53% lower than our \$2.82 billion (3,867 homes) backlog at October 31, 2007. The decrease in backlog at October 31, 2008 compared to our backlog at October 31, 2007 was primarily attributable to a lower backlog at October 31, 2007, as compared to the backlog at October 31, 2006, and the decrease in the value and number of net new contracts signed in fiscal 2008, as compared to fiscal 2007, offset in part by lower deliveries in fiscal 2008, as compared to fiscal 2007.

Home costs, including inventory impairment charges and write-offs but before interest, as a percentage of home sales revenue were 96.4% in fiscal 2008, as compared to 86.9% in fiscal 2007. In fiscal 2008 and 2007, we recognized inventory impairment charges and write-offs of \$645.0 million and \$619.5 million, respectively. Excluding inventory impairment charges and write-offs, cost of revenues was 75.7% in fiscal 2008, as compared to 73.1% in fiscal 2007. The increase in the cost of revenues percentage before inventory impairment charges and write-offs was due primarily to higher sales incentives on the homes delivered and higher overhead costs per home due to decreased construction activity, offset in part by the positive impact on cost of sales on homes settled in fiscal 2008 from communities that had reduced inventory values as a result of impairments previously recognized.

REVENUES AND COSTS – PERCENTAGE OF COMPLETION

In fiscal 2008 and 2007, we recognized \$41.9 million and \$139.5 million of revenues, respectively, and \$36.2 million and \$109.0 million of costs (excluding interest), respectively, on projects accounted for using the percentage of completion method. This decline in revenues in fiscal 2008 was primarily the result of the delivery of available units to be sold in projects accounted for using the percentage of completion method and the lack of new projects that qualify under the accounting rules for the application of the percentage of completion accounting method. During the past two years, we completed construction on four projects for which we used the percentage of completion accounting method to recognize revenues and costs; the remaining units in these projects will be accounted for using the completed contract method of accounting. Based upon the current accounting rules and interpretations, we do not believe that any of our current or future communities qualify for the percentage of completion accounting method.

REVENUES AND COSTS – LAND SALES

We are developing several communities in which we expect to sell a portion of the land to other builders or unrelated entities. The amount and profitability of land sales will vary from year to year depending upon the sale and delivery of the specific land parcels. In fiscal 2008 and 2007, we recognized \$10.0 million and \$11.9 million of land sales revenues, respectively, and \$4.8 million and \$8.1 million of costs (excluding interest), respectively.

INTEREST EXPENSE

In our home building operations that are accounted for using the completed contract method of accounting, we determine interest expense on a specific lot-by-lot basis, and for land sales, on a parcel-by-parcel basis. 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.

For projects that used the percentage of completion method of revenue recognition, we determined interest expense based on the total estimated interest for the project and the percentage of total estimated construction costs that had been incurred. Any change in the estimated interest expense for the project was applied to current and future periods from the date the estimate was made.

Interest expense as a percentage of revenues was 2.8% of total revenues in fiscal 2008, as compared to 2.2% in fiscal 2007. The increase in interest expense as a percentage of revenues in fiscal 2008 was due to the added length of time that the homes delivered in fiscal 2008 remained in inventory and accumulated additional capitalized interest. In addition, as our inventory has been reduced, there is less available inventory to which we allocate the interest incurred.

SELLING, GENERAL AND ADMINISTRATIVE EXPENSES (“SG&A”)

As a percentage of revenues, SG&A was 13.6% in fiscal 2008, as compared to 11.1% in fiscal 2007. SG&A spending decreased by \$86.8 million, or 16.8%, in fiscal 2008, as compared to fiscal 2007. The reduction in spending was due primarily to reduced compensation costs and reduced costs for advertising, promotions and marketing.

GOODWILL IMPAIRMENT

During fiscal 2008, due to the continued decline of the Nevada and Florida housing markets, we re-evaluated the carrying value of goodwill associated with the acquisition of two small home builders in these markets. During fiscal 2007, due to the continued decline of the Detroit housing market, we re-evaluated the carrying value of goodwill associated with the acquisition of a small home builder. We estimated the fair value of our assets in these markets, including goodwill. Fair value was determined based on the discounted future cash flow expected to be generated in these markets. Based upon this evaluation and our expectation that these markets would not recover for a number of years, we determined that the related goodwill had been impaired. We recognized \$3.2 million and \$9.0 million of impairment charges in fiscal 2008 and 2007, respectively. After recognizing these charges, we do not have any goodwill remaining on our balance sheet at October 31, 2008.

LOSSES 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 and losses from 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 generally, over a relatively short period of time, are expected to 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 operating results recognized from these entities will vary significantly from quarter to quarter and year to year.

In fiscal 2008, we recognized \$186.4 million of losses from unconsolidated entities as compared to \$40.4 million of losses in fiscal 2007. The loss in fiscal 2008 was the result of \$200.7 million of impairment charges related to seven of our investments in unconsolidated entities. The loss in fiscal 2007 was attributable to \$59.2 million of impairment charges related to two of our investments in unconsolidated entities.

INTEREST AND OTHER INCOME

For fiscal 2008 and 2007, interest and other income was \$120.1 million and \$115.1 million, respectively. The increase in other income in fiscal 2008, as compared to fiscal 2007, was primarily due to the recognition in fiscal 2008 of a gain of \$40.2 million related to the receipt of proceeds from a condemnation judgment in the Company's favor, and higher interest income, offset, in part, by \$24.7 million of gains from the sales of our cable TV and broadband Internet businesses and our security monitoring business, higher retained customer deposits, higher income from ancillary businesses and higher management fees in fiscal 2007.

(LOSS) INCOME BEFORE INCOME TAXES

For fiscal 2008, we reported a loss before income tax benefits of \$466.8 million, as compared to \$70.7 million of income before income taxes for fiscal 2007.

INCOME TAXES

In fiscal 2008, an income tax benefit was provided at an effective rate of 36.2%. In fiscal 2007, an income tax provision was provided at an effective rate of 49.6%. The effective tax rates for fiscal 2008 and 2007 are not comparable because of the impact of the individual components that comprise the benefit for income taxes that was recognized in fiscal 2008 related to our reported loss in fiscal 2008 and the impact of the individual components that comprise the provision for income taxes that was recognized in fiscal 2007 related to our reported income in fiscal 2007. See Note 7 to the "Notes to 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

We operate in four geographic segments around the United States: the North, consisting of Connecticut, Illinois, Massachusetts, Michigan, Minnesota, New Jersey, New York, and Rhode Island; the Mid-Atlantic, consisting of Delaware, Maryland, Pennsylvania, Virginia and West Virginia; the South, consisting of Florida, Georgia, North Carolina, South Carolina and Texas; and the West, consisting of Arizona, California, Colorado and Nevada. We acquired and opened our first communities for sale in Georgia in fiscal 2007. We stopped selling homes in Rhode Island in the first quarter of fiscal 2008 and delivered our last home there in fiscal 2008. Our operations in Rhode Island were immaterial to the North geographic segment.

The following table summarizes by geographic segment total revenues and (loss) income before income taxes for each of the years ended October 31, 2008 and 2007 (\$ amounts in millions):

	Revenues				Income (loss) before income taxes	
	2008 units	2007 units	2008	2007	2008	2007
North (a)	1,300	1,467	\$ 932.9	\$ 1,087.7	\$ 0.9	\$ 51.2
Mid-Atlantic (b)	1,443	2,137	881.0	1,340.6	(10.9)	206.4
South (c)	1,095	1,631	562.1	976.9	(170.0)	(20.4)
West (d)	905	1,452	782.8	1,241.8	(190.5)	(87.9)
Corporate and other					(96.3)	(78.6)
Total	4,743	6,687	\$ 3,158.2	\$ 4,647.0	\$ (466.8)	\$ 70.7

(a) Includes percentage of completion revenues of \$37.5 million and \$91.0 million in fiscal 2008 and 2007, respectively, and land revenues of \$1.0 million and \$3.5 million in fiscal 2008 and 2007, respectively.

(b) Includes land revenues of \$2.4 million and \$2.3 million in fiscal 2008 and 2007, respectively.

(c) Includes percentage of completion revenues of \$4.4 million and \$48.5 million in fiscal 2008 and 2007, respectively, and land revenues of \$1.6 million and \$6.1 million in fiscal 2008 and 2007, respectively.

(d) Includes land revenues of \$5.1 million in fiscal 2008.

NORTH

Revenues in fiscal 2008 were lower than those in fiscal 2007 by \$154.8 million, or 14%. The decrease in revenues was attributable to a decrease of \$53.5 million in percentage of completion revenues and an 11% decrease in the number of homes delivered, partially offset by a 2% increase in the average price of homes delivered. The decrease in the number of homes delivered in the year ended October 31, 2008, as compared to fiscal 2007, was primarily due to lower backlog at October 31, 2007, as compared to October 31, 2006. The decline in backlog at October 31, 2007, as compared to October 31, 2006, was due primarily to an 11% decrease in the number of new contracts signed in fiscal 2007 over fiscal 2006. The increase in the average price of homes delivered in the year ended October 31, 2008, as compared to the year ended October 31, 2007, was primarily due to closings during fiscal 2008 in several high-rise completed contract communities in the New York and New Jersey urban markets, which had higher average prices than our typical product; we did not have any closings of this type of product in fiscal 2007. Excluding these deliveries, the average price of homes delivered in fiscal 2008 decreased 9%, as compared to fiscal 2007, primarily due to higher sales incentives and a shift in the number of settlements to less expensive products and/or locations in fiscal 2008.

The value of net new contracts signed during the year ended October 31, 2008 was \$412.8 million, a 60% decline from the \$1.03 billion of net new contracts signed during the year ended October 31, 2007. The decline in fiscal 2008, as compared to fiscal 2007, was due to a 50% decrease in the number of net new contracts signed and a 20% decrease in the average value of each contract. The decrease in the number of net new contracts signed in fiscal 2008 was primarily due to the continued slowdown in the housing market. The decline in the average sales price was primarily the result of: fewer net new contracts signed in the New York and New Jersey urban markets, which had higher average prices than our typical product, as several communities in these areas sold out in fiscal 2007; higher sales incentives given during the year ended October 31, 2008, as compared to the year ended October 31, 2007; and a shift in the number of contracts signed to less expensive product in fiscal 2008, as compared to fiscal 2007. The number of contract cancellations for the year ended October 31, 2008, was 271, as compared to 251 in the year ended October 31, 2007.

We reported \$0.9 million of income before income taxes in the year ended October 31, 2008, as compared to income before income taxes of \$51.2 million in the year ended October 31, 2007. The decrease in income was due to a \$46.2 million loss from unconsolidated entities in fiscal 2008, as compared to \$15.7 million of income in fiscal 2007, and lower revenues in fiscal 2008, as compared to fiscal 2007, offset, in part by the recognition of a \$9.0 million charge for goodwill impairment in the first quarter of fiscal 2007, and lower selling, general and administrative costs and lower costs of revenues as a percentage of revenues in fiscal 2008, as compared to fiscal 2007. The loss from unconsolidated entities includes \$57.9 million of impairment charges in fiscal

2008 related to two of these unconsolidated entities. The lower cost of revenues as a percentage of revenues in the year ended October 31, 2008, as compared to the year ended October 31, 2007, was primarily the result of lower inventory impairment charges recognized in fiscal 2008. In fiscal 2008, we recorded \$112.5 million of inventory impairments, as compared to \$122.9 million in fiscal 2007.

MID-ATLANTIC

Revenues in fiscal 2008 were lower than those in fiscal 2007 by \$459.6 million, or 34%. The decrease in revenues for the year ended October 31, 2008 was attributable to a 32% decrease in the number of homes delivered (primarily in Virginia and Pennsylvania) and a 3% decrease in the average sales price of the homes delivered. The decrease in the number of homes delivered in fiscal 2008 was primarily due to a lower backlog at October 31, 2007, as compared to October 31, 2006. The decrease in the backlog of homes at October 31, 2007 was primarily the result of a 23% decrease in the number of net new contracts signed in fiscal 2007 over fiscal 2006. The decrease in the average price of the homes delivered in fiscal 2008, as compared to fiscal 2007, was primarily due to higher sales incentives given in fiscal 2008, as compared to fiscal 2007.

The value of net new contracts signed during fiscal 2008 of \$564.2 million decreased 41% from the \$950.4 million of net new contracts signed in fiscal 2007. The decline was due to a 32% decrease in the number of net new contracts signed and a 13% decrease in the average value of each contract. The decrease in the number of net new contracts signed was due primarily to continued weak demand, partially offset by lower cancellations for the year ended October 31, 2008, as compared to the year ended October 31, 2007. The number of contract cancellations decreased from 268 in fiscal 2007 to 205 in fiscal 2008. The decrease in the average value of each contract was primarily attributable to higher sales incentives given in fiscal 2008, as compared to fiscal 2007, and a shift in the number of contracts signed to less expensive products in Maryland and Virginia in fiscal 2008, as compared to fiscal 2007.

We reported a loss before income taxes of \$10.9 million for the year ended October 31, 2008, as compared to income before income taxes of \$206.4 million for the year ended October 31, 2007. This decline was primarily due to a decline in revenues and higher cost of revenues as a percentage of revenues in fiscal 2008, as compared to fiscal 2007, offset, in part, by lower selling, general and administrative expenses. For fiscal 2008, cost of revenues before interest as a percentage of revenues was 91.1%, as compared to 76.4% in fiscal 2007. The increase in the fiscal 2008 percentage was primarily the result of the higher inventory impairment charges recognized and increased sales incentives given to home buyers on the homes delivered. We recognized inventory impairment charges of \$136.4 million in the year ended October 31, 2008, as compared to \$72.3 million in the year ended October 31, 2007. As a percentage of revenues, higher sales incentives increased cost of revenues approximately 3.6% in fiscal 2008, as compared to fiscal 2007.

SOUTH

Revenues for the year ended October 31, 2008 were lower than those for the year ended October 31, 2007 by \$414.8 million, or 42%. The decrease in revenues was attributable to a 33% decrease in the number of homes delivered, a 10% decrease in the average selling price of the homes delivered, and a reduction in percentage of completion revenues of \$44.1 million. The decrease in the number of homes delivered was primarily attributable to our Florida operations, where we had a lower number of homes in backlog at October 31, 2007, as compared to October 31, 2006. The decrease in the backlog of homes at October 31, 2007 for the entire segment was primarily the result of a 36% decrease in the number of net new contracts signed in fiscal 2007 over fiscal 2006. The decrease in the average price of the homes delivered in fiscal 2008, as compared to fiscal 2007, was due to higher sales incentives given to home buyers and a greater percentage of this segment's settlements shifting to less expensive areas, primarily in Florida.

The value of net new contracts signed in fiscal 2008 was \$326.1 million, a 29% decline from the \$457.3 million of net new contracts signed in fiscal 2007. The decline was due to a 21% decrease in the number of net new contracts signed and a 10% decrease in the average value of each contract. The decrease in the number of net new contracts signed was attributable to the overall continued weak market conditions in North Carolina, South Carolina and Texas. In Florida, the number of net new contracts signed in fiscal 2008 increased 62% as compared to fiscal 2007. The increase in the number of net new contracts signed in Florida was due primarily to the decrease in the number of cancellations from 348 in fiscal 2007 to 118 in fiscal 2008. The number of cancellations in this geographic segment for the years ended October 31, 2008 and 2007 was 250 and 457, respectively. The decrease in the average value of each contract signed in fiscal 2008, as compared to fiscal

2007, for this geographic segment was primarily due to lower average sales prices in Florida, which was the result of higher sales incentives and a shift in the number of contracts signed to less expensive areas and products in fiscal 2008, as compared to fiscal 2007. In addition, the average value of each contract signed in Florida for the year ended October 31, 2008 was negatively impacted by cancellations at high-rise projects in fiscal 2008, which carried a higher average value per cancelled contract. The decreases in Florida's average value of each contract signed were offset, in part, by an increase in the average value of contracts signed in North Carolina, which was primarily due to a shift in the number of contracts signed to more expensive products in fiscal 2008, as compared to fiscal 2007.

We reported losses before income taxes for the years ended October 31, 2008 and 2007, of \$170.0 million and \$20.4 million, respectively. The increase in the loss was primarily due to a decline in revenues and higher cost of revenues as a percentage of revenues in fiscal 2008, as compared to fiscal 2007, partially offset by lower selling, general and administrative expenses in fiscal 2008, as compared to fiscal 2007. Cost of revenues before interest as a percentage of revenues was 116.3% for the year ended October 31, 2008, as compared to 92.3% in fiscal 2007. The increase in the fiscal 2008 percentage was primarily due to the higher inventory impairment charges recognized as well as increased sales incentives given to home buyers on the homes delivered during fiscal 2008, as compared to fiscal 2007. For the years ended October 31, 2008 and 2007, we recorded \$200.1 million and \$151.4 million, respectively, of inventory impairments. As a percentage of revenues, higher sales incentives increased cost of revenues approximately 4.7% in fiscal 2008, as compared to fiscal 2007.

