



Toll Brothers

America's Luxury Home Builder

2003 ANNUAL REPORT

A Growth Company



The Ventana at Mountain View Country Club ♦ Riverside, California

CORPORATE PROFILE — Fiscal Year End (FYE) October 31, 2003

Strong Performance

- ♦ 11 consecutive years of record earnings
- ♦ 12 consecutive years of record revenues
- ♦ 13 consecutive years of record sales contracts

Diversified Target Markets

- ♦ National presence in the luxury market
- ♦ Move-up homes
- ♦ Empty-nester homes
- ♦ Active-adult, age-qualified communities
- ♦ Second homes
- ♦ Urban low-, mid- and high-rise condominiums
- ♦ Golf course, country club communities
- ♦ Luxury single- and multi-family homes

Growth Potential

- ♦ Own or control over 48,000 home sites
- ♦ Selling from 200 communities; expect to reach 225± communities by FYE 2004
- ♦ Serve 44 affluent markets with 8.8 million households earning \$100,000 and above
- ♦ Two dozen potential expansion markets contain another 3.3 million affluent households
- ♦ Land acquisition, approvals and development expertise add significant profit margins to home building operations
- ♦ Growing ancillary businesses: mortgage, title, golf course development and management, security, HOA, landscape, land sales, cable TV and broadband Internet access

Financial Strength

- ♦ Investment-grade corporate credit ratings from Standard & Poor's (BBB-), Moody's (Baa3), and Fitch (BBB)
- ♦ Backed by \$800 million of bank credit facilities from 18 U.S. and global banks
- ♦ Raised more than \$1 billion in the public capital markets over past 5 years
- ♦ Highest net profit margins of home builders in the *Fortune 1000* over past decade
- ♦ Stockholders' equity and earnings have grown at compound average annual rate of more than 23% over past 10 years
- ♦ Stock price has appreciated 1900% since IPO in July 1986

Brand Name Reputation

- ♦ Founded in 1967
- ♦ Publicly traded since 1986
- ♦ Traded on the New York Stock Exchange and Pacific Exchange
- ♦ Average delivered home price of \$556,000
- ♦ Award-winning communities across the U.S.
- ♦ *Fortune 1000* Company
- ♦ *Forbes Platinum 400* Company
- ♦ 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

A National Company

The West Coast*

Los Angeles ♦ Palm Springs ♦ San Diego ♦ San Francisco

Revenues (in millions)	\$490
Contracts (in millions)	\$678
Lots Owned or Controlled	3,845
Year-end Backlog (in millions)	\$497
Average Delivered Price (in thousands)	\$833

The Southwest*

Arizona ♦ Colorado ♦ Nevada ♦ Texas

Revenues (in millions)	\$378
Contracts (in millions)	\$507
Lots Owned or Controlled	5,827
Year-end Backlog (in millions)	\$397
Average Delivered Price (in thousands)	\$527

The Midwest*

Illinois ♦ Michigan ♦ Ohio

Revenues (in millions)	\$219
Contracts (in millions)	\$247
Lots Owned or Controlled	2,864
Year-end Backlog (in millions)	\$168
Average Delivered Price (in thousands)	\$542

The Southeast*

Florida ♦ North Carolina ♦ South Carolina

Revenues (in millions)	\$311
Contracts (in millions)	\$297
Lots Owned or Controlled	4,371
Year-end Backlog (in millions)	\$218
Average Delivered Price (in thousands)	\$477

The Northeast*

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

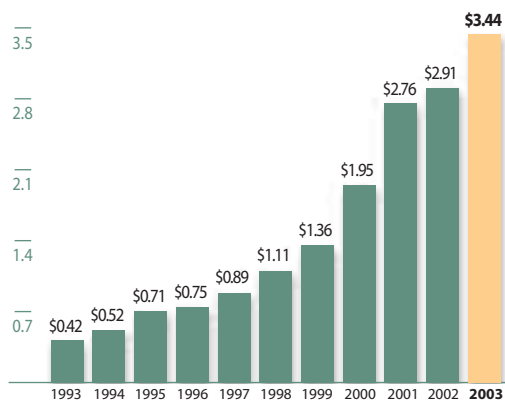
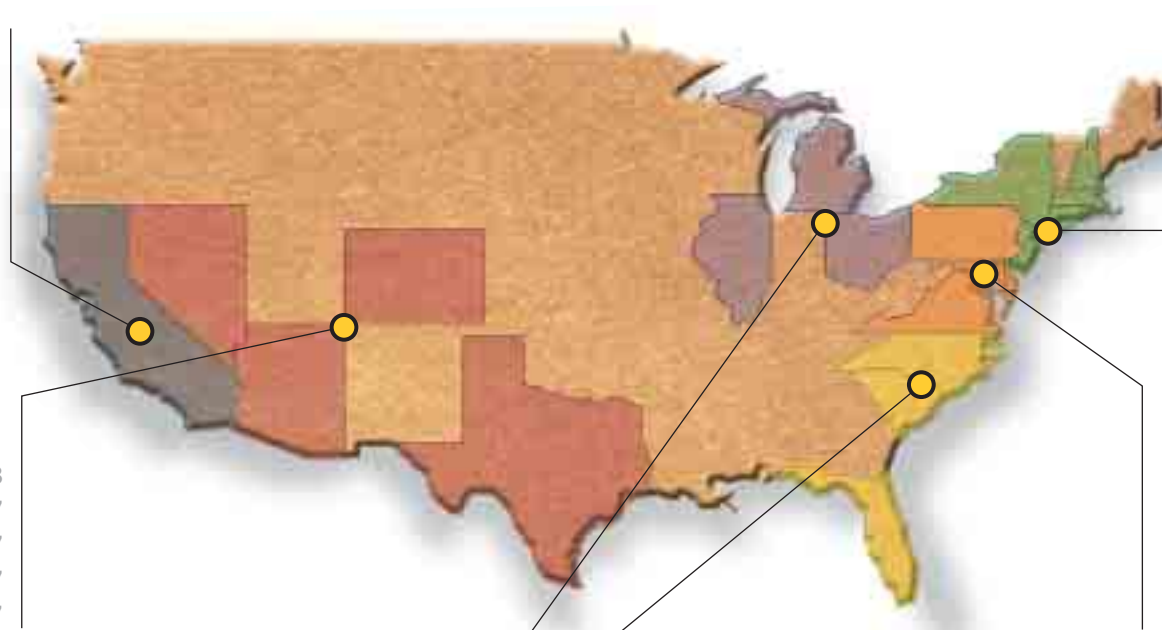
Revenues (in millions)	\$450
Contracts (in millions)	\$585
Lots Owned or Controlled	9,955
Year-end Backlog (in millions)	\$519
Average Delivered Price (in thousands)	\$596

The Mid-Atlantic*

Delaware ♦ Maryland ♦ Pennsylvania ♦ Virginia

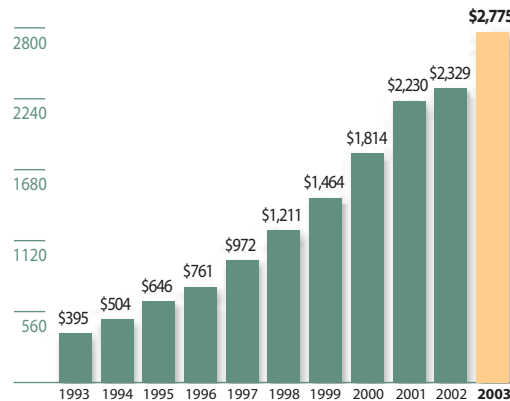
Revenues (in millions)	\$882
Contracts (in millions)	\$1,172
Lots Owned or Controlled	21,196
Year-end Backlog (in millions)	\$837
Average Delivered Price (in thousands)	\$492