WEST

Revenues in fiscal 2008 were lower than those in fiscal 2007 by \$459.6 million, or 37%. The decrease in revenues was attributable to a 38% decrease in the number of homes delivered. The decrease in the number of homes delivered was primarily attributable to the lower number of homes in backlog at October 31, 2007, as compared to October 31, 2006, partially offset by a decrease in the number of contract cancellations in fiscal 2008 as compared to fiscal 2007. The decrease in the backlog of homes at October 31, 2007 was primarily the result of a 51% decrease in the number of net new contracts signed in fiscal 2007 over fiscal 2006.

The value of net new contracts signed during the year ended October 31, 2008 was \$305.1 million, a 47% decline from \$573.0 million of the net new contracts signed during the year ended October 31, 2007. The decline was due primarily to a 20% decrease in the number of net new contracts signed and a 33% decrease in the average value of each contract. The decrease in the number of net new contracts signed was primarily due to the continued depressed market conditions. In fiscal 2008, there were 267 contract cancellations, as compared to 608 in fiscal 2007. The decrease in the average value of each contract signed was attributable to increases in sales incentives given in fiscal 2008, as compared to, fiscal 2007, and in Arizona in fiscal 2008, the higher average value of the contracts cancelled, which resulted in a significantly lower average value of net new contracts signed in Arizona.

We reported losses before income taxes for the years ended October 31, 2008 and 2007, of \$190.5 million and \$87.9 million, respectively. The increase in the loss was attributable to lower revenues and higher cost of revenues as a percentage of revenues in fiscal 2008, as compared to fiscal 2007, and an increase in impairment charges related to unconsolidated entities in which we have investments from \$59.2 million in fiscal 2007 to \$141.3 million in fiscal 2008. For the years ended October 31, 2008 and 2007, cost of revenues before interest as a percentage of revenues was 100.1% and 93.4%, respectively. The increase in the fiscal 2008 percentages was primarily the result of increased sales incentives given to home buyers on the homes delivered and higher inventory impairment charges as a percentage of revenues, partially offset by the positive impact on the cost of sales percentage on homes settled in fiscal 2008 from communities that had reduced inventory values as a result of impairments previously recognized. As a percentage of revenues, higher sales incentives increased cost of revenues approximately 7.3% in fiscal 2008, as compared to fiscal 2007. We recognized inventory impairment charges of \$196.0 million in fiscal 2008, as compared to \$273.0 million in fiscal 2007. This segment benefited from the recognition of \$40.2 million of income in fiscal 2008 related to the receipt of proceeds from a favorable condemnation judgment on property we controlled in this segment.

CORPORATE AND OTHER

Corporate and Other realized a loss before income taxes for the year ended October 31, 2008 of \$96.3 million, an increase of \$17.7 million from the \$78.6 million loss before income taxes reported for the year ended October 31, 2007. This increase was primarily the result of a \$24.7 million gain realized from the sale of our cable TV and broadband Internet business and security business in fiscal 2007 and lower management fee income in fiscal 2008, as compared to fiscal 2007, partially offset by higher interest income and lower corporate general and administrative expenses in fiscal 2008, as compared to fiscal 2007.

FISCAL 2007 COMPARED TO FISCAL 2006

REVENUES AND COSTS – COMPLETED CONTRACT

Revenues for fiscal 2007 were lower than those of fiscal 2006 by approximately \$1.45 billion, or 24.4%. The decrease was attributable to a 22.3% decrease in the number of homes delivered and a 2.7% decrease in the average price of the homes delivered. The decrease in the number of homes delivered was primarily due to the lower backlog of homes at October 31, 2006 as compared to October 31, 2005, which was primarily the result of a 40.6% decrease in the number of contracts signed in fiscal 2006 versus fiscal 2005, and a decline of 27.6% in the number of contracts signed in fiscal 2007 as compared to fiscal 2006. The decrease in the average price of the homes delivered was due primarily to the increased sales incentives given to buyers on the homes delivered in fiscal 2007, as compared to fiscal 2006, offset in part by a slight change in the mix of homes delivered to higher priced homes.

The value of contracts signed in fiscal 2007 was \$2.99 billion (4,413 homes). This represented a 32.2% decrease compared to the value of contracts signed in fiscal 2006 of \$4.40 billion (6,099 homes). The decrease was attributable to a 27.6% decrease in the number of contracts signed in fiscal 2007 as compared to fiscal 2006, and a 6.3% decrease in the average value of each contract signed in fiscal 2007 as compared to fiscal 2006. We believe the decrease in the number of contracts signed was attributable to the increased number of cancellations, a decline in consumer confidence, an overall softening of demand for new homes and an oversupply of homes available for sale. The value of contracts cancelled in fiscal 2007 (including those signed in fiscal 2007 and those signed in prior periods but not cancelled until fiscal 2007) as a percentage of the gross value of contracts signed in fiscal 2007 was 27.9%, as compared to 17.8% in fiscal 2006.

We believe this slowdown was attributable to a decline in consumer confidence, an overall softening of demand for new homes, an oversupply of homes available for sale, the inability of some of our home buyers to sell their current home and the direct and indirect impact of the turmoil in the mortgage loan market. We attributed the reduction in demand to concerns on the part of prospective home buyers about the direction of home prices, due in part to the constant media attention with regard to the potential of mortgage foreclosures, many home builders' advertising price reductions and increased sales incentives, and concerns by prospective home buyers about being able to sell their existing homes. In addition, we believed speculators and buyers who bought homes as an investment were no longer helping to fuel demand. We tried to avoid selling homes to speculators, and we generally did not build detached homes without having a signed agreement of sale and receiving a substantial down payment from a buyer. Nonetheless, we were impacted by an overall increase in the supply of homes available for sale in many markets, as speculators attempted to sell the homes they previously purchased or cancelled contracts for homes under construction, and as those builders that as part of their business strategy were building homes in anticipation of capturing additional sales in a demand-driven market, attempted 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 were also adding to the supply of homes in the marketplace. The decline in the average sales price of new sales contracts signed was due primarily to a shift in the number of contracts signed to less expensive areas and/or smaller homes and the effect of increased sales incentives in fiscal 2007, as compared to fiscal 2006.

At October 31, 2007, our backlog of homes under contract accounted for under the completed contract method of accounting was \$2.82 billion (3,867 homes), 34.8% lower than the \$4.33 billion (6,141 homes) in backlog at October 31, 2006. The decrease in backlog at October 31, 2007, as compared to the backlog at October 31, 2006, was primarily attributable to a lower backlog at October 31, 2006, as compared to the backlog at October 31, 2005, and the decrease in the value and number of contracts signed in fiscal 2007, as compared to fiscal 2006, offset in part by the lower number of deliveries in fiscal 2007, as compared to fiscal 2006.

Home costs as a percentage of revenue were 86.9% in fiscal 2007 as compared to 71.7% in fiscal 2006. The increase in the fiscal 2007 percentage was primarily the result of the higher amount of inventory impairment charges recognized, increased sales incentives given to home buyers on the homes delivered and higher overhead costs per home delivered. In fiscal 2007 and 2006, we recognized inventory impairment charges of \$619.5 million and \$152.0 million, respectively. Fiscal 2007 cost of revenues as a percentage of revenues increased by approximately 2.6% due to the increased sales incentives and by 1% due to higher overhead costs per home.

REVENUES AND COSTS – PERCENTAGE OF COMPLETION

We were developing several projects for which we recognized revenues and costs using the percentage of completion method of accounting. Revenues and costs of individual projects were recognized on the individual project's aggregate value of units for which home buyers had signed binding agreements of sale and were based on the percentage of total estimated construction costs that had been incurred. Total estimated revenues and construction costs were reviewed periodically, and any changes were applied to current and future periods. In fiscal 2007 and 2006, we recognized \$139.5 million and \$170.1 million of revenues, respectively, and \$109.0 million and \$132.3 million of costs, respectively, on these projects. In fiscal 2007, cost of revenues as a percentage of revenues recognized of 78.1% was slightly higher than the fiscal 2006 percentage of 77.8%. The increase was due primarily to cost increases and a change in the mix of revenues recognized in fiscal 2007 to more costly projects. In fiscal 2007, we delivered \$263.3 million (336 homes) in projects for which we are using the percentage of completion method of accounting.

At October 31, 2007, our backlog of homes in communities that we accounted for using the percentage of completion method of accounting was \$30.2 million (net of \$55.2 million of revenue recognized) compared to \$154.3 million at October 31, 2006 (net of \$170.1 million of revenue recognized). The decline in the backlog at October 31, 2007 was primarily the result of the recognition of revenues and a decline in contracts signed.

REVENUES AND COSTS – LAND SALES

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 year to year depending upon the sale and delivery of the specific land parcels. In fiscal 2007 and 2006, land sales revenues were \$11.9 million and \$8.2 million, respectively, and the cost of land sales revenues was approximately 67.9% and 85.6% of land sales revenues, respectively.

INTEREST EXPENSE

In our communities accounted for using the completed contract method of accounting, we determine interest expense on a specific lot-by-lot basis, and for land sales we determine interest expense on a parcel-by-parcel basis. 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.

For projects that used the percentage of completion method of accounting, interest expense was determined based on the total estimated interest for the project and the percentage of total estimated construction costs that had been incurred. Any change in the estimated interest expense for the project was applied to current and future periods from the date the estimate was made.

Interest expense as a percentage of revenues was 2.2% in fiscal 2007, as compared to 2.0% in fiscal 2006.

SELLING, GENERAL AND ADMINISTRATIVE EXPENSES ("SG&A")

SG&A spending decreased by \$56.7 million, or 10%, in fiscal 2007, as compared to fiscal 2006. The reduction in spending was due primarily to cost reductions, offset in part by the expenses resulting from the increased number of communities from which we were operating during fiscal 2007, as compared to fiscal 2006. At October 31, 2007, we had 315 selling communities, a 5% increase over the 300 selling communities we had at October 31, 2006.

GOODWILL IMPAIRMENT

During fiscal 2007, due to the continued decline of the Detroit market, we re-evaluated the carrying value of goodwill associated with a 1999 acquisition. We estimated the fair value of our assets in this market, including goodwill. Fair value was determined based on the discounted future cash flow expected to be generated in this market. Based upon this evaluation and our expectation that this market would not recover for a number of years, we determined that the related goodwill was impaired. We recognized a \$9.0 million impairment charge in fiscal 2007. After recognizing this charge, we did not have any goodwill remaining from this acquisition.

(LOSS) 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. 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 period to period. In fiscal 2007, we recognized \$40.4 million of losses from unconsolidated entities as compared to \$48.4 million of earnings in fiscal 2006. The fiscal 2007 loss was attributable to \$59.2 million of impairment charges on two of our investments in unconsolidated entities in our quarter ended October 31, 2007.

INTEREST AND OTHER INCOME

In fiscal 2007, we recognized \$115.1 million of interest and other income, as compared to \$52.7 million in fiscal 2006. The \$62.5 million increase in fiscal 2007 was primarily the result of the recognition into income of \$36.5 million of retained customer deposits in fiscal 2007, as compared to \$15.4 million in fiscal 2006, a \$14.8 million gain realized from the sale of our security business, a \$9.9 million gain realized from the sale of our cable TV and broadband Internet business, and an \$8.8 million increase in interest income in fiscal 2007, as compared to 2006.

INCOME BEFORE INCOME TAXES

Income before taxes in fiscal 2007 was \$70.7 million, a decrease of 93.7% from the \$1.13 billion earned in fiscal 2006.

INCOME TAXES

Income taxes were provided at an effective rate of 49.6% in fiscal 2007, as compared to 39.0% in fiscal 2006. The increase in the effective tax rate in fiscal 2007, as compared to fiscal 2006 was due primarily to lower pretax income reported in fiscal 2007, as compared to fiscal 2006, and the greater impact of individual components of the provision for income taxes on the overall rate in fiscal 2007, as compared to the fiscal 2006 rate. The effective state income tax rate for fiscal 2007 was 21.4%, as compared to 7.0% in fiscal 2006. The increase in the state tax rate was the result of the allocation of our income and losses to the various taxing jurisdictions in which we operate and the tax rates in those jurisdictions. In addition, in fiscal 2007, we reported higher tax-free income, an increase in our estimated interest provided on anticipated tax assessments and a lower amount of expiring state tax provisions, as compared to fiscal 2006. We also recognized \$8.7 million and \$10.3 million of manufacturing and other tax credits in fiscal 2007 and fiscal 2006, respectively. As a percentage of income before taxes, the 2007 credits were significantly higher than the fiscal 2006 percentage. See Note 7 to the "Notes to 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

We operate in four geographic segments around the United States: the North, consisting of Connecticut, Illinois, Massachusetts, Michigan, Minnesota, 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, Georgia, North Carolina, South Carolina and Texas; and the West, consisting of Arizona, California, Colorado and Nevada. We stopped selling homes in Ohio in fiscal 2005 and delivered our last home in that state in fiscal 2006. Our operations in Ohio were immaterial to the North segment. We acquired and opened for sale our first communities in Georgia in fiscal 2007.

The following table summarizes by geographic segments total revenues and income (loss) before income taxes for each of the years ended October 31, 2007 and 2006 (\$ amounts in millions):

	Revenues				Income (loss) before income taxes	
	2007 units	2006 units	2007	2006	2007	2006
North (a)	1,467	1,983	\$ 1,087.7	\$ 1,444.2	\$ 51.2	\$ 281.9
Mid-Atlantic (b)	2,137	2,697	1,340.6	1,777.9	206.4	491.8
South (c)	1,631	2,017	976.9	1,192.4	(20.4)	161.8
West	1,452	1,904	1,241.8	1,709.0	(87.9)	338.5
Corporate and other					(78.6)	(147.4)
Total	6,687	8,601	\$ 4,647.0	\$ 6,123.5	\$ 70.7	\$ 1,126.6

(a) Includes percentage of completion revenues of \$91.0 million and \$110.3 million in fiscal 2007 and 2006, respectively, and land sales revenues of \$3.5 million and \$0.4 million in fiscal 2007 and 2006, respectively.

(b) Includes land sales revenues of \$2.3 million and \$0.2 million in fiscal 2007 and 2006, respectively.

(c) Includes percentage of completion revenues of \$48.5 million and \$59.8 million in fiscal 2007 and 2006, respectively, and land sales revenues of \$6.1 million and \$7.4 million in fiscal 2007 and 2006, respectively.

NORTH

Revenues in fiscal 2007 were lower than those for fiscal 2006 by \$356.5 million, or 25%. The decrease in revenues was attributable to a 26% decrease in the number of homes delivered and a reduction in percentage of completion revenues of \$19.3 million, offset, in part, by a 1% increase in the average price of the homes delivered. Approximately 75% of the decrease in revenues related to the New Jersey suburban markets, where the number of homes delivered decreased 37% and the average price of the homes delivered decreased 6%. The decrease in the number of homes delivered in fiscal 2007, as compared to fiscal 2006, was primarily due to the lower backlog of homes at October 31, 2006, as compared to October 31, 2005, which was the result of a 27% decrease in the number of new contracts signed in fiscal 2006 over fiscal 2005, and the increased cancellation rates by home buyers in fiscal 2007, as compared to the rates in fiscal 2006.

The value of new contracts signed in fiscal 2007 was \$1.03 billion, a 13% decline from the \$1.18 billion of contracts signed in fiscal 2006. The number of net new contracts signed and the average value of each contract decreased 11% and 2%, respectively. The decline in new contracts signed in fiscal 2007 was primarily due to a slowdown in the housing market, predominantly in Illinois, Michigan and the suburban New Jersey markets. However, in New York and the urban markets of northern New Jersey, net new signed contracts increased by \$108.4 million for the year ended October 31, 2007, as compared to the same period in 2006. The contract cancellation rates for fiscal 2007 and fiscal 2006 were 14.7% and 8.7%, respectively.

Income before income taxes in fiscal 2007 was \$51.2 million, a decrease of \$230.7 million from the \$281.9 million reported for fiscal 2006. This decrease was due to less profit realized on the lower revenues in fiscal 2007, higher costs of revenues in fiscal 2007 as compared to fiscal 2006, and a \$16.0 million decrease in income realized from unconsolidated entities in fiscal 2007 as compared to fiscal 2006. Cost of revenues before interest as a percentage of revenues was 86.3% in fiscal 2007 versus 74.3% in fiscal 2006. The increase in the fiscal 2007 percentage was primarily the result of the higher inventory impairment charges recognized, increased sales incentives given to home buyers on the homes delivered and higher land and direct costs as a percentage of the revenues from homes delivered. In fiscal 2007 and 2006, we recognized inventory impairment charges of \$122.9 million and \$46.7 million, respectively. As a percentage of revenues, the higher land and direct costs increased cost of revenues approximately 2.0% and sales incentives increased cost of revenues approximately 1.3%.

MID-ATLANTIC

Revenues in fiscal 2007 were lower than those for fiscal 2006 by \$437.3 million, or 25%. The decrease in revenues was attributable to a 21% decrease in the number of homes delivered (primarily in Virginia), and a 5% decrease in the average sales price of the homes delivered. The decrease in the number of homes delivered was primarily due to the lower backlog of homes at October 31, 2006, as compared to October 31, 2005. The decrease in the backlog of homes was primarily the result of a 43% decrease in the number of net new contracts signed in fiscal 2006 over fiscal 2005, due to weak demand and a significantly higher number of contract cancellations in fiscal 2006, as compared to fiscal 2005. The decrease in the average price of the homes delivered in the fiscal year 2007, as compared to fiscal 2006, was primarily related to a change in the mix of communities delivering homes in Maryland to a lower price point product.