*Data is for FYE October 31, 2003



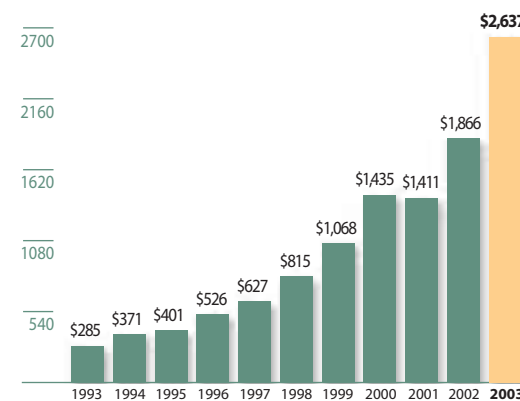
Earnings Per Share

10-Year Compound Annual Growth Rate – 23%
FYE October 31



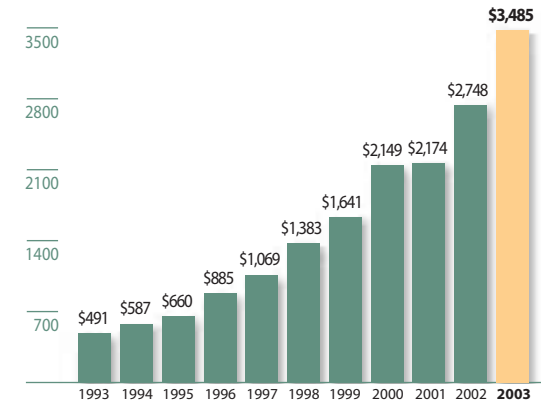
Revenues (in millions)

10-Year Compound Annual Growth Rate – 22%
FYE October 31



Backlog (in millions)

10-Year Compound Annual Growth Rate – 25%
At FYE October 31



Sales Contracts (in millions)

10-Year Compound Annual Growth Rate – 22%
FYE October 31

Dear Shareholder

*"...Toll's enviable
decade-long growth...
compares favorably
with that of technology
giants Oracle, Microsoft
and Cisco Systems..."*

*Barron's
February 10, 2003*



In fiscal 2003, we achieved our 11th consecutive year of record earnings, our 12th consecutive year of record revenues and our 13th consecutive year of record contracts. Revenues of \$2.78 billion rose 19%, net income of \$259.8 million rose 18% and contracts of \$3.49 billion rose 27% compared to fiscal year 2002.

We ended the year with great momentum. Our fourth-quarter results were the best of any quarter in our history for revenues, earnings, contracts and backlog. Fourth-quarter revenues of \$903.4 million increased 28% and net income of \$93.4 million increased 35% compared to the same period of fiscal 2002. Our backlog of \$2.64 billion grew by 41% and increased in all six of our geographic regions, and our fourth-quarter contracts of \$1.02 billion rose by 55% compared to fourth quarter fiscal 2002.

Demand for luxury homes remains intense as high-income households compete for the limited supply of new homes in upscale markets. Strong demographics, improving consumer confidence and lot supply constraints, induced by no-growth politics, favor those companies with the capital and expertise to control land and secure the necessary governmental approvals to permit development and construction. We ended fiscal 2003 with a record 200 selling communities and plan to reach approximately 225 by fiscal year-end 2004. We now control more than 48,000 lots, a five-to six-year supply based on our current pace of growth, and thus are well-positioned for the future.

We expect to produce more than \$3.3 billion in home building revenues and deliver more than 6,000 homes in fiscal 2004,

compared to 4,911 homes in fiscal 2003. With an expanding community count and lot supply, we believe we are on track for 20% plus growth in net income in fiscal 2004 and similar growth in fiscal 2005. Such growth would be consistent with our historical performance. Since going public in 1986, we have produced compound average annual growth in net income and revenues of 20%, and raised our community count every year.

We serve the sweet spot in the luxury market and are the only major builder focused primarily on the upscale niche. Our average delivered home price in fiscal 2003 was \$556,000, a price affordable to the 15.7 million U.S. households with \$100,000 plus incomes. In constant 2002 dollars, this group has grown over 220% since 1980, compared to 35% for U.S. households in total. In the past two decades, the unemployment rate for affluent Americans has held at half the rate of the nation in general, which suggests that our buyers are less affected by the economy's volatility.

By targeting the increasing numbers of affluent baby boomers, and by offering them move-up, empty-nester and resort-style communities with lakes, golf courses and other recreational amenities, we have grown our market share among this expanding group. By introducing new product lines, such as active-adult, second-home and urban in-fill communities, we have increased our growth opportunities.

We have concentrated on expanding the Toll Brothers brand, which has become associated with fine quality, excellent value and unsurpassed customer service. We believe this brand value has increased demand for our homes and translated into additional profits.

In fiscal 2003, we strengthened our balance sheet and capital base in preparation for future expansion. We raised \$550 million in the investment-grade senior debt market and retired \$200 million of more expensive, shorter-term debt, thus

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

lengthening the average maturity of our outstanding debt to seven years. We increased stockholders' equity by \$347 million, or 31%, to \$1.48 billion, including an \$86 million equity offering. We reduced our fiscal year-end leverage ratio (net debt to capital)* to 41%—our lowest level since 1991, when we were just one-tenth our current size. We believe we are in the strongest financial position in our history.

By offering a diverse selection of products, we continue to increase our presence in our existing markets and to broaden our operations in new territories. We operate in 21 states and 44 markets. In 2003, we expanded internally from Las Vegas into Reno, Nevada, and also into Jacksonville, Florida, via the acquisition of Richard R. Dostie, Inc., the premier home builder in the Jacksonville market. We also acquired The Manhattan Building Company, now known as "City Living by Toll Brothers," an innovative developer of luxury mid- and high-rise condominiums on the affluent northern New Jersey waterfront.

City Living represents a major expansion of our latest product diversification—urban development. With the opening this year of our first two communities—in Providence, Rhode Island and the metro Chicago market—we are already having success in the urban in-fill low-rise market. City Living should jump-start our expansion into the urban mid- and high-rise condominium markets. Our initial focus is on northern New Jersey, which offers spectacular views of Manhattan, and where we already have

"Despite recent turmoil in the financial markets, the number of families earning at least \$100,000 will climb... to 20 million by the end of this decade... This is up from 9 million in 1990."

*The Conference Board
October, 2003*



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

“By 2010, older boomers will be in their peak wealth years and younger boomers will be in their peak-earning ages...”

Joint Center for Housing Studies of Harvard University 2003

a very significant brand name in the luxury residential market. We control approximately 1,500 units for mid- and high-rise residences along northern New Jersey's beautiful waterfront, and intend to aggressively pursue similar opportunities in other growing urban markets.

We believe the urban development market offers tremendous opportunities for growth. We see great demand from affluent buyers for dramatic residences in exciting urban locations. Many young professionals are drawn to the appeal of city lights and many maturing baby boomers are electing an urban lifestyle instead of, or in addition to, the Sun Belt. Cities are pro-growth; therefore supportive government policies and positive local efforts lead to development.

Since March 2003, our stock price has more than doubled, as investors have begun to take notice of the record results and profitability Toll Brothers has steadily produced. We have proven we can grow when interest rates are rising, as we did in 1995, 1997 and 2000. More recently, nearly three years into the worst employment slump since World War II, we have proven we can grow through a period of economic recession and global political uncertainty.

Even with our potential and our track record of 20% compound average annual growth, our price/earnings ratio, and those of the other major public home building companies, are still, on average, just half that of the S&P 500. Given the prospects of our Company and the other public home building companies, we believe there is significant opportunity for investors in this environment. With the possibility of economic recovery, job growth and improved consumer confidence on the horizon, we believe the outlook for Toll Brothers and our industry is bright.

The remarkable consistency in home value appreciation during the past 30 years has convinced buyers that new homes in desirable, well-planned communities are reliable and secure long-term investments. In contrast to

the volatile financial markets, new homes also are investments owners can live in and enjoy. This is a compelling story and Americans are more willing than ever to invest in a new home.

As we look to the future, we are very optimistic. We are encouraged by the supply of new communities we are taking through our approval pipelines, our growth in the regions where we are now well-established and the reception we receive as we enter into new territories. We are excited by the new product lines we have introduced, by our expanding brand name and by the quality of the homes we are bringing to a growing population.

Most of all, we are thrilled as we watch the Toll Brothers family grow. We see those who have been with us for 5, 10, 20 and even 30 years thrive, teach and learn from a new generation of associates, who bring vitality, enthusiasm and fresh ideas to a company whose culture has encouraged innovation and entrepreneurship for over 36 years.

We thank our home buyers, our shareholders and our contractor and supplier partners for their continued support. And we especially thank our associates, who continue to make us proud of their commitment, diligence and dedication to making your homes and your Company the best.