The value of net new contracts signed during the year ended October 31, 2007 of \$950.4 million decreased 25% from the net new contracts signed of \$1.26 billion in the comparable period of fiscal 2006. The decline was due primarily to a 23% decrease in the number of net new contracts signed and a 3% decrease in the average value of each contract. The decline in the number of net new contracts signed was due primarily to continued weak demand and an increase in contract cancellation rates. The contract cancellation rates for the years ended October 31, 2007 and 2006 were 15.1% and 13.3%, respectively.

Income before income taxes in fiscal 2007 was \$206.4 million, a decrease of \$285.4 million from the \$491.8 million reported for fiscal 2006. This decrease was attributable to lower revenues and higher cost of revenues in fiscal 2007, as compared to fiscal 2006. For the years ended October 31, 2007 and 2006, cost of revenues before interest as a percentage of revenues was 76.4% and 65.3%, respectively. The increase in the fiscal 2007 percentage was primarily the result of the higher amount of inventory impairment charges recognized, increased sales incentives given to home buyers on the homes delivered and higher land costs as a percentage of the revenues from homes delivered. We recognized inventory impairment charges of \$72.3 million and \$7.7 million in fiscal 2007 and 2006, respectively. The higher sales incentives and land costs increased cost of revenues as a percentage of revenues approximately 3.4% and 1.8%, respectively.

SOUTH

Revenues in fiscal 2007 were lower than those of fiscal 2006 by \$215.5 million, or 18%. The decrease in revenues was attributable to a 19% decrease in the number of homes delivered and a reduction in percentage of completion revenues of \$11.3 million, partially offset by a 1% increase in the average selling price of the homes delivered. The decrease in the number of homes delivered in fiscal 2007, as compared to fiscal 2006, was primarily attributable to our Florida operations, where we had a lower number of homes in backlog at October 31, 2006, as compared to October 31, 2005, and increased cancellations rates by home buyers in 2007 versus 2006.

For the year ended October 31, 2007, the value of net new contracts signed was \$457.3 million, as compared to \$800.3 million in the comparable period of fiscal 2006, a decrease of 43%. The decline was due to decreases in the number of net new contracts signed and the average value of each contract of 36% and 11%, respectively. The decrease in the number of net new contracts signed was attributable to weak market conditions, especially in Florida, and a significantly higher number of contract cancellations. In fiscal years 2007 and 2006, the cancellation rate in Florida was 60.7% and 28.2%, respectively. For the entire region, the cancellation rate was 35.5% and 20.3% for the years ended October 31, 2007 and 2006, respectively. The decrease in the average sales price was primarily due to a shift in the number of contracts to areas with lower priced homes in fiscal 2007 compared to fiscal 2006.

We reported a loss before income taxes for the year ended October 31, 2007 of \$20.4 million, as compared to income before taxes of \$161.8 million in fiscal 2006. This decrease was primarily due to a higher cost of revenues as a percentage of total revenues in fiscal 2007, as compared to fiscal 2006, partially offset by higher retained customer deposits on contract cancellations. Cost of revenues before interest as a percentage of revenues was 92.3% in fiscal 2007, as compared to 77.5% in fiscal 2006. The increase in the fiscal 2007 percentage was primarily due to the higher amount of inventory impairment charges recognized, and increased sales incentives given to home buyers on the homes delivered, offset, in part, by lower overhead costs. In fiscal 2007 and 2006, we recognized inventory impairment charges of \$151.4 million and \$16.6 million, respectively. As a percentage of revenues, higher sales incentives increased cost of revenues approximately 3.9% while lower overhead costs decreased the cost of revenues approximately 2.6%.

WEST

Revenues in fiscal 2007 were lower than those for fiscal 2006 by \$467.2 million, or 27%. The decrease in revenues was attributable to declines in the number of homes delivered and in the average price of homes delivered of 24% and 5%, respectively. The decrease in the number of homes delivered was primarily attributable to the lower number of homes in backlog at October 31, 2006, as compared to October 31, 2005, a significantly higher number of contract cancellations in fiscal 2007 than in fiscal 2006 and higher sales incentives in fiscal 2007 versus 2006.

The value of net new contracts signed in the year ended October 31, 2007 of \$573.0 million decreased 53% from the net new contracts signed of \$1.22 billion in fiscal 2006. The decline was primarily due to a 51% decrease in the number of net new contracts signed in fiscal 2007 as compared to fiscal 2006, which was attributable to weak demand and higher than normal contract cancellations. The cancellation rate for the year ended October 31, 2007 was 49.5%, as compared to 28.2% for the year ended October 31, 2006.

For fiscal 2007, we reported a loss before income taxes of \$87.9 million, compared to income before income taxes of \$338.5 million for fiscal 2006. This decrease was attributable to lower revenues and higher cost of revenues in fiscal 2007, as compared to fiscal 2006, and a \$59.2 million impairment charge in fiscal 2007 related to two unconsolidated entities in which we have investments. For the years ended October 31, 2007 and 2006, cost of revenues before interest as a percentage of revenues was 93.4% and 72.8%, respectively. The increase in the fiscal 2007 percentage was primarily the result of the higher amount of inventory impairment charges recognized and increased sales incentives given to home buyers on the homes delivered. We recognized inventory impairment charges of \$273.0 million and \$81.0 million in fiscal 2007 and 2006, respectively. The higher sales incentives increased cost of revenues as a percentage of revenue approximately 2.3%.

OTHER

Other loss before income taxes for fiscal 2007 was \$78.6 million, a decrease of \$68.8 million from the \$147.4 million loss before income taxes reported for fiscal 2006. This decline was primarily the result of lower general and administrative costs attributable to lower compensation expenses, a \$14.8 million gain realized from the sale of our security business, a \$9.9 million gain realized from the sale of our cable TV and broadband Internet business, and higher interest income.

CAPITAL RESOURCES AND LIQUIDITY

Funding for our business has been provided principally by cash flow from operating activities before inventory additions, unsecured bank borrowings and the public debt and equity markets. Prior to fiscal 2008, we used our cash flow from operating activities, before inventory additions, bank borrowings and the proceeds of public debt and equity offerings, to acquire additional land for new communities, fund additional expenditures for land development, fund construction costs needed to meet the requirements of our backlog, invest in unconsolidated entities, purchase our stock, and repay debt.

In fiscal 2008, our cash and cash equivalents increased by \$733.2 million to \$1.63 billion. Cash flow from operating activities was \$826.8 million. Cash flow from operating activities was generated primarily from income before inventory and investment impairment losses, reductions in inventory, and a decrease in contracts receivable related to percentage of completion accounting, offset, in part, by a decrease in accounts payable and accrued expenses (excluding accruals of estimated liabilities to various joint ventures), a decrease in customer deposits and an increase in deferred tax assets. The decreased inventory, contracts receivable, accounts payable and customer deposits were due primarily to the decline in our business as previously discussed. We used \$64.6 million of cash flow in investing activities, primarily for additional investments in unconsolidated entities. In addition, we used \$29.0 million of cash flow in financing activities, primarily for the repayment of debt, offset in part, by cash generated from stock-based benefit plans and the tax benefits of stock-based compensation.

In fiscal 2007, we generated \$267.8 million of cash, including \$330.5 million from operating activities and \$25.6 million from investing activities, offset, in part, by the use of \$88.2 million in financing activities. In the fiscal 2007 period, net cash generated from operating activities was primarily attributable to net income before write-offs, offset, in part, by a reduction in accounts payable and accrued expenses, a reduction in customer deposits and an increase in deferred tax assets.

At October 31, 2008, the aggregate purchase price of land parcels under option and purchase agreements was approximately \$637.0 million (including \$147.0 million of land to be acquired from joint ventures in which we have invested). Of the \$637.0 million of land purchase commitments, we had paid or deposited \$70.8 million and had invested in or guaranteed loans on behalf of our joint ventures of \$113.4 million which will be credited against the purchase price of the land. The purchases of these land parcels are scheduled over the next several years. We have additional land parcels under option that have been excluded from the aforementioned aggregate purchase amounts since we do not believe that we will complete the purchase of these land parcels and no additional funds will be required from us.

In general, our 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 those which we deliver. In addition, we generally do not begin construction of our single-family detached homes until we have a signed contract with the home buyer, although in the past several years, due to the high cancellation rate of customer contracts and the increase in the number of attached-home communities from which we were operating (all of the units of which are generally not sold prior to the commencement of construction), the number of speculative homes in our inventory increased significantly. Should our business remain at its current level or decline from present levels, we believe that our inventory levels would continue to decrease as we complete and deliver the homes under construction but do not commence construction of as many new homes, as we complete the improvements on the land we already own and as we sell and deliver the speculative homes that are currently in inventory, resulting in additional cash flow from operations. In addition, we might continue to delay or curtail our acquisition of additional land, as we have since the second half of fiscal 2006, which would further reduce our inventory levels and cash needs. At October 31, 2008, we owned or controlled through options approximately 39,800 home sites, as compared to approximately 59,300 at October 31, 2007, and approximately 91,200 at April 30, 2006, the high point of our home sites owned and controlled.

During the past several 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 to investments in and distributions of investments from unconsolidated entities are contained in the "Consolidated Statements of Cash Flows" under "Cash flow from investing activities."

We have a \$1.89 billion credit facility consisting of a \$1.56 billion unsecured revolving credit facility and a \$331.7 million term loan facility (collectively, the "Credit Facility") with 32 banks, which extends to March 2011. At October 31, 2008, we had no outstanding borrowings against the revolving credit facility but had letters of credit of approximately \$236.8 million outstanding under it. Under the terms of the Credit Facility, our maximum leverage ratio (as defined in the agreement) may not exceed 2.00 to 1.00 and at October 31, 2008, we were required to maintain a minimum tangible net worth (as defined in the agreement) of approximately \$2.25 billion. At October 31, 2008, our leverage ratio was approximately 0.145 to 1.00, and our tangible net worth was approximately \$3.22 billion.

We believe that we will be able to continue to fund our current operations and meet our contractual obligations through a combination of existing cash resources and our existing sources of credit. Due to the deterioration of the credit markets and the uncertainties that exist in the economy and for home builders in general, we cannot be certain that we will be able to replace existing financing or find sources of additional financing in the future.

CONTRACTUAL OBLIGATIONS

The following table summarizes our estimated contractual payment obligations at October 31, 2008 (amounts in millions):

	2009	2010 - 2011	2012 - 2013	Thereafter	Total
Senior and senior subordinated notes (a)	\$ 94.1	\$ 369.3	\$ 811.0	\$ 628.1	\$ 1,902.5
Loans payable (a)	94.7	564.5	2.0	14.7	675.9
Mortgage company warehouse loan (a)	38.8				38.8
Operating lease obligations	11.7	16.9	11.3	18.4	58.3
Purchase obligations (b)	299.8	360.4	86.2	58.1	804.5
Retirement plans (c)	5.8	3.9	10.6	34.8	55.1
Other	.7	1.4	1.4		3.5
	<u>\$ 545.6</u>	<u>\$ 1,316.4</u>	<u>\$ 922.5</u>	<u>\$ 754.1</u>	<u>\$ 3,538.6</u>

- (a) Amounts include estimated annual interest payments until maturity of the debt. Of the amounts indicated, \$1.49 billion of the senior and senior subordinated notes, \$613.6 million of loans payable, and \$37.9 million of the mortgage company warehouse loan were recorded on the October 31, 2008 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, \$37.4 million has been recorded on the October 31, 2008 Consolidated Balance Sheet.

INFLATION

The long-term impact of inflation on us is manifested in increased costs for land, land development, construction and overhead. 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 will affect our profits. Prior to the current downturn in the economy and the decline in demand for homes, the sales prices of our homes generally increased. Because the sales price of each of our homes is fixed at the time a buyer enters into a contract to purchase 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. The slowdown in the home building industry over the past several years and the decline in the sales prices of our homes, without a corresponding reduction in the costs, have had an adverse impact on our profitability.

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 home.

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, 2008, our debt obligations, principal cash flows by scheduled maturity, weighted-average interest rates, and estimated fair value were as follows (\$ amounts in thousands):

Fiscal year of maturity	Fixed-rate debt		Variable-rate debt (a)	
	Amount	Weighted-average interest rate	Amount	Weighted-average interest rate
2009	\$ 45,420	6.90%	\$ 57,660	5.45%
2010	19,822	6.18%	168,332	4.88%
2011	205,669	8.17%	331,817	5.02%
2012	150,038	8.25%	150	1.75%
2013	550,890	6.46%	150	1.75%
Thereafter	601,968	5.05%	12,545	1.75%
Discount	(6,555)			
Total	<u>\$1,567,252</u>	6.32%	<u>\$ 570,654</u>	4.95%
Fair value at October 31, 2008	<u>\$1,238,110</u>		<u>\$ 570,654</u>	

(a) Based upon the amount of variable-rate debt outstanding at October 31, 2008, and holding the variable-rate debt balance constant, each 1% increase in interest rates would increase the interest incurred by us by approximately \$5.7 million per year.

CONTRACTS, REVENUES AND BACKLOG BY GEOGRAPHIC REGION

We operate in the following four geographic segments around the United States: the North, consisting of Connecticut, Illinois, Massachusetts, Michigan, Minnesota, 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, Georgia, North Carolina, South Carolina and Texas; and the West, consisting of Arizona, California, Colorado and Nevada. We began operations in Georgia in the fourth quarter of fiscal 2007. We stopped selling homes in Ohio in fiscal 2005 and delivered our last home there in fiscal 2006. We stopped selling homes in Rhode Island in the first quarter of fiscal 2008 and delivered our last home there in the first quarter of fiscal 2008. Our operations in Ohio and Rhode Island were immaterial to the North geographic segment.

The following table summarizes by geographic segment, closings and new contracts signed during fiscal 2008, 2007 and 2006, and backlog at October 31, 2008, 2007 and 2006:

Revenues - Twelve months ended October 31,

	Units			\$ (In millions)		
	2008	2007	2006	2008	2007	2006
Completed contract communities (1):						
North	1,300	1,467	1,983	\$ 894.4	\$ 993.1	\$1,333.9
Mid-Atlantic	1,443	2,137	2,697	878.6	1,338.4	1,777.5
South	1,095	1,631	2,017	556.2	922.3	1,124.8
West	905	1,452	1,904	777.1	1,241.8	1,709.0
Total	<u>4,743</u>	<u>6,687</u>	<u>8,601</u>	<u>3,106.3</u>	<u>4,495.6</u>	<u>5,945.2</u>

Percentage of completion communities (2):

North				37.5	91.0	110.3
South				4.4	48.5	59.8
Total	<u>-</u>	<u>-</u>	<u>-</u>	<u>41.9</u>	<u>139.5</u>	<u>170.1</u>

Total						
North	1,300	1,467	1,983	931.9	1,084.1	1,444.2
Mid-Atlantic	1,443	2,137	2,697	878.6	1,338.4	1,777.5
South	1,095	1,631	2,017	560.6	970.8	1,184.6
West	905	1,452	1,904	777.1	1,241.8	1,709.0
Total consolidated	<u>4,743</u>	<u>6,687</u>	<u>8,601</u>	<u>\$3,148.2</u>	<u>\$4,635.1</u>	<u>\$6,115.3</u>

For (1) and (2) see page 35.

Contracts - Twelve months ended October 31,

	Units			\$ (In millions)		
	2008	2007	2006	2008	2007	2006
Completed contract communities (1):						
North	739	1,458	1,612	\$ 406.0	\$ 1,007.4	\$ 1,134.2
Mid-Atlantic	1,028	1,505	1,942	564.2	950.4	1,262.8
South	660	829	1,290	332.3	454.9	784.3
West	495	621	1,255	305.1	573.0	1,220.3
Total	2,922	4,413	6,099	1,607.6	2,985.7	4,401.6

Percentage of completion communities:

North	8	27	61	6.8	22.0	43.1
South	(3)		4	(6.2)	2.4	16.0
Total	5	27	65	0.6	24.4	59.1

Total

North	747	1,485	1,673	412.8	1,029.4	1,177.3
Mid-Atlantic	1,028	1,505	1,942	564.2	950.4	1,262.8
South	657	829	1,294	326.1	457.3	800.3
West	495	621	1,255	305.1	573.0	1,220.3
Total consolidated	2,927	4,440	6,164	\$ 1,608.2	\$ 3,010.1	\$ 4,460.7

Backlog at October 31,

	Units			\$ (In millions)		
	2008	2007	2006	2008	2007	2006
Completed contract communities (1):						
North	870	1,431	1,440	\$ 562.5	\$ 1,051.0	\$ 1,036.7
Mid-Atlantic	558	973	1,605	362.3	676.7	1,064.7
South	354	789	1,591	205.1	428.9	896.4
West	264	674	1,505	195.6	667.6	1,336.3
Total	2,046	3,867	6,141	1,325.5	2,824.2	4,334.1

Percentage of completion communities (2):

North		66	316		38.7	210.4
South		17	76		46.7	114.0
Less revenue recognized on units remaining in backlog					(55.2)	(170.1)
Total	-	83	392	-	30.2	154.3

Total

North	870	1,497	1,756	562.5	1,089.7	1,247.1
Mid-Atlantic	558	973	1,605	362.3	676.7	1,064.7
South	354	806	1,667	205.1	475.6	1,010.4
West	264	674	1,505	195.6	667.6	1,336.3
Less revenue recognized on units remaining in backlog					(55.2)	(170.1)
Total consolidated	2,046	3,950	6,533	\$ 1,325.5	\$ 2,854.4	\$ 4,488.4

(1) Completed contract communities' revenues, contracts and backlog include certain projects that have extended sales and construction cycles. Information related to revenue recognized in these projects and contracts signed in these projects during the twelve-month periods ended October 31, 2008, 2007 and 2006, and the backlog of undelivered homes in these projects at October 31, 2008, 2007 and 2006, is provided below.