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



BRUCE E. TOLL
Vice Chairman
of the Board



ZVI BARZILAY
President and
Chief Operating Officer

December 12, 2003





Land – Our Pipeline for Growth

GOAL

We create value by identifying, entitling, acquiring and developing land and communities nationwide. Our land expertise is one of the key strengths in maintaining Toll Brothers' industry-leading profit margins and fueling our growth.

OVERVIEW

The land entitlement and development process is highly regulated. Dozens of approvals are required from local, regional, state and national oversight bodies to open a community. Political pressure from no-growth proponents has increased the complexity, cost and time required to gain approvals. Lot shortages have resulted and, particularly in affluent areas, home prices have continued to rise.

Increasing demand from growing numbers of affluent U.S. households has exacerbated the imbalance between supply and demand. With our expertise, capital and patience to persevere through the approval process, we have benefited; the small, privately owned luxury home builders, who lack our resources, have not.

STRATEGY

We evaluate and purchase land based on its potential profitability, not just to grow revenues. We believe each land parcel should be able to stand on its own as a profitable community. We generally reduce risk by contracting to acquire land, subject to receiving approvals. We then take it through the approval process, and purchase it once approvals are secured. We then improve it with the roads, sewers, utilities and recreational amenities that result in our wonderful lifestyle communities.

We control multiple years' supply of lots, all actively under development or in the approvals process, to ensure an adequate source for future growth. This supply allows us to step back from buying land in specific markets if prices seem overheated, without halting growth. We currently control more than 48,000 lots, which include 200 communities from which we are selling homes and another 250 future communities in the development and approval pipeline.

Our ability to gain approvals and creatively master plan and develop complex land parcels is evidenced in our successful conversion of a former sand and gravel quarry into one of Michigan's most prestigious communities ♦ Island Lake of Novi (inset and far right), set around a 170-acre lake in Novi, Michigan, is a 900-acre lifestyle community with boating, docks, lakeside parks, nature trails, private beaches, tennis courts, swimming pools and a waterfront clubhouse ♦ The 750-home community offers five product lines: Signature, Estate, Executive, Villa and Townhome communities ranging in base price from the upper \$200,000s to over \$1 million



The Malvern ♦ Novi, MI





Product Diversification

GOAL

As the only national home building company focused primarily on the luxury market, we plan to continue to diversify our product offerings to increase market share and reach the broadest range of luxury buyers possible.

OVERVIEW

Baby boomers now range in age from their late 30s to their late 50s. Studies show that home ownership rates peak as people reach their 60s. The number of affluent U.S. households continues to increase. Its growth is fueled by maturing baby boomers as well as well-educated immigrants, more than 25% of whom hold managerial, professional, technical or administrative support positions.

As affluent boomers mature, demand is growing not just for move-up housing, but also for empty-nester lifestyle and resort-style communities, and for low-maintenance, active-adult communities. Based on projected demand for 300,000 to 400,000 new second homes annually, many boomers want to own more than one home. Builders such as Toll Brothers, with the flexibility to serve each of these niches, can reap the benefits of this growing demand.

STRATEGY

We continue to expand our offerings within the luxury market. Through Toll Architecture, we introduced 130 new home designs in fiscal 2003. Approximately 60% of our homes were sold to move-up buyers, 30% to empty nesters and 10% to active adults, a market we entered in 1999.

We offer homes priced from under \$200,000 to more than \$3 million. Our products range from 3-, 6-, 8-, 19- and even 75-unit attached home communities to 6,000 square foot estate homes. We also control sites for more than 1,500 luxury high-rise waterfront condominiums under construction or in the planning stage on the New Jersey waterfront with views of the New York City skyline and on Florida's east coast, overlooking the Atlantic Ocean. By continuing to enter new niches and expand our product lines we intend to increase our dominance of the luxury market.

We offer what we believe is the widest range of products in our industry ♦ Dublin Ranch, located in Alameda County in the East Bay near San Francisco, is among Toll Brothers' most innovative communities ♦ It consists of 1,960 homes, ranging from high-density townhomes and cottage homes (inset) to 5,500-square-foot estate homes located on a Robert Trent Jones championship golf course ♦ Bella Lago in Austin, Texas (far right) is a classic Toll Brothers community ♦ Its 88 estate homes, sized from 3,100 to 5,000 square feet and characterized by the dramatic roof lines of the Texas market, are set on the shores of beautiful Lake Austin



The Cottages ♦ Dublin, CA



Geographic Expansion

GOAL

We plan to increase penetration in existing markets and to expand into new territories by introducing the full complement of Toll Brothers product offerings.