Revenues - Twelve months ended October 31,

	Units			\$ (In millions)		
	2008	2007	2006	2008	2007	2006
North	311	52		\$ 288.3	\$ 70.3	
Mid-Atlantic	62			25.9		
West	13			9.3		
Total	386	52		\$ 323.5	\$ 70.3	

Contracts - Twelve months ended October 31,

North	(8)	329	240	\$ (1.8)	\$ 325.4	\$ 228.4
Mid-Atlantic	(1)	14	28	0.1	6.4	10.6
West	(36)	(6)	19	(21.2)	(4.0)	12.7
Total	(45)	337	287	\$ (22.9)	\$ 327.8	\$ 251.7

Backlog at October 31,

North	214	533	256	\$ 208.8	\$ 499.0	\$ 244.0
Mid-Atlantic	9	72	58	4.2	30.0	23.6
West		20	26		14.2	18.2
Total	223	625	340	\$ 213.0	\$ 543.2	\$ 285.8

(2) Percentage of completion deliveries in the twelve-month periods ended October 31, 2008 and 2007 are provided below. No deliveries of units from projects accounted for using the percentage of completion method of accounting were made in the twelve months ended October 31, 2006.

	Units			\$ (In millions)		
	2008	2007	2006	2008	2007	2006
North	74	277		\$ 45.6	\$ 193.7	
South	14	59		40.5	69.6	
Total	88	336	-	\$ 86.1	\$ 263.3	-

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: (i) pertain to the maintenance of records that in reasonable detail accurately and fairly reflect the transactions and dispositions of the assets of the company; (ii) 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 (iii) 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, 2008.

Toll Brothers, Inc.'s independent registered public accounting firm, Ernst & Young LLP, has issued an attestation report, which is included herein, on the effectiveness of Toll Brothers, Inc.'s internal control over financial reporting.

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM THE BOARD OF DIRECTORS AND STOCKHOLDERS OF TOLL BROTHERS, INC.

We have audited Toll Brothers, Inc.'s internal control over financial reporting as of October 31, 2008, 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 included in the accompanying Management's Annual Report on Internal Control Over Financial Reporting. Our responsibility is to express an opinion on 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, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, 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, Toll Brothers, Inc. maintained, in all material respects, effective internal control over financial reporting as of October 31, 2008, 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, 2008 and 2007, and the related consolidated statements of operations, changes in stockholders' equity, and cash flows for each of the three years in the period ended October 31, 2008 of Toll Brothers, Inc. and subsidiaries and our report dated December 18, 2008 expressed an unqualified opinion thereon.

Ernst & Young LLP

Philadelphia, Pennsylvania
December 18, 2008

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

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, 2008 and 2007, and the related consolidated statements of operations, stockholders' equity, and cash flows for each of the three years in the period ended October 31, 2008. 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, 2008 and 2007, and the consolidated results of their operations and their cash flows for each of the three years in the period ended October 31, 2008, in conformity with U.S. generally accepted accounting principles.

As discussed in Note 7 to the consolidated financial statements, the Company adopted the provisions of FASB Interpretation No. 48 on November 1, 2007.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), Toll Brothers, Inc.'s internal control over financial reporting as of October 31, 2008, 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 18, 2008 expressed an unqualified opinion thereon.

Ernst & Young LLP

Philadelphia, Pennsylvania
December 18, 2008

CONSOLIDATED STATEMENTS OF OPERATIONS

(Amounts in thousands, except per share data)

	Year ended October 31,		
	2008	2007	2006
Revenues:			
Completed contract	\$3,106,293	\$4,495,600	\$5,945,169
Percentage of completion	41,873	139,493	170,111
Land sales	10,047	11,886	8,173
	<u>3,158,213</u>	<u>4,646,979</u>	<u>6,123,453</u>
Cost of revenues:			
Completed contract	2,995,718	3,905,907	4,263,200
Percentage of completion	36,221	108,954	132,268
Land sales	4,818	8,069	6,997
Interest	88,861	102,447	121,993
	<u>3,125,618</u>	<u>4,125,377</u>	<u>4,524,458</u>
Selling, general and administrative	429,894	516,729	573,404
Goodwill impairment	3,233	8,973	
(Loss) income from operations	<u>(400,532)</u>	<u>(4,100)</u>	<u>1,025,591</u>
Other:			
(Loss) earnings from unconsolidated entities	(186,393)	(40,353)	48,361
Interest and other income	120,138	115,133	52,664
(Loss) income before income taxes	<u>(466,787)</u>	<u>70,680</u>	<u>1,126,616</u>
Income tax (benefit) provision	(168,977)	35,029	439,403
Net (loss) income	<u>\$ (297,810)</u>	<u>\$ 35,651</u>	<u>\$ 687,213</u>
(Loss) earnings per share:			
Basic	\$ (1.88)	\$ 0.23	\$ 4.45
Diluted	\$ (1.88)	\$ 0.22	\$ 4.17
Weighted-average number of shares:			
Basic	158,730	155,318	154,300
Diluted	158,730	164,166	164,852

See accompanying notes.

CONSOLIDATED BALANCE SHEETS

(Amounts in thousands)

	October 31	
	2008	2007
ASSETS		
Cash and cash equivalents	\$1,633,495	\$ 900,337
Inventory	4,127,475	5,572,655
Property, construction and office equipment, net	86,462	84,265
Receivables, prepaid expenses and other assets	113,762	135,910
Contracts receivable		46,525
Mortgage loans receivable	49,255	93,189
Customer deposits held in escrow	18,913	34,367
Investments in and advances to unconsolidated entities	151,771	183,171
Deferred tax assets, net	405,703	169,897
	<u>\$6,586,836</u>	<u>\$7,220,316</u>
LIABILITIES AND STOCKHOLDERS' EQUITY		
Liabilities:		
Loans payable	\$ 613,594	\$ 696,814
Senior notes	1,143,445	1,142,306
Senior subordinated notes	343,000	350,000
Mortgage company warehouse loan	37,867	76,730
Customer deposits	135,591	260,155
Accounts payable	134,843	236,877
Accrued expenses	738,596	724,229
Income taxes payable	202,247	197,960
Total liabilities	<u>3,349,183</u>	<u>3,685,071</u>
Minority interest	-	8,011
Stockholders' equity:		
Preferred stock, none issued		
Common stock, 160,370 and 157,028, issued at October 31, 2008 and 2007	1,604	1,570
Additional paid-in capital	282,090	227,561
Retained earnings	2,953,655	3,298,925
Treasury stock, at cost - 1 and 20 held at October 31, 2008 and 2007	(21)	(425)
Accumulated other comprehensive income (loss)	325	(397)
Total stockholders' equity	<u>3,237,653</u>	<u>3,527,234</u>
	<u>\$6,586,836</u>	<u>\$7,220,316</u>

See accompanying notes.

CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY

(Amounts in thousands)

	Common stock		Additional	Retained	Treasury	Accumulated other comprehensive	Total
	Shares	\$	paid-in capital	earnings	stock	income (loss)	
Balance, November 1, 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 stock	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
Net income				35,651			35,651
Purchase of treasury stock	(67)		1		(1,818)		(1,817)
Exercise of stock options	2,714	7	(19,649)		57,357		37,715
Executive bonus award	242		1,178		7,601		8,779
Employee benefit plan issuances	134		653		3,229		3,882
Issuance of restricted stock	86		(3,125)		2,900		(225)
Stock-based compensation			26,964				26,964
Amortization of unearned compensation			756				756
Impact of adoption of SFAS 158, net of tax						\$ (397)	(397)
Balance, October 31, 2007	157,008	1,570	227,561	3,298,925	(425)	(397)	3,527,234
Net loss				(297,810)			(297,810)
Purchase of treasury stock	(94)	(1)			(1,994)		(1,995)
Exercise of stock options	3,423	34	30,612		2,398		33,044
Impact of adoption of FIN 48				(47,460)			(47,460)
Employee benefit plan issuances	31	1	662				663
Issuance of restricted stock	1		26				26
Stock-based compensation			22,559				22,559
Amortization of unearned compensation			670				670
Other comprehensive income						722	722
Balance, October 31, 2008	<u>160,369</u>	<u>\$ 1,604</u>	<u>\$282,090</u>	<u>\$2,953,655</u>	<u>\$ (21)</u>	<u>\$ 325</u>	<u>\$3,237,653</u>

See accompanying notes.

CONSOLIDATED STATEMENTS OF CASH FLOWS

(Amounts in thousands)

	Year ended October 31		
	2008	2007	2006
Cash flow from operating activities:			
Net (loss) income	\$ (297,810)	\$ 35,651	\$ 687,213
Adjustments to reconcile net (loss) income to net cash provided by (used in) operating activities:			
Inventory impairments	644,991	619,516	152,045
Impairments of investments in unconsolidated entities	200,652	59,242	
Earnings from unconsolidated entities	(14,259)	(18,889)	(48,361)
Distributions of earnings from unconsolidated entities	41,937	23,545	10,534
Depreciation and amortization	28,333	29,949	30,357
Amortization of initial benefit obligation		1,291	1,957
Stock-based compensation	23,255	27,463	27,082
Excess tax benefits from stock-based compensation	(25,780)	(15,915)	(16,110)
Deferred tax (benefit) provision	(235,806)	(289,203)	8,773
Gain on sale of businesses		(24,643)	
Goodwill impairment charge	3,233	8,973	
Deconsolidation of majority-owned joint venture	(31)		
Changes in operating assets and liabilities, net of assets and liabilities acquired:			
Decrease (increase) in inventory	662,769	(18,274)	(877,746)
Origination of mortgage loans	(896,365)	(1,412,629)	(1,022,663)
Sale of mortgage loans	940,299	1,449,766	992,196
Decrease (increase) in contract receivables	46,525	123,586	(170,111)
Decrease in receivables, prepaid expenses and other assets	18,738	9,929	22,345
Decrease in customer deposits	(109,110)	(84,683)	(36,530)
(Decrease) increase in accounts payable and accrued expenses	(194,427)	(195,594)	51,885
(Decrease) increase in current income taxes payable	(10,348)	1,388	63,045
Net cash provided by (used in) operating activities	826,796	330,469	(124,089)

	Year ended October 31		
	2008	2007	2006
Cash flow from investing activities:			
Purchase of property and equipment, net	(8,158)	(14,975)	(41,740)
Proceeds from sale of ancillary businesses		32,299	
Purchase of marketable securities	(1,468,440)	(5,769,805)	(2,844,810)
Sale of marketable securities	1,463,487	5,769,805	2,844,810
Investment in and advances to unconsolidated entities	(54,787)	(34,530)	(122,190)
Return of investments in unconsolidated entities	3,268	42,790	53,806
Acquisition of interest in unconsolidated entities			(44,750)
Net cash (used in) provided by investing activities	(64,630)	25,584	(154,874)
Cash flow from financing activities:			
Proceeds from loans payable	994,833	1,507,865	1,614,087
Principal payments of loans payable	(1,058,612)	(1,632,785)	(1,316,950)
Redemption of senior subordinated notes	(7,000)		
Proceeds from stock-based benefit plans	17,982	20,475	15,103
Proceeds from restricted stock award		1,800	
Excess tax benefits from stock-based compensation	25,780	15,915	16,110
Purchase of treasury stock	(1,994)	(1,818)	(109,845)
Change in minority interest	3	308	3,763
Net cash (used in) provided by financing activities	(29,008)	(88,240)	222,268
Net increase (decrease) in cash and cash equivalents	733,158	267,813	(56,695)
Cash and cash equivalents, beginning of year	900,337	632,524	689,219
Cash and cash equivalents, end of year	\$1,633,495	\$ 900,337	\$ 632,524

See accompanying notes.

notes to consolidated financial statements

I. 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.

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.

INVENTORY

Inventory is stated at the lower of cost or fair value, as determined 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 also include interest, real estate taxes and direct overhead related to development and construction, which are capitalized to inventory during the period beginning with the commencement of development and ending with the completion of construction. For those communities that have been temporarily closed, no additional interest is allocated to a community's inventory until it re-opens and other carrying costs are expensed as incurred. Once a parcel of land has been approved for development and the Company opens the community, it may take 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 a community. The Company's master planned communities, consisting of several smaller communities, may take up to ten years or more to complete. Because of the downturn in the Company's business, the aforementioned estimated community lives will likely be significantly longer. Because the Company's inventory is considered a long-lived asset under U.S. generally accepted accounting principles, it is required, under SFAS 144, to regularly review the carrying value of each community and write down the value of those communities for which it believes the values are not recoverable.

Current Communities: 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 asset to its carrying value. If the estimated future undiscounted cash flow is less than the community's carrying value, the carrying value is written down to its estimated fair value. Estimated fair value is primarily determined by discounting the estimated future cash flow of each community. The impairment is charged to cost of revenues in the period in which the impairment is determined. In estimating the future undiscounted cash flow of a community, the Company uses various estimates such as: (a) the expected sales pace in a community, based upon general economic conditions that will have a short-term or long-term impact on the market in which the community is located and on competition within the market, including the number of home sites available and pricing and incentives being offered in other communities owned by the Company or by other builders; (b) the expected sales prices and sales incentives to be offered in a community; (c) costs expended to date and expected to be incurred in the future, including, but not limited to, land and land development costs, home construction costs, interest costs and overhead costs; (d) alternative product offerings that may be offered in a community that will have an impact on sales pace, sales price, building cost or the number of homes that can be built on a particular site; and (e) alternative uses for the property such as the possibility of a sale of the entire community to another builder or the sale of individual home sites.

Future Communities: The Company evaluates all land held for future communities or future sections of current communities, whether owned or under contract, to determine whether or not the Company expects to proceed with the development of the land as originally contemplated. This evaluation encompasses the same types of estimates used for current communities described above, as well as an evaluation of the regulatory environment in which the land is located and the estimated probability of obtaining the necessary approvals, the estimated time and cost it will take to obtain the approvals and the possible concessions that will be required to be given in order to obtain the approvals. Concessions may include cash payments to fund improvements to public places such as parks and streets, dedication of a portion of the property for use by the public or as open space or a reduction in the density or size of the homes to be built. Based upon this review, the Company decides (a) as to land under contract to be purchased, whether the contract will likely be terminated or renegotiated, and (b) as to land owned, whether the land will likely be developed as contemplated or in an alternative manner, or should be sold. The Company then further determines whether costs that have been capitalized to the community are recoverable or should be written off. The write-off is charged to cost of revenues in the period in which the need for the write-off is determined.

The estimates used in the determination of the estimated cash flows and fair value of both current and future communities are based on factors known to the Company at the time such estimates are made and its expectations of future operations and economic conditions. Should the estimates or expectations used in determining estimated fair value deteriorate in the future, the Company may be required to recognize additional impairment charges and write-offs related to current and future communities.

Variable Interest Entities: The Company has a significant number of land purchase contracts and several investments in unconsolidated entities which it evaluates 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 FASB Interpretation No. 46R (collectively referred to as "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 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 substantial 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.

PROPERTY, CONSTRUCTION AND OFFICE EQUIPMENT

Property, construction and office equipment are recorded at cost and are stated net of accumulated depreciation of \$134.0 million and \$116.6 million at October 31, 2008 and 2007, respectively. Depreciation is recorded using the straight-line method over the estimated useful lives of the assets.

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.

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.

TREASURY STOCK

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

REVENUE AND COST RECOGNITION

Home Sales-Completed Contract Method: The construction time of the Company's homes is generally less than one year, although some homes may take more than one year to complete. Revenues and cost of revenues from these 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. In addition, the Company has several high-rise/mid-rise projects which do not qualify for percentage of completion accounting in accordance with SFAS No. 66, "Accounting for Sales of Real Estate" ("SFAS 66"), which are included in this category of revenues and costs.

For the Company's standard attached and detached homes, 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.

For high-rise/mid-rise projects that do not qualify for percentage of completion accounting, land, land development, construction and related costs, both incurred and estimated to be incurred in the future, are generally amortized to the cost of units closed based upon an estimated relative sales value of the units closed to the total estimated sales value. Any changes resulting from a change in the estimated total costs or revenues of the project are allocated to the remaining units to be delivered.

Forfeited customer deposits are recognized in other income in the period in which the Company determines that the customer will not complete the purchase of the home and when the Company determines that it has the right to retain the deposit.

Home Sales-Percentage of Completion Method: During the past two years, the Company completed construction on four projects for which it used the percentage of completion accounting method to recognize revenues and costs; the remaining units in these projects will be accounted for using the completed contract method of accounting. Based upon the current accounting rules and interpretations, the Company does not believe that any of its current or future communities qualify for percentage of completion accounting. 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 costs are reviewed periodically, and any change is applied to current and future periods.

Forfeited customer deposits are recognized as a reduction in the amount of revenues reversed in the period in which the Company determines that the customer will not complete the purchase of the home and when the Company determines that it has the right to retain the deposit.

Sales Incentives: In order to promote sales of its homes, the Company grants its home buyers sales incentives from time to time. These incentives will vary by type of incentive and by amount on a community-by-community and home-by-home basis. Incentives that impact the value of the home or the sales price paid,

such as special or additional options, are generally reflected as a reduction in sales revenues. Incentives that the Company pays to an outside party, such as paying some or all of a home buyer's closing costs, are recorded as an additional cost of revenues. Incentives are recognized at the time the home is delivered to the home buyer and the Company receives the sales proceeds.

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 its pro-rata share of land sales revenues and cost of land sales revenues to entities in which the Company has a 50% or less interest based upon the ownership percentage attributable to the non-Company partners. Any profit not recognized in a transaction reduces the Company's investment in the entity or is recorded as an accrued expense on its consolidated balance sheets.

ADVERTISING COSTS

The Company expenses advertising costs as incurred. Advertising costs were \$23.1 million, \$36.3 million and \$36.0 million for the years ended October 31, 2008, 2007 and 2006, 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.

STOCK-BASED COMPENSATION

The Company expenses all stock-based compensation as a cost that is reflected in the financial statements in accordance with SFAS No. 123 (revised 2004), "Share-Based Payment" ("SFAS 123R"). See Note 9, "Stock-Based Benefit Plans," for information regarding expensing of stock options and stock awards in fiscal 2008, 2007 and 2006.

INCOME TAXES

The Company accounts for income taxes in accordance with SFAS No. 109, "Accounting for Income Taxes" ("SFAS 109"). Deferred tax assets and liabilities are recorded based on temporary differences between the amounts reported for financial reporting purposes and the amounts deductible for income tax purposes. In accordance with the provisions of SFAS 109, the Company assesses, on a quarterly basis, the realizability of its deferred tax assets. A valuation allowance must be established when, based upon available evidence, it is more likely than not that all or a portion of the deferred tax assets will not be realized. Realization of the deferred tax assets is dependent upon taxable income in prior years available for carryback, estimates of future income, tax planning strategies and reversal of existing temporary differences.

Provisions for federal and state income taxes are calculated on reported pretax 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.

On November 1, 2007, the Company adopted the provisions of the FASB Interpretation No. 48, "Accounting for Uncertainty in Income Taxes" ("FIN 48"). The adoption of FIN 48 did not have a material impact on the Company's financial position. See Note 7, "Income Taxes," for information concerning the adoption of FIN 48.

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 Jersey, New York, Ohio and Rhode Island

Mid-Atlantic: Delaware, Maryland, Pennsylvania, Virginia and West Virginia

South: Florida, Georgia, North Carolina, South Carolina and Texas

West: Arizona, California, Colorado and Nevada

The Company began operations in Georgia in the fourth quarter of fiscal 2007. The Company stopped selling homes in Ohio in fiscal 2005 and delivered its last home there in fiscal 2006. The Company stopped selling homes in Rhode Island in the first quarter of fiscal 2008 and delivered its last home there in fiscal 2008. The operations in Ohio and Rhode Island were immaterial to the North geographic segment.

ACQUISITIONS

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 entity. As a result of the acquisition, the Company now owns 100% of the entity and the entity has been included as a consolidated subsidiary of the Company since the acquisition date. 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.

NEW ACCOUNTING PRONOUNCEMENTS

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' requests 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 with respect to financial instruments will be effective for the Company's fiscal year beginning November 1, 2008. SFAS 157 with respect to inventory valuations will be effective for the Company's fiscal year beginning November 1, 2009. The Company is currently reviewing the effect SFAS 157 will have on its financial statements; however, it is not expected that the valuation of financial instruments will have a material impact on the Company's consolidated financial position, results of operations or cash flows.

In February 2007, the FASB issued SFAS No. 159, "The Fair Value Option for Financial Assets and Financial Liabilities, Including an Amendment of FASB Statement No. 115" ("SFAS 159"). SFAS 159 permits entities to choose to measure certain financial assets and liabilities at fair value. Unrealized gains and losses on items for which the fair value option has been elected will be reported in earnings. SFAS 159 will be effective for the Company's fiscal year beginning November 1, 2008. The Company is currently evaluating the impact of the adoption of SFAS 159; however, it is not expected to have a material impact on the Company's consolidated financial position, results of operations or cash flows.

RECLASSIFICATION

Certain prior year amounts have been reclassified to conform to the fiscal 2008 presentation.

2. INVENTORY

Inventory at October 31, 2008 and 2007 consisted of the following (amounts in thousands):

	2008	2007
Land and land development costs	\$1,299,825	\$1,749,652
Construction in progress - completed contract	2,214,829	3,109,243
Construction in progress - percentage of completion		62,677
Sample homes and sales offices	370,871	357,322
Land deposits and costs of future development	223,412	274,799
Other	18,538	18,962
	<u>\$4,127,475</u>	<u>\$5,572,655</u>

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 fiscal years ended October 31, 2008, 2007 and 2006, was as follows (amounts in thousands):

	2008	2007	2006
Interest capitalized, beginning of year	\$ 215,571	\$ 181,465	\$ 162,672
Interest incurred	116,340	136,758	135,166
Capitalized interest in inventory acquired			6,100
Interest expensed to cost of sales	(88,861)	(102,447)	(121,993)
Write-off against other	(439)	(205)	(480)
Capitalized interest applicable to inventory transferred to joint venture	(3,779)		
Interest capitalized, end of year	<u>\$ 238,832</u>	<u>\$ 215,571</u>	<u>\$ 181,465</u>

Inventory impairment charges are recognized against all inventory costs of a community, such as land, land improvements, cost of home construction and capitalized interest. The amounts included in the above table reflect the gross amount of capitalized interest before allocation of any impairment charges recognized.

Interest included in cost of revenues for each of the fiscal years ended October 31, 2008, 2007 and 2006, was as follows (amounts in thousands):

	2008	2007	2006
Completed contract	\$ 86,466	\$ 97,246	\$ 116,405
Percentage of completion	1,400	4,797	4,552
Land sales	995	404	1,036
	<u>\$ 88,861</u>	<u>\$ 102,447</u>	<u>\$ 121,993</u>

The Company recognized inventory impairment charges and the expensing of costs that it believed not to be recoverable for each of the fiscal years ended October 31, 2008, 2007 and 2006, as follows (amounts in thousands):

	2008	2007	2006
Land controlled for future communities	\$ 101,466	\$ 37,920	\$ 90,925
Operating communities and land owned	543,525	581,596	61,120
Total	\$ 644,991	\$ 619,516	\$ 152,045

The table below provides, as of the date indicated, the number of operating communities in which the Company recognized impairment charges, the fair value of those communities, net of impairment charges and the amount of impairment charges recognized (\$ amounts in thousands):

	2008			2007		
	Fair value of communities, net of			Fair value of communities, net of		
	Number of communities	impairment charges	Impairment charges	Number of communities	impairment charges	Impairment charges
January 31,	38	\$ 339,303	\$ 145,175	18	\$ 211,800	\$ 82,962
April 30,	46	\$ 406,031	195,850	24	\$ 228,900	116,150
July 31,	23	\$ 228,909	96,330	28	\$ 344,100	139,628
October 31,	42	\$ 268,648	106,170	54	\$ 530,508	242,856
		\$ 543,525				\$ 581,596

At October 31, 2008, the Company evaluated its land purchase contracts to determine if any of the selling entities were VIEs and if they were, whether the Company was the primary beneficiary of any of them. The Company does not possess legal title to the land and its risk is generally limited to deposits paid to the sellers. The creditors of the sellers generally have no recourse against the Company. At October 31, 2008, the Company had determined that it was the primary beneficiary of two VIEs related to land purchase contracts and had recorded \$20.9 million of inventory and \$17.3 million of accrued expenses.

In fiscal 2008, a joint venture in which the Company has an 86.6% interest and which was included in its consolidated financial statements, defaulted on a \$77.2 million non-recourse purchase money mortgage secured by a parcel of land owned by the joint venture. The mortgage holder's only recourse is to foreclose on the parcel of land owned by the joint venture. The Company has stated its intention to exit the joint venture. The event of default represented a re-consideration event under FIN 46 and the Company determined that the mortgage holder is now the primary beneficiary of the joint venture. As of October 31, 2008, the Company is no longer consolidating this joint venture. In fiscal 2007, the Company recognized an inventory impairment charge for its investment in this joint venture.

3. INVESTMENTS IN AND ADVANCES TO UNCONSOLIDATED ENTITIES

The Company has investments in and advances to a number of joint ventures with unrelated parties to develop land ("land joint ventures"). Some of these land joint ventures develop land for the sole use of the venture participants, including the Company, and others develop land for sale to the joint venture participants and to unrelated builders. The Company recognizes its share of earnings from the sale of home sites to other builders. With regard to home sites the Company purchases from the land joint ventures, it reduces its cost basis in those home sites by its share of the earnings on the home sites. At October 31, 2008, the Company had approximately \$65.2 million, net of impairment charges, invested in or advanced to these land joint ventures. At October 31, 2008, the land joint ventures had aggregate loan commitments of \$1.07 billion, and had approximately \$1.07 billion borrowed against these commitments. In connection with certain of these land joint ventures, the Company executed completion guarantees and conditional repayment guarantees. The obligations under the guarantees are several, and not joint, and are limited to the Company's pro-rata share of

the loan obligations of the respective land joint ventures. At October 31, 2008, the maximum amount of these guarantees (net of amounts that the Company has accrued) is estimated to be approximately \$50.3 million, if any liability is determined to be due thereunder. With respect to another land joint venture, the partners are in the process of determining whether or not to move forward with the project based upon, among other things, market conditions. If the project proceeds as originally planned, the Company's estimated contribution would be approximately \$145.3 million, less any outside financing the land joint venture is able to obtain. The Company has recognized cumulative impairment charges against certain land joint venture investments because it did not believe that such investments were fully recoverable. In connection with its land joint ventures, the Company recognized \$142.8 million of impairment charges in the twelve-month period ended October 31, 2008, and \$59.2 million of impairment charges in the twelve-month period ended October 31, 2007. These impairment charges are included in "(Loss) earnings from unconsolidated entities."

In October 2008, the lenders for one of the land joint ventures completed a foreclosure on the land owned by that joint venture, and filed a lawsuit against the members of the joint venture, including the parent companies of the members, seeking to recover damages under completion guarantees. As noted above, each of these completion guarantees is several, and not joint, and the liability of the Company is limited to the Company's pro-rata share of any damages awarded under such completion guarantees. At October 31, 2008, another land joint venture was in default under its loan agreement. In December 2008, the lenders filed separate lawsuits against the members of the joint venture and the parent companies of the members, seeking to recover damages under completion guarantees and damages allegedly caused by the joint venture's failure to repay the lenders. The Company does not believe that these joint venture defaults and related lawsuits will have a material impact on the Company's financial condition.

In the fourth quarter of fiscal 2008, the Company entered into a joint venture with an unrelated party to develop a master planned community. The Company and its partner each contributed assets with an agreed-upon fair value of \$48.0 million including \$3.0 million of cash. The partners have agreed to each contribute additional funds up to \$14.5 million if required by the joint venture. If a partner fails to make the required capital contribution, the other partner may make the additional contribution and diminish the non-contributing partner's ownership interest.

In addition, at October 31, 2008, the Company had \$7.3 million of investments in three joint ventures with unrelated parties to develop luxury condominium projects, including for-sale residential units and commercial space. At October 31, 2008, these joint ventures had aggregate loan commitments of \$303.3 million and had approximately \$185.2 million borrowed against the commitments. At October 31, 2008, the Company had guaranteed \$14.3 million of the loans and other liabilities of these joint ventures. One of these joint ventures is developing a condominium project in two phases. Construction of the first phase has been substantially completed and deliveries commenced in May 2008 of units that had been previously sold. At October 31, 2008, the Company was committed to make an additional contribution of up to \$9.8 million, if required by this joint venture. Further, the Company has the right to withdraw from phase two of the project upon the payment of a termination fee to its partner of \$30.0 million. A second joint venture has a project that is currently in the planning stages; any contribution by the Company to this second joint venture will be based upon the partners' mutual agreement to proceed with the project. If the project were to go forward, and if the joint venture was unable to obtain outside financing and the Company was to fund its entire commitment to this second joint venture, the Company's estimated contribution would be approximately \$112.5 million. In fiscal 2008, the Company recognized \$44.9 million of impairment charges against its investments in two of these joint ventures and it recognized its pro-rata share of an impairment charge recognized by one of the joint ventures: the Company's pro-rata share of the impairment charge was \$13.0 million. These impairment charges are included in "(Loss) earnings from unconsolidated entities."

The Company also has a 50% interest in a joint venture with an unrelated party to convert a 525-unit apartment complex located in Hoboken, New Jersey, into luxury condominium units. At October 31, 2008, the Company had investments in and advances to this joint venture of \$19.6 million.

In fiscal 2005, the Company, together with the Pennsylvania State Employees Retirement System ("PASERS"), formed Toll Brothers Realty Trust 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 an affiliate of PASERS. At October 31, 2008, the Company had an investment of \$11.3 million in Trust II. In addition, the Company and PASERS each entered

into subscription agreements that expire in September 2009, whereby each agreed to invest additional capital in an amount not to exceed \$11.1 million if required by Trust II. Prior to the formation of Trust II, the Company used Toll Brothers Realty Trust (the "Trust") to invest in commercial real estate opportunities. See Note 14, "Related Party Transactions," for information about the Trust.

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

4. GOODWILL IMPAIRMENT

Intangible assets, including goodwill, that are not subject to amortization are tested for impairment and possible write-down. Due to the continued decline of the Company's markets located in its North, South and West geographic segments, the Company re-evaluated the carrying value of goodwill that resulted from several acquisitions in accordance with SFAS No. 142, "Goodwill and Other Intangible Assets." The Company estimated the fair value of its assets in these markets including goodwill. Fair value was determined based on the discounted future cash flow expected to be generated in these markets. Based upon this evaluation, the Company determined that the related goodwill was impaired. The Company recognized \$3.2 million and \$9.0 million of impairment charges in fiscal 2008 and 2007, respectively. After recognizing these charges, the Company does not have any goodwill remaining.

5. LOANS PAYABLE, SENIOR NOTES, SENIOR SUBORDINATED NOTES AND MORTGAGE COMPANY WAREHOUSE LOAN

LOANS PAYABLE

Loans payable at October 31, 2008 and 2007 consisted of the following (amounts in thousands):

	2008	2007
Term loan due March 2011 (a)	\$ 331,667	\$ 331,667
Other (b)	281,927	365,147
	<u>\$ 613,594</u>	<u>\$ 696,814</u>

(a) The Company has a \$1.89 billion credit facility consisting of a \$1.56 billion unsecured revolving credit facility and a \$331.7 million term loan facility (collectively, the "Credit Facility") with 32 banks, which extends to March 17, 2011. At October 31, 2008, 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, 2008, the Company had no outstanding borrowings against the revolving credit facility but had letters of credit of approximately \$236.8 million outstanding under it, of which the Company had recorded \$41.6 million as liabilities under land purchase agreements and investments in unconsolidated entities. 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, 2008, interest was payable on the \$331.7 million term loan at 5.02%. 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 \$2.25 billion at October 31, 2008. At October 31, 2008, the Company's leverage ratio was approximately 0.145 to 1.00, and its tangible net worth was approximately \$3.22 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 \$964.0 million at October 31, 2008.

(b) The weighted-average interest rate on these loans was 5.13% at October 31, 2008 and ranged from 1.75% to 10.0%. At October 31, 2008, \$281.9 million of loans payable was secured by assets of approximately \$508.2 million.

At October 31, 2008, the aggregate estimated fair value of the Company's loans payable was approximately \$611.8 million. The fair value of loans was estimated based upon the interest rates at October 31, 2008 that the Company believed were available to it for loans with similar terms and remaining maturities.

SENIOR NOTES

At October 31, 2008 and 2007, the Company's senior notes consisted of the following (amounts in thousands):

	2008	2007
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	(6,555)	(7,694)
	<u>\$1,143,445</u>	<u>\$1,142,306</u>

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, 2008, the aggregate fair value of the Company's senior notes, based upon their indicated market prices, was approximately \$859.2 million.

SENIOR SUBORDINATED NOTES

At October 31, 2008 and 2007, the Company's senior subordinated notes consisted of the following (amounts in thousands):

	2008	2007
8 1/4% Senior Subordinated Notes due February 1, 2011	\$ 193,000	\$ 200,000
8.25% Senior Subordinated Notes due December 1, 2011	150,000	150,000
	<u>\$ 343,000</u>	<u>\$ 350,000</u>

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. In fiscal 2008, the Company repurchased \$7.0 million (par value) of its 8 1/4% Senior Subordinated Notes due February 1, 2011 for \$6.8 million.

At October 31, 2008, the aggregate fair value of the Company's senior subordinated notes, based upon their indicated market prices, was approximately \$300.0 million.

MORTGAGE COMPANY WAREHOUSE LOAN

At October 31, 2008, the Company's mortgage subsidiary had a \$75.0 million line of credit with two banks to fund mortgage originations. The term of the loan commitment is for 364 days subject to semi-annual renewals and bears interest at LIBOR plus 1.25%. At October 31, 2008, the subsidiary had \$37.9 million outstanding under the line at an average interest rate of 5.08%. The line of credit is collateralized by all the assets of the subsidiary, which amounted to approximately \$54.1 million at October 31, 2008. Borrowings under this line are included in the fiscal 2009 maturities.

The annual aggregate maturities of the Company's loans and notes during each of the next five fiscal years are: 2009 – \$103.1 million; 2010 – \$188.2 million; 2011 – \$537.5 million; 2012 – \$150.2 million; and 2013 – \$551.0 million.

6. ACCRUED EXPENSES

Accrued expenses at October 31, 2008 and 2007 consisted of the following (amounts in thousands):

	2008	2007
Land, land development and construction	\$ 184,017	\$ 247,322
Compensation and employee benefit	93,529	100,893
Insurance and litigation	158,307	144,349
Commitments to unconsolidated entities	128,227	27,792
Warranty	57,292	59,249
Interest	38,624	47,136
Other	78,600	97,488
	<u>\$ 738,596</u>	<u>\$ 724,229</u>

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 2008, 2007 and 2006 were as follows (amounts in thousands):

	2008	2007	2006
Balance, beginning of year	\$ 59,249	\$ 57,414	\$ 54,722
Additions	19,531	28,719	36,405
Charges incurred	(21,488)	(26,884)	(33,713)
Balance, end of year	<u>\$ 57,292</u>	<u>\$ 59,249</u>	<u>\$ 57,414</u>

7. INCOME TAXES

On November 1, 2007, the Company adopted the provisions of FIN 48. FIN 48 clarifies the accounting for uncertainty in income taxes recognized in accordance with SFAS 109, and prescribes a recognition threshold and measurement attributes for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. FIN 48 also provides guidance on de-recognition, classification, interest and penalties, accounting in interim periods, disclosure and transition. FIN 48 requires a company to recognize the financial statement effect of a tax position when it is more likely than not (defined as a substantiated likelihood of more than 50%), based on the technical merits of the position, that the position will be sustained upon examination. A tax position that meets the more likely than not recognition threshold is measured to determine the amount of benefit to be recognized in the financial statements based upon the largest amount of benefit that is greater than 50% likely of being realized upon ultimate settlement with a taxing authority that has full knowledge of all relevant information. The inability of the Company to determine that a tax position meets the more likely than not recognition threshold does not mean that the Internal Revenue Service ("IRS") or any other taxing authority will disagree with the position that the Company has taken.

If a tax position does not meet the more likely than not recognition threshold despite the Company's belief that its filing position is supportable, the benefit of that tax position is not recognized in the financial statements and the Company is required to accrue potential interest and penalties until the uncertainty is resolved. Potential interest and penalties are recognized as a component of the provision for income taxes which is consistent with the Company's historical accounting policy. Differences between amounts taken in a tax return and amounts recognized in the financial statements are considered unrecognized tax benefits. The Company believes that it has a reasonable basis for each of its filing positions and intends to defend those positions if challenged by the IRS or another taxing jurisdiction. If the IRS or other taxing authorities do not disagree with the Company's position and after the statute of limitations expires, the Company will recognize the unrecognized tax benefit in the period that the uncertainty of the tax position is eliminated.

As of November 1, 2007, the Company recorded a \$47.5 million charge to retained earnings to recognize the net cumulative effect of the adoption of FIN 48. As of November 1, 2007, after adoption of FIN 48, the Company's cumulative gross unrecognized tax benefits were \$364.3 million. At October 31, 2008, the Company's cumulative gross unrecognized tax benefits were \$320.7 million. A reconciliation of the change in gross unrecognized tax benefits from November 1, 2007 and October 31, 2008 is as follows (amounts in thousands):

Balance November 1, 2007	\$ 364,300
Settlement of tax positions	(56,748)
Reduction due to expiration of applicable tax statutes	(21,450)
Increases related to tax positions taken in prior years	12,340
Increases related to tax positions taken in current year	<u>22,237</u>
Balance, October 31, 2008	<u>\$ 320,679</u>

The Company is currently under examination by various taxing jurisdictions and anticipates finalizing the examinations with certain jurisdictions within the next twelve months. The Company has closed its IRS and California audits through 2006. The remaining examinations are not yet determinable. The statute of limitations for these examinations remains open from 2003 forward.

The Company currently 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 or loss, as the case may be, 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 9.0% for fiscal 2008, 21.4% for fiscal 2007 and 7.0% for fiscal 2006.

A reconciliation of the Company's effective tax rate from the federal statutory tax rate for the fiscal years ended October 31, 2008, 2007 and 2006 is as follows (\$ amounts in thousands):

	2008		2007		2006	
	\$	%	\$	%	\$	%
Federal statutory tax	(163,375)	35.0	24,738	35.0	394,316	35.0
State taxes, net of federal benefit	(27,307)	5.9	9,854	13.9	50,895	4.5
Accrued interest on anticipated tax assessments	7,250	(1.6)	16,786	23.8	11,719	1.0
Benefit from tax credits			(8,700)	(12.3)	(10,315)	(0.9)
Non-taxable earnings	(3,943)	0.8	(6,078)	(8.6)	(3,385)	(0.3)
Reversal of expiring state taxes provisions	(5,558)	1.2	(2,751)	(3.9)	(5,200)	(0.4)
Valuation allowance	24,050	(5.1)				
Other	(94)		1,180	1.7	1,373	0.1
	<u>(168,977)</u>	<u>36.2</u>	<u>35,029</u>	<u>49.6</u>	<u>439,403</u>	<u>39.0</u>

The (benefit) provision for income taxes for each of the fiscal years ended October 31, 2008, 2007 and 2006 was as follows (amounts in thousands):

	2008	2007	2006
Federal	\$ (168,068)	\$ 2,728	\$ 361,543
State	(909)	32,301	77,860
	<u>\$ (168,977)</u>	<u>\$ 35,029</u>	<u>\$ 439,403</u>
Current	\$ 39,144	\$ 324,232	\$ 430,630
Deferred	(208,121)	(289,203)	8,773
	<u>\$ (168,977)</u>	<u>\$ 35,029</u>	<u>\$ 439,403</u>

At October 31, 2008 and 2007, income taxes payable of \$202.2 million and \$198.0 million, respectively, consisted of current taxes payable.

The components of net deferred tax assets and liabilities at October 31, 2008 and 2007 consisted of the following (amounts in thousands):

	2008	2007
Deferred tax assets:		
Accrued expenses	\$ 3,078	\$ 38,144
Impairment charges	459,688	250,395
Inventory valuation differences	29,430	12,468
Stock-based compensation expense	28,160	19,186
Valuation allowance	(24,050)	
FIN 48 deferred tax asset	27,685	
Other	1,138	11,248
Total	<u>525,129</u>	<u>331,441</u>
Deferred tax liabilities:		
Capitalized interest	68,849	62,128
Deferred income	(7,392)	68,850
Depreciation	23,388	9,764
Deferred marketing	1,107	12,347
State taxes	20,132	8,455
Other	13,342	
Total	<u>119,426</u>	<u>161,544</u>
Net deferred tax assets	<u>\$ 405,703</u>	<u>\$ 169,897</u>

In accordance with the provisions of SFAS 109, the Company assesses, on a quarterly basis, the realizability of its deferred tax assets. A valuation allowance must be established when, based upon available evidence, it is more likely than not that all or a portion of the deferred tax assets will not be realized. Realization of the deferred tax assets is dependent upon taxable income in prior years available for carryback, estimates of future income, tax planning strategies and reversal of existing temporary differences.

Based on the Company's assessment, it has determined that in certain state jurisdictions which do not allow carrybacks and in which the Company is expected to have future losses, the Company would need to set up a valuation allowance. In fiscal 2008, the Company provided for a valuation allowance of \$37.0 million (\$24.1 million, net of federal benefit) to offset certain state tax deferred tax assets. The valuation allowance may be increased or decreased as conditions change and the ultimate realization of the deferred tax assets depends on sufficient taxable income in future carryforward periods.

During the next twelve months, it is possible that the amount of unrecognized tax benefits will decrease primarily from the completion of tax audits where certain of the filing positions will ultimately be accepted by the IRS and/or other tax jurisdictions and/or expiration of tax statutes. The Company does not believe these reversals will have a material impact on the Company's financial statements. The Company's unrecognized tax benefits at October 31, 2008, amounted to \$320.7 million before applicable taxes and are included in "Income taxes payable" on the accompanying consolidated balance sheet at October 31, 2008. If these tax benefits reverse in the future, the Company's tax expense would be reduced by approximately \$192.0 million. The Company expects to reduce this balance over the next twelve months by approximately \$38.0 million before applicable tax to finalize settled audits.

During the twelve months ended October 31, 2008, 2007 and 2006, the Company recognized in its tax (benefit) provision, before reduction for applicable taxes, potential interest and penalties of approximately \$12.5 million, \$26.8 million and \$19.3 million, respectively. At October 31, 2008 and 2007, the Company had accrued potential interest and penalties, before reduction of applicable taxes, of \$142.2 million and \$54.8 million, respectively; these amounts were included in "Income taxes payable" on the accompanying condensed consolidated balance sheets. The increase in the October 31, 2008 balance, as compared to the October 31, 2007 balance, relates primarily to the adoption of FIN 48.

8. 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, 2008, the Company had 160.4 million shares of common stock issued and outstanding (net of 1,000 shares of common stock held in treasury), 19.9 million shares of common stock reserved for outstanding stock options, 10.4 million shares of common stock reserved for future stock option and award issuances and 685,000 shares of common stock reserved for issuance under the Company's employee stock purchase plan. As of October 31, 2008, the Company had not issued any shares of preferred stock.

ISSUANCE OF COMMON STOCK

In fiscal 2007, the Company issued 33,512 shares of restricted common stock pursuant to its Stock Incentive Plan for Employees (2007) to an employee. The restricted stock award vests over an 18-month period. The Company is amortizing the fair market value of the award on the date of grant over the period of time that the award vests. At October 31, 2008, 11,171 shares under the award were unvested.

In fiscal 2008, 2007 and 2006, the Company issued 1,250 shares, 1,000 shares and 1,000 shares, respectively, of restricted common stock pursuant to its Stock Incentive Plan (1998) to certain outside directors. 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, 2008, 1,750 shares of the fiscal 2008 and 2007 restricted stock awards were unvested.

In December 2006, Mr. Robert I. Toll's bonus payment pursuant to the Company's Cash Bonus Plan was revised to provide that \$3.0 million (\$1.8 million of cash and \$1.2 million of unrestricted stock valued as of the date of the payment of his fiscal 2006 bonus) be exchanged for shares of restricted stock on the date of the bonus payment. The number of shares of restricted stock was calculated by dividing \$3.0 million by \$31.06, the closing price of the Company's common stock on the New York Stock Exchange (the "NYSE") on January 5, 2007, the date on which Mr. Toll's fiscal 2006 bonus award was paid. Mr. Toll received 96,586 shares of restricted stock. The restricted stock Mr. Toll received will vest over a two-year period unless Mr. Toll retires, dies or becomes disabled (as such terms are defined in the stock award document), at which time the shares will immediately vest.

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, 2008, the Company had approximately 11.9 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, 2017. The rights were not exercisable at October 31, 2008.

9. 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 2008, 2007 and 2006. 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.

The Company used a lattice model for the valuation for all option grants in fiscal 2008 and 2007. For the fiscal 2006 valuation, the Company used a lattice model for the valuation of non-executive officer option grants and the Black-Scholes option pricing model for the valuation of option grants to 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 fiscal years ended October 31, 2008, 2007 and 2006 were as follows:

	2008	2007	2006
Expected volatility	46.67% – 48.63%	36.32% – 38.22%	36.33% – 38.28%
Weighted-average volatility	47.61%	37.16%	37.55%
Risk-free interest rate	3.32% – 3.85%	4.57% – 4.61%	4.38% – 4.51%
Expected life (years)	4.29 – 8.32	3.69 – 8.12	4.11 – 9.07
Dividends	none	none	none
Weighted-average fair value per share of options granted	\$9.50	\$11.17	\$15.30

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 2008, 2007 and 2006, the Company recognized \$22.6 million, \$27.0 million and \$26.8 million of expense, respectively, and an income tax benefit of \$9.0 million, \$10.1 million and \$9.1 million, respectively, related to option awards. At October 31, 2008, total compensation cost related to non-vested awards not yet recognized was approximately \$12.2 million, unrecognized income tax benefits from non-vested awards was approximately \$4.9 million and the weighted-average period over which the Company expects to recognize such compensation costs and tax benefit is 1.2 years.

In the quarter ended July 31, 2008, pursuant to stockholder-approved amendments to the Company's Stock Incentive Plan (1998) and the Company's Stock Incentive Plan for Employees (2007), the Company offered certain eligible employees the ability to exchange certain out-of-the-money stock options ("old options") in exchange for replacement options with the same terms and conditions as the old options, except for the number of shares subject to the replacement options and the per share exercise price. The Company accepted for exchange old options to purchase approximately 2.5 million shares with a weighted-average exercise price per share of \$33.18 and issued replacement options to purchase approximately 1.6 million shares with a weighted-average exercise price per share of \$18.92. The assumptions and fair value used for the valuation of the replacement option grants and old option grants were as follows:

	Replacement options	Old options
Expected volatility	51.01% – 51.92%	51.08% – 51.71%
Weighted-average volatility	51.44%	51.36%
Risk-free interest rate	3.38% – 3.70%	3.28% – 3.58%
Expected life (years)	4.84 – 6.96	4.36 – 6.10
Dividends	none	none
Weighted-average exchange date fair value per share of options	\$9.94	\$6.25

The difference between the aggregate fair value of the old options and the replacement options was immaterial.

STOCK INCENTIVE PLANS

The Company has two active stock incentive plans, one for employees (including officers) and one for non-employee directors. The Company's active stock incentive plans provide for the granting of incentive stock options (solely to employees) 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. Stock options granted to employees generally vest over a four-year period, although certain grants vest over a longer or shorter period, and stock options granted to non-employee directors generally vest over a two-year period.

The Company has three additional stock incentive plans for employees, officers and directors that provided for the granting of incentive stock options and non-qualified options which had outstanding stock option grants at October 31, 2008. No additional options may be granted under these plans. Stock options granted under these plans were made 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 and generally vested over a four-year period for employees and a two-year period for non-employee directors.

Shares issued upon the exercise of a stock option are either from shares held in treasury or newly issued shares.

The following table summarizes stock option activity for the Company's plans during each of the fiscal years ended October 31, 2008, 2007 and 2006 (amounts in thousands, except per share amounts):

	2008		2007		2006	
	Number of options	Weighted-average exercise price	Number of options	Weighted-average exercise price	Number of options	Weighted-average exercise price
Balance, beginning	24,080	\$14.60	25,178	\$12.70	26,155	\$11.04
Granted	3,292	19.92	1,823	31.80	1,433	35.97
Exercised	(4,660)	6.73	(2,717)	7.15	(2,185)	6.43
Cancelled	(2,858)	32.70	(204)	32.36	(225)	28.72
Balance, ending	19,854	\$14.73	24,080	\$14.60	25,178	\$12.70
Options exercisable, at October 31,	16,327	\$12.64	19,743	\$10.90	20,398	\$ 9.02
Options available for grant at October 31,	10,371		11,946		8,462	

Fiscal 2008 cancellations and grants include approximately 2.5 million options issued in fiscal 2006, 2005 and 2004 that were exchanged for approximately 1.6 million new options. See "Stock-Based Compensation Plans" for more information.

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, 2008, 2007 and 2006 is provided below (amounts in thousands):

	2008	2007	2006
Intrinsic value of options outstanding	\$ 194,261	\$ 256,387	\$ 408,186
Intrinsic value of options exercisable	\$ 187,351	\$ 254,913	\$ 405,764

Information pertaining to the intrinsic value of options exercised and the fair value of options which became vested in each of the fiscal years ended October 31, 2008, 2007 and 2006 is provided below (amounts in thousands):

	2008	2007	2006
Intrinsic value of options exercised	\$ 81,308	\$ 53,048	\$ 56,133
Fair value of options vested	\$ 21,862	\$ 7,710	\$ 23,551

The Company's stock incentive plans permit participants to exercise stock options using a "net exercise" method at the discretion of the Executive Compensation Committee of the Board of Directors. In a net exercise, the Company withholds from the total number of shares that otherwise would be issued to a participant upon exercise of the stock option that number of shares having a fair market value at the time of exercise equal to the option exercise price and applicable income tax withholdings, and remits the remaining shares to the participant. During fiscal 2008, the net exercise method was employed to exercise options to acquire 2,356,152 shares of the Company's common stock; the Company withheld 1,232,023 of the shares subject to the option to cover \$31.5 million of option exercise costs and income tax withholdings and issued 1,124,129 shares to the participants. No options were exercised using the net exercise method by participants in fiscal 2007 or 2006.

In addition, pursuant to the provisions of the Company's stock incentive 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 5,114 shares with an average fair market value per share of \$22.35 for the exercise of 18,576 options in fiscal 2008. The Company received 4,172 shares with an average fair market value per share of \$35.43 for the exercise of 11,810 options in fiscal 2006. No options were exercised using the value of stock held by participants in fiscal 2007.

The following table summarizes information about stock options outstanding and exercisable at October 31, 2008:

Range of exercise prices	Options outstanding			Options exercisable	
	Number outstanding (in 000s)	Weighted-average remaining contractual life (in years)	Weighted-average exercise price	Number exercisable (in 000s)	Weighted-average exercise price
\$ 4.38 – \$ 6.00	4,650	1.1	\$ 4.43	4,650	\$ 4.43
\$ 6.01 – \$10.53	4,028	3.0	10.05	4,028	10.05
\$10.54 – \$18.92	4,635	4.4	13.52	3,896	12.50
\$18.93 – \$21.26	3,754	6.9	20.40	2,139	20.14
\$21.27 – \$35.97	2,787	7.0	33.04	1,614	33.21
	19,854	4.2	\$14.73	16,327	\$12.64

BONUS AWARD SHARES

In December 2007, the Board of Directors adopted the Toll Brothers, Inc. CEO Cash Bonus Plan (the "CEO Plan"), subject to stockholder approval, to provide a bonus program to Mr. Robert I. Toll in fiscal 2008 and subsequent years. The stockholders approved the CEO Plan at the Company's 2008 Annual Meeting. Mr. Toll was entitled to receive cash bonus awards for fiscal 2007 and prior years pursuant to the Toll Brothers, Inc. Cash Bonus Plan (the "Cash Bonus Plan"), the predecessor of the CEO Plan. The Cash Bonus Plan was adopted by the Board of Directors in December 2004, and subsequently approved by stockholders at the Company's 2005 Annual Meeting.

CEO Plan. The CEO Plan provides that a bonus will be paid to Mr. Toll for each plan year in an amount equal to the sum of (a) 2.0% of the Company's income before taxes and bonus (as defined in the CEO Plan), and (b) a performance bonus based on the achievement of one or more pre-established performance goals established by the Executive Compensation Committee of the Board of Directors (the "Executive Compensation Committee"). Under the terms of the plan, the maximum bonus that can be paid in any one plan year is \$25.0 million and may be paid in cash, shares of Company common stock, or a combination of both, at the discretion of the Executive Compensation Committee. Mr. Toll did not receive a bonus with respect to fiscal 2008 under the CEO Plan.

Cash Bonus Plan. Cash bonus awards under the Cash Bonus Plan were based upon the pretax earnings and stockholders' equity of the Company (as defined in the Cash Bonus Plan). The Cash Bonus Plan provided that any bonus payable for each of the three fiscal years ended October 31, 2007, 2006 and 2005 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 was being calculated. The amount calculated under this stock award formula (the "Stock Award Formula") was limited to price appreciation up to \$13.90 per share and 2.9% of the Company's pretax earnings, as defined by the plan (together, the "Award Caps"). The bonus award was payable 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.

Mr. Toll and the Executive Compensation Committee 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, as amended, 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. The \$4.0 million reduction in Mr. Toll's 2006 bonus was recognized in the Company's consolidated income statement in fiscal 2007.

Based upon the terms of the Company's Cash Bonus Plan, Mr. Toll was not entitled to receive a bonus award for fiscal 2007.

Under the Company's deferred compensation plan, Mr. Toll could 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 2006 and 2005, Mr. Toll received 471,100 shares of his 2002 bonus and 480,164 shares of his 2001 bonus, respectively.

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 2017, provides that 1.2 million shares be reserved for purchase. At October 31, 2008, 685,040 shares were available for issuance.

The number of shares and the average price per share issued under this plan during each of the fiscal years ended October 31, 2008, 2007 and 2006 were 30,927 shares and \$18.84; 44,606 shares and \$22.00; and 39,535 shares and \$26.54, respectively. In fiscal 2008, 2007 and 2006, the Company recognized \$86,000, \$148,000 and \$144,000 of compensation expense related to this plan.

IO. EARNINGS PER SHARE INFORMATION

Information pertaining to the calculation of earnings per share for each of the fiscal years ended October 31, 2008, 2007 and 2006 is as follows (amounts in thousands):

	2008	2007	2006
Basic weighted-average shares	158,730	155,318	154,300
Common stock equivalents		8,848	10,552
Diluted weighted-average shares	158,730	164,166	164,852

Common stock equivalents represent the dilutive effect of outstanding in-the-money stock options using the treasury stock method. For fiscal 2008, there were no incremental shares attributed to outstanding options to purchase common stock because the Company had a net loss in fiscal 2008, and any incremental shares would be anti-dilutive. Had the Company had net income in fiscal 2008, 6.1 million common stock equivalents would have been included in the 2008 diluted weighted-average shares. The average number of anti-dilutive options (based upon the average quarterly closing price of the Company's common stock on the NYSE) that were excluded from common stock equivalents in fiscal 2008, 2007 and 2006 were 5.1 million, 5.3 million and 2.4 million, respectively.

II. EMPLOYEE RETIREMENT AND DEFERRED COMPENSATION PLANS

The Company maintains salary deferral savings plans covering substantially all employees. The plans provide 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. The Company recognized an expense, net of plan forfeitures, with respect to the plans of \$8.2 million, \$9.1 million and \$9.4 million for the fiscal years ended October 31, 2008, 2007 and 2006, 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, 2008 and 2007, the Company had accrued \$14.8 million and \$11.9 million, respectively, for its obligations under the plan.

In October 2004, the Company established an unfunded defined benefit retirement plan effective as of September 1, 2004 ("the Executive Plan"). The Executive Plan 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 "Management Plan"). 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 Executive Plan was amended, effective December 12, 2007, to provide for increased benefits to certain plan participants if the participant continues to be employed by the Company beyond normal retirement age. The Management Plan does not provide for any automatic increase in benefits. The Company used a 7.21%, 6.01% and a 5.65% discount rate in its calculation of the present value of its projected benefit obligations at October 31, 2008, 2007 and 2006, respectively, which represented the approximate long-term investment rate at October 31 of the fiscal year for which the present value was calculated. Information related to the plans is based on actuarial information calculated as of October 31, 2008, 2007 and 2006.

Information related to the Company's plans for each of the fiscal years ended October 31, 2008, 2007 and 2006 is as follows (amounts in thousands):

	2008	2007	2006
Plan costs:			
Service cost	\$ 210	\$ 330	\$ 370
Interest cost	1,224	1,014	929
Amortization of initial benefit obligation	1,370	1,291	1,957
Amortization of unrecognized (gains) losses	(640)		
	<u>\$ 2,164</u>	<u>\$ 2,635</u>	<u>\$ 3,256</u>
Projected benefit obligation:			
Beginning of year	\$ 18,170	\$ 18,447	\$ 14,966
Adoption of plan			2,583
Plan amendments adopted during year	5,091		
Service cost	210	330	370
Interest cost	1,224	1,014	929
Benefit payments	(125)	(188)	
Unrecognized gain	(5,565)	(1,433)	(401)
Projected benefit obligation, October 31,	<u>\$ 19,005</u>	<u>\$ 18,170</u>	<u>\$ 18,447</u>
Unamortized prior service cost:			
Beginning of year	\$ 2,500	\$ 3,791	\$ 3,165
Adoption of plan	5,091		2,583
Amortization of prior service cost	(1,370)	(1,291)	(1,957)
End of year	<u>\$ 6,221</u>	<u>\$ 2,500</u>	<u>\$ 3,791</u>
Accumulated unrecognized gain, October 31,	<u>\$ 6,762</u>	<u>\$ 1,837</u>	<u>\$ 404</u>
Accumulated benefit obligation, October 31,	<u>\$ 19,005</u>	<u>\$ 18,170</u>	<u>\$ 18,851</u>
Accrued benefit obligation, October 31,	<u>\$ 19,005</u>	<u>\$ 18,170</u>	<u>\$ 18,851</u>

At October 31, 2007, the Company adopted 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"), and recognized the unamortized prior service cost and accumulated unrecognized gain, net of a tax benefit of \$266,000, in stockholders' equity as accumulated other comprehensive loss in the amount of \$397,000.

Based upon the estimated retirement dates of the participants in the plans, the Company would be required to pay the following benefits in each of the next five fiscal years (in thousands): 2009, \$125; 2010, \$125; 2011, \$125; 2012, \$292; and 2013, \$1,482, and for the five fiscal years ended October 31, 2018, \$10,125 in the aggregate.

12. ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS) AND COMPREHENSIVE LOSS

Accumulated other comprehensive income (loss) at October 31, 2008 and 2007 is all related to employee retirement plans.

The components of total comprehensive loss in the twelve months ended October 31, 2008 were as follows (amounts in thousands):

	Twelve months ended October 31, 2008
Net loss per Statement of Operations	\$ (297,810)
Changes in pension liability, net of \$481 of tax provision	722
Total comprehensive loss	\$ (297,088)

13. COMMITMENTS AND CONTINGENCIES

At October 31, 2008, the aggregate purchase price of land parcels under option and purchase agreements, excluding parcels that the Company does not expect to acquire, was approximately \$637.0 million (including \$147.0 million of land to be acquired from joint ventures in which the Company has investments). Of the \$637.0 million of land purchase commitments, the Company had paid or deposited \$70.8 million and had invested in or guaranteed loans on behalf of the aforementioned joint ventures of \$113.4 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 \$70.8 million the Company had paid or deposited on these purchase agreements, \$66.7 million was non-refundable at October 31, 2008. 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. At October 31, 2008, accrued expenses included \$18.8 million representing the Company's outstanding standby letters of credit issued in connection with options to purchase home sites.

At October 31, 2008, the Company had investments in and advances to a number of unconsolidated entities of \$151.8 million, was committed to invest or advance an additional \$296.6 million in the aggregate to these entities if needed and had guaranteed (net of amounts that the Company has accrued) approximately \$64.5 million of these entities' indebtedness and/or loan commitments. See Notes 3 and 14, "Investments in and Advances to Unconsolidated Entities" and "Related Party Transactions," for more information regarding these entities.

At October 31, 2008, the Company had outstanding surety bonds amounting to \$472.7 million, related primarily to its obligations to various governmental entities to construct improvements in the Company's various communities. The Company estimates that \$168.9 million of work remains on these improvements. The Company has an additional \$105.9 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, 2008, the Company had agreements of sale outstanding to deliver 2,046 homes with an aggregate sales value of \$1.33 billion.

The Company's mortgage subsidiary provides mortgage financing for a portion of the Company's home closings. The Company's mortgage subsidiary determines whether the home buyer qualifies for the mortgage he or she is seeking based upon information provided by the home buyer and other sources. For those home buyers that qualify, the Company's mortgage subsidiary provides the home buyer with a mortgage commitment that specifies the terms and conditions of a proposed mortgage loan based upon then-current market conditions. Prior to the actual closing of the home and funding of the mortgage, the home buyer will lock in an interest rate based upon the terms of the commitment. At the time of rate lock, the Company's mortgage subsidiary agrees to sell the proposed mortgage loan to one of several outside recognized mortgage financing institutions ("investors") that it uses, which is willing to honor the terms and conditions, including interest rate, committed to the home buyer. The Company believes that these investors have adequate financial resources to honor

their commitments to its mortgage subsidiary. At October 31, 2008, the Company's mortgage subsidiary was committed to fund \$486.8 million of mortgage loans. Of these commitments, \$95.8 million, as well as \$49.3 million of mortgage loans receivable, have locked in interest rates. The Company's mortgage subsidiary has commitments from investors to acquire \$142.7 million of these locked-in loans and receivables. The Company's home buyers have not locked in the interest rate on the remaining \$390.9 million.

The Company leases certain facilities and equipment under non-cancelable operating leases. Rental expense incurred by the Company amounted to \$15.1 million in 2008, \$16.0 million in 2007 and \$13.1 million in 2006. At October 31, 2008 future minimum rent payments under these operating leases were \$11.7 million for 2009, \$9.4 million for 2010, \$7.5 million for 2011, \$6.3 million for 2012, \$5.0 million in 2013 and \$18.4 million thereafter.

In January 2006, the Company received a request for information pursuant to Section 308 of the Clean Water Act from Region 3 of the U.S. Environmental Protection Agency (the "EPA") concerning storm water discharge practices in connection with its home building projects in the states that comprise EPA Region 3. The U.S. Department of Justice ("DOJ") has now assumed responsibility for the oversight of this matter. To the extent the DOJ's review were to lead it 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.

In October 2006, the Illinois Attorney General and State Attorney of Lake County, Illinois brought suit against the Company alleging violations in Lake County of certain storm water discharge regulations. In August 2008, the Company signed a consent order with the Illinois Attorney General and the State Attorney of Lake County. Under the order, the Company will pay \$80,000 to the Illinois Environmental Protection Agency, pay \$30,000 to the State Attorney of Lake County, and make a contribution of \$100,000 to the Lake County Health Department and Community Health Center Lakes Management Unit for use toward an environmental restoration project. The Company also agreed to implement certain management, record-keeping and reporting practices related to storm water discharges at the subject site. On October 9, 2008, the consent order was entered and the case was dismissed with prejudice.

On April 17, 2007, a securities class action suit was filed against Toll Brothers, Inc. and Robert I. Toll and Bruce E. Toll in the U.S. District Court for the Eastern District of Pennsylvania on behalf of the purported class of purchasers of the Company's common stock between December 9, 2004 and November 8, 2005. The original plaintiff has been replaced by two new lead plaintiffs — The City of Hialeah Employees' Retirement System and the Laborers Pension Trust Funds for Northern California. On August 14, 2007, an amended complaint was filed and the following individual defendants, who are directors and/or officers of Toll Brothers, Inc., were added to the suit: Zvi Barzilay, Joel H. Rassman, Robert S. Blank, Richard J. Braemer, Carl B. Marbach, Paul E. Shapiro and Joseph R. Sicree. The amended complaint filed on behalf of the purported class alleges that the defendants violated federal securities laws by issuing various materially false and misleading statements that had the effect of artificially inflating the market price of the Company's stock. They further allege that the individual defendants sold shares for a substantial gain during the class period. The purported class is seeking compensatory damages, counsel fees, and expert costs.

On November 4, 2008, a stockholder derivative action was filed in the Chancery Court of Delaware against Robert I. Toll, Zvi Barzilay, Joel H. Rassman, Bruce E. Toll, Paul E. Shapiro, Robert S. Blank, Carl B. Marbach, and Richard J. Braemer. The plaintiff, Milton Pfeiffer, purports to bring his claims on behalf of Toll Brothers, Inc. and alleges that the director and officer defendants breached their fiduciary duties to the Company and its stockholders, with respect to the stock sales alleged in the securities class action discussed above, by selling while in possession of material inside information about the Company. Plaintiff seeks contribution and indemnification from the individual director and officer defendants for any liability found against the Company in the securities class action suit. In addition, again purportedly on behalf of the Company, plaintiff seeks disgorgement of the defendants' profits from their stock sales.

The Company is involved in various other 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.

14. RELATED PARTY TRANSACTIONS

The Company formed the Trust in 1998 to take advantage of commercial real estate opportunities. 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 an affiliate of PASERS (collectively, the "Stockholders"). The Company had previously reduced its investment in the Trust by approximately \$2.1 million, which represented the deferred gain on the sale of a parcel of land to the Trust in May 2003; the Company reclassified this deferral to accrued expenses on its consolidated balance sheet at October 31, 2007. At October 31, 2008, the Company's investment in the Trust was \$432,000. The Company provides development, finance and management services to the Trust and recognized fees under the terms of various agreements in the amounts of \$2.2 million, \$5.9 million and \$2.5 million in the fiscal years ended October 31, 2008, 2007 and 2006, 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.

15. INFORMATION ON BUSINESS SEGMENTS

The table below summarizes revenue and (loss) income before income taxes for each of the Company's geographic segments for each of the fiscal years ended October 31, 2008, 2007 and 2006 (amounts in thousands):

	2008	2007	2006
Revenue			
North	\$ 932,946	\$ 1,087,633	\$ 1,444,167
Mid-Atlantic	880,960	1,340,610	1,777,891
South	562,117	976,923	1,192,388
West	782,190	1,241,813	1,709,007
Total	\$ 3,158,213	\$ 4,646,979	\$ 6,123,453
(Loss) income before income taxes			
North	\$ 898	\$ 51,152	\$ 281,917
Mid-Atlantic	(10,913)	206,433	491,803
South	(170,024)	(20,376)	161,811
West	(190,497)	(87,940)	338,516
Corporate and other	(96,251)	(78,589)	(147,431)
Total	\$ (466,787)	\$ 70,680	\$ 1,126,616

Corporate and other 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 the Company's ancillary businesses.

The Company provided for inventory impairment charges and the expensing of costs that it believed not to be recoverable and write-downs of investments in unconsolidated entities that the Company does not believe it will be able to recover (including the Company's pro-rata share of impairment charges recognized by the unconsolidated entities in which it has an investment) for each of the fiscal years ended October 31, 2008, 2007 and 2006, as follows (amounts in thousands):

INVENTORY:

	2008	2007	2006
Land controlled for future communities:			
North	\$ 28,125	\$ 4,983	\$ 9,309
Mid-Atlantic	13,591	4,020	7,725
South	42,004	7,912	14,096
West	17,746	21,005	59,795
	101,466	37,920	90,925
Operating communities and land owned:			
North	84,330	117,925	37,420
Mid-Atlantic	122,850	68,250	
South	158,095	143,450	2,500
West	178,250	251,971	21,200
	543,525	581,596	61,120
Total inventory impairment charges	\$ 644,991	\$ 619,516	\$ 152,045
Investments in unconsolidated entities:			
	2008	2007	2006
North	\$ 57,901		
South	1,500		
West	141,251	\$ 59,242	
	\$ 200,652	\$ 59,242	-

The table below summarizes total assets for each of the Company's geographic segments at October 31, 2008, 2007 and 2006 (amounts in thousands):

	2008	2007	2006
North	\$1,244,661	\$1,589,119	\$1,758,520
Mid-Atlantic	1,220,304	1,523,447	1,654,718
South	688,049	1,180,325	1,338,324
West	1,133,981	1,616,395	1,905,945
Other	2,299,841	1,311,030	926,034
Total	\$6,586,836	\$7,220,316	\$7,583,541

Other is comprised principally of cash and cash equivalents, deferred tax assets and the assets of the Company's manufacturing facilities and mortgage subsidiary.

16. SUPPLEMENTAL DISCLOSURE TO STATEMENTS OF CASH FLOWS

The following are supplemental disclosures to the statements of cash flows for each of the fiscal years ended October 31, 2008, 2007 and 2006 (amounts in thousands):

	2008	2007	2006
Cash flow information:			
Interest paid, net of amount capitalized	\$ 12,643	\$ 14,907	\$ 20,045
Income taxes paid	\$ 78,231	\$ 322,844	\$ 367,585
Non-cash activity:			
Cost of inventory acquired through seller financing or recorded due to VIE criteria	\$ 7,430	\$ 87,218	\$ 147,224
Adoption of FIN 48	\$ (47,460)		
Contribution of inventory, net of related debt, to unconsolidated entities	\$ 45,000		\$ 4,500
Land returned to seller subject to loan payable	\$ 7,750	\$ 8,693	
Stock awards	\$ 26	\$ 7,010	\$ 10,926
Contributions to employee retirement plan		\$ 2,764	\$ 2,411
Income tax benefit related to exercise of employee stock options	\$ 33,307	\$ 2,442	\$ 3,355
Adoption of supplemental retirement plan			\$ 2,583
Investment in unconsolidated entities made by letters of credit		\$ 17,828	\$ 25,885
Reclassification of inventory to property, construction and office equipment	\$ 16,103		
Reduction of investment in unconsolidated entities due to the reduction of letters of credit	\$ 10,495	\$ 10,883	\$ 7,585
Reclassification of deferred income from investment in unconsolidated entities to accrued liabilities		\$ 2,109	
Reclassification of accrued liabilities to loans payable	\$ 2,163		
Miscellaneous (decreases) increases to investments in unconsolidated entities	\$ (856)	\$ 608	\$ (2,035)
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
Disposition of ancillary businesses:			
Fair value of asset sold		\$ 8,453	
Liabilities incurred in disposition		\$ 954	
Liabilities assumed by buyer		\$ 1,751	
Cash received		\$ 32,299	
Deconsolidation of a majority-owned joint venture:			
Fair value of assets removed	\$ 92,506		
Liabilities removed	\$ 84,513		
Minority interest eliminated	\$ 8,014		

STATEMENT ON FORWARD-LOOKING INFORMATION

Certain information included herein and in other Company reports, SEC filings, verbal or written statements and presentations is forward-looking within the meaning of the Private Securities Litigation Reform Act of 1995, including, but not limited to: information related to anticipated operating results; financial resources; changes in revenues; changes in profitability; changes in margins; changes in accounting treatment; interest expense; inventory 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. Such forward-looking information involves important risks and uncertainties that could significantly affect actual results and cause them to differ materially from expectations expressed herein and in other Company reports, SEC filings, statements and presentations. These risks and uncertainties include: local, regional, national and international economic conditions, including the current economic turmoil and uncertainties in the U.S. and global credit and financial markets; demand for homes; domestic and international political events; uncertainties created by terrorist attacks; effects of governmental regulation, including effects from the Emergency Economic Stabilization Act; the competitive environment in which the Company operates; changes in consumer confidence; volatility and fluctuations in interest rates; unemployment rates; changes in home prices, foreclosure rates and sales activity in the markets where the Company builds homes; the availability and cost of land for future growth; excess inventory and adverse market conditions that could result in substantial inventory write-downs; the availability of capital; uncertainties, fluctuations and volatility in the capital and securities markets; liquidity in the credit markets; changes in tax laws and their interpretation; legal proceedings; the availability of adequate insurance at reasonable cost; the ability of customers to obtain adequate and affordable financing for the purchase of homes; the ability of home buyers to sell their existing homes; the ability of the participants in our various joint ventures to honor their commitments; the availability and cost of labor and building and construction materials; the cost of oil, gas and other raw materials; construction delays; and weather conditions. 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. 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.

SUMMARY CONSOLIDATED QUARTERLY FINANCIAL DATA (UNAUDITED)

(Amounts in thousands, except per share data)

	October 31	Three months ended,		
		July 31	April 30	January 31
Fiscal 2008				
Revenue	\$ 698,901	\$ 797,670	\$ 818,790	\$ 842,852
Gross profit	\$ 24,722	\$ 57,840	\$ (24,334)	\$ (25,633)
Loss before income taxes	\$ (106,026)	\$ (54,795)	\$ (154,011)	\$ (151,955)
Net loss	\$ (78,821)	\$ (29,295)	\$ (93,737)	\$ (95,957)
Loss per share (l)				
Basic	\$ (0.49)	\$ (0.18)	\$ (0.59)	\$ (0.61)
Diluted	\$ (0.49)	\$ (0.18)	\$ (0.59)	\$ (0.61)
Weighted-average number of shares				
Basic	159,725	158,761	158,621	157,813
Diluted (2)	159,725	158,761	158,621	157,813

Fiscal 2007				
Revenue	\$ 1,169,340	\$ 1,212,351	\$ 1,174,677	\$ 1,090,611
Gross profit	\$ 25,601	\$ 134,043	\$ 167,327	\$ 194,631
(Loss) income before income taxes	\$ (121,059)	\$ 45,046	\$ 59,493	\$ 87,200
Net (loss) income	\$ (81,841)	\$ 26,486	\$ 36,690	\$ 54,316
(Loss) earnings per share (l)				
Basic	\$ (0.52)	\$ 0.17	\$ 0.24	\$ 0.35
Diluted	\$ (0.52)	\$ 0.16	\$ 0.22	\$ 0.33
Weighted-average number of shares				
Basic	156,787	155,556	154,716	154,212
Diluted (2)	156,787	164,375	164,294	164,048

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

(2) For each quarter in fiscal 2008 and for the three months ended October 31, 2007 there were no incremental shares attributed to outstanding options to purchase common stock because the Company reported a net loss for each period, and any incremental shares would not be dilutive.

STOCK PRICE

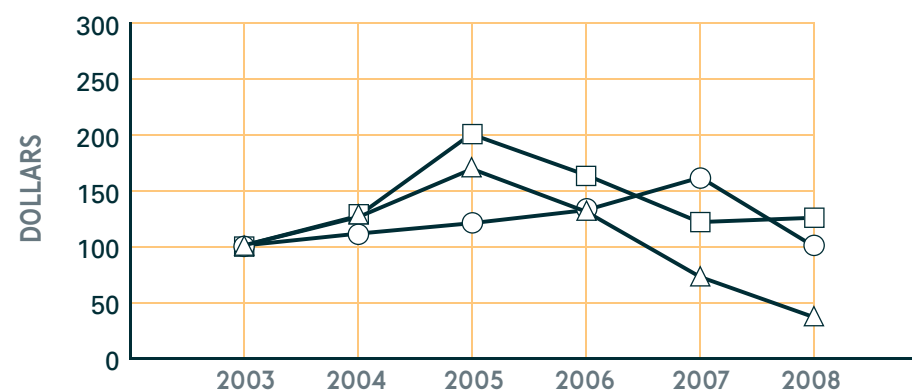
The following table sets forth the price range of our common stock on the New York Stock Exchange for each fiscal quarter during the two years ended October 31, 2008:

	October 31	Three months ended,		
		July 31	April 30	January 31
2008				
High	\$ 27.19	\$ 25.35	\$ 26.13	\$ 23.93
Low	\$ 16.51	\$ 16.25	\$ 18.31	\$ 15.49
2007				
High	\$ 25.55	\$ 31.14	\$ 35.64	\$ 34.43
Low	\$ 19.31	\$ 21.82	\$ 26.90	\$ 26.79

On October 31, 2008, 2007 and 2006, the closing price of our common stock on the New York Stock Exchange was \$23.12, \$22.91 and \$28.91, respectively.

PERFORMANCE GRAPH

The following graph and chart compare the five-year cumulative total return (assuming an investment of \$100 was made on October 31, 2003 and that dividends, if any, were reinvested) from October 31, 2003 to October 31, 2008 for (a) Toll Brothers, Inc., (b) the Standard & Poor's Homebuilding Index (the "S&P Homebuilding Index") and (c) the Standard & Poor's 500 Composite Index (the "S&P 500 Index"):



	2003	2004	2005	2006	2007	2008
□ Toll Brothers, Inc.	100.00	125.81	200.38	156.95	124.38	125.52
△ S&P Homebuilding Index	100.00	122.89	166.15	133.41	68.90	38.84
○ S&P 500 Index	100.00	109.42	118.96	138.40	158.56	101.32

corporate officers

BOARD OF DIRECTORS AND EXECUTIVE OFFICERS

Robert I. Toll*

Chairman of the Board & Chief Executive Officer

Bruce E. Toll

Vice Chairman of the Board

*President - BET Investments,
an office and commercial real estate company, and
Chairman - Philadelphia Media Holdings, LLC,
parent company of the Philadelphia Inquirer
and Philadelphia Daily News*

Zvi Barzilay*

President and Chief Operating Officer

Robert S. Blank

*Co-Chairman & Co-CEO - Whitney
Communications Company, and
Senior Partner - Whitcom Partners,
investments*

Edward G. Boehne

*Retired President - Federal Reserve Bank
of Philadelphia*

Richard J. Braemer

*Partner - Ballard, Spahr, Andrews & Ingersoll, LLP,
Attorneys at Law*

Roger S. Hillas

Retired Chairman - Meritor Savings Bank

Carl B. Marbach

*President - Greater Marbach Airlines, Inc., and
Florida Professional Aviation, Inc.,
aviation services and consulting companies*

Stephen A. Novick

*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*

*Executive Officer and Director of the Company

CORPORATE ADMINISTRATION DENOTES YEARS OF SERVICE

Senior Vice Presidents

Frederick N. Cooper ¹⁵
Jonathan C. Downs ¹⁶
Mark K. Kessler ¹

*Finance & Investor Relations
Human Resources
General Counsel &
Chief Compliance Officer
Chief Marketing Officer*

Kira McCarron ²³

Kevin J. McMaster ²⁵
George W. Nelson ⁵
Joseph R. Sicree ¹⁶
Michael I. Snyder ²⁸
Werner Thiessen ¹⁸

*Controller
Chief Information Officer
Chief Accounting Officer
Secretary & Chief Planning Officer
Acquisitions*

HOME BUILDING OPERATIONS DENOTES YEARS OF SERVICE

Regional Presidents

Thomas A. Argyris, Jr. ²²
James W. Boyd ¹⁵
Barry A. Depew ²⁵
William J. Gilligan ¹⁴
Richard T. Hartman ²⁹
Robert Parahus ²²
Edward D. Weber ²⁹
Douglas C. Yearley, Jr. ¹⁸

Group Presidents

Keith L. Anderson ¹¹
Roger A. Brush ¹⁵
Kevin D. Duermit ²¹
John P. Elcano ¹⁶
Christopher G. Gaffney ¹²
John G. Mangano ²¹
Glen H. Martin ²
Gary M. Mayo ¹¹
Thomas J. Murray ¹⁴
Ralph E. Reinert ¹⁶
Douglas C. Shipe ¹⁴

Division Presidents

Thomas J. Anhut ¹⁴
Jeffrey A. Bartos ⁸
Charles W. Bowie ¹²
John D. Bunting ¹
Anthony E. Casapulla ¹⁴
J. Michael Donnelly ¹⁷
James H. Harrison ²
Gregory E. Kamedulski ¹⁶
Dan L. Martin ¹¹
Richard C. McCormick ³⁰
Thomas R. Mulvey ⁴
Chris Myers ¹⁴
Richard M. Nelson ¹⁰
Walt I. Nowak ¹⁴
Robert G. Paul ⁷
Charles B. Raddatz ¹¹
William C. Reilly ¹⁶
Kenneth S. Thirtyacre ¹¹
John P. Vitella ¹⁰

LAND DEVELOPMENT AND COUNTRY CLUB OPERATIONS DENOTES YEARS OF SERVICE

Executive Vice Presidents

Joseph J. Palka ¹⁵

Senior Vice Presidents

Robert N. McCarron ¹⁶
David H. Richey ⁶

SUBSIDIARY AND AFFILIATE OPERATIONS DENOTES YEARS OF SERVICE

Eastern States Engineering, Inc.
TBI Mortgage® Company
Toll Architecture, Inc.
Toll Brothers Realty Trust
Toll Landscape, L.L.C.
Westminster Security Company
Westminster Title Company, Inc.

Christopher E. Stocke ²
Donald L. Salmon ⁹
Jed Gibson ¹⁵
James M. Steuterman ⁶
Mark Culichia ¹¹
Felicia Ratka ⁸
William T. Unkel ⁴

*Vice President
President
President
Sr. Vice President
Vice President
President
President*

Employee listings are as of 11/1/08

corporate information

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 • amstock.com

INDEPENDENT AUDITORS

Ernst & Young LLP — Philadelphia, Pennsylvania

SECURITIES COUNSEL

WolfBlock LLP — Philadelphia, Pennsylvania

EMPLOYEES

As of October 31, 2008, we had 3,160 full-time employees.

STOCKHOLDERS

As of December 10, 2008, we had 900 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 disclosures for each of the periods ended during our fiscal year ended October 31, 2008. 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.

DEMOGRAPHIC AND OTHER DATA

Sources for the data included in this annual report include Banc of America Securities, Barron's, Bloomberg L.P., Business Week, Citigroup, Claritas, Credit Suisse, Deutsche Bank Securities, Fannie Mae, Federal Home Loan Mortgage Corporation, Federal Housing Finance Board, Federal Reserve Bank, Federal Reserve Board, Fitch Ratings, Forbes, Fortune, Harvard Institute of Economic Research, International Strategy & Investment Group, John Burns Real Estate Consulting, Joint Center for Housing Studies – Harvard University, J.P. Morgan Securities, Macquarie Capital Securities, Moody's Economy.com, Moody's Investor Service, Mortgage Bankers Association, National Association of Home Builders, National Association of REALTORS®, The New York Times, Office of Federal Housing Enterprises Oversight, Standard & Poor's, Thomson Reuters Corporation, UBS Securities, U.S. Census Bureau, U.S. Department of Commerce, U.S. Department of Labor, Wachovia Securities, The Wall Street Journal, YAHOO! Finance, and Zelman & Associates.

INVESTOR RELATIONS INFORMATION REQUESTS

Our Annual Report on Form 10-K, Quarterly Reports on Form 10-Q and other Company information are available without charge either 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 the Principal Executive Officer and Senior Financial Officers, and a Code of Ethics and Business Conduct which applies to all 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.

PRODUCTION NOTES

PHOTOGRAPHY

James B. Abbott, Mark Boisclair, Robert Brantley, Faulkner Studios, Eric Kieley, Eric Lucero, Gil Stose, William Taylor, Jim Wilson

PHOTOS

Front Cover:

The Malvern at Marlboro Ridge, Upper Marlboro, MD

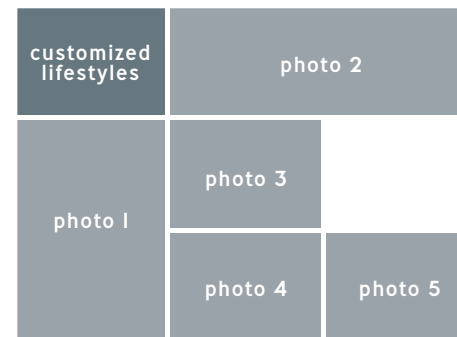
Page 6:

(L) The Malvern at Marlboro Ridge, Upper Marlboro, MD

(R) Ocean's Edge at Singer Island, Singer Island, FL

Page 20:

1. Beach Front at Singer Island, Singer Island, FL
2. The Waverly at Hampton Pointe, Hardeeville, SC
3. The Venosa at Vistas at Indian Oaks, Chatsworth, CA
4. The Waterford at Woodstock Knoll, Woodstock, GA
5. The Charleston at Estes Park at Southlake, Southlake, TX





THE VINTON RENAISSANCE AT JOHNSON PLACE SOUTHLAKE, TX

TollBrothers.com
America's Luxury Home Builder®



THE TRAPANI AT MADISON GROVE AT PROVIDENCE LAS VEGAS, NV