OVERVIEW

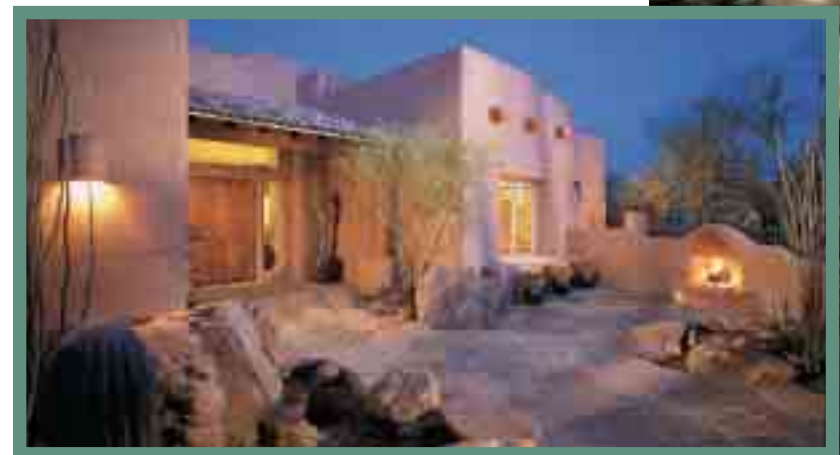
In 1986, when we went public, we built in three states—New Jersey, Pennsylvania and Delaware. We now build in 44 markets in 21 states in six U.S. regions. Our expansion has been primarily through land acquisition, although we have also completed several builder acquisitions. Typically we start small, acquire a single tract of land, and gradually expand as we learn a new market.

We have completed five acquisitions in our history, each of which led us into a market in which we had not previously built. We joined forces with Geoffrey H. Edmunds, a Phoenix/Scottsdale builder, in 1995, Coleman Homes of Las Vegas in 1997 and Silverman Homes of suburban Detroit in 1999. We have grown each of these divisions several-fold since acquiring them. In 2003, we acquired Richard R. Dostie, Inc., the premier builder in Jacksonville, Florida, another new market for us. We also acquired The Manhattan Building Company, through which we will pursue urban development opportunities along northern New Jersey's Gold Coast. Each company now builds under the Toll Brothers name.

STRATEGY

In the markets where we are most established, such as suburban Philadelphia, central New Jersey and metro Washington, D.C., we now capture between 3% and 8% of single-family housing starts annually. If we were able to reach just the 3% threshold in all 44 of the markets where we now build, we would be producing more than 14,000 homes annually. This illustrates the potential growth opportunity just in our current markets. Also, we have identified roughly two dozen additional markets with similar affluent demographics. In these markets, using the same 3% threshold, we could generate another 8,000 units annually. This expansion in new and existing markets would bring us to four times our current size. This is a long-term goal as we continue to search for growth opportunities throughout the nation.

We have had great success entering several new markets through the acquisition of leading local builders ♦ We entered both the Phoenix/Scottsdale, Arizona (inset) and Las Vegas, Nevada (far right) markets this way ♦ Since these acquisitions, we have combined our capital and operating systems with local management expertise to grow each division significantly: in fiscal 2003, in each of these markets we signed \$200 million of new home contracts ♦ We are now the largest builder in Summerlin, the premier master planned community in Las Vegas, and recently opened Aviano at Desert Ridge in Phoenix, our own 1,200-home multi-product community on a 536-acre parcel acquired from the Arizona Bureau of Land Management



The Antigua ♦ Scottsdale, AZ





Unique Home Building Systems

GOAL

In this age of choice, we intend to continue to strengthen our management systems to maximize flexibility and quality in delivering homes to our customers.

OVERVIEW

Our unique production systems marry the efficiencies and benefits of high-volume home production with the opportunity for customers to extensively customize their homes. In fiscal 2003, our buyers, on average, spent more than \$100,000 on structural and designer home upgrades and lot premiums to enhance their already luxurious homes.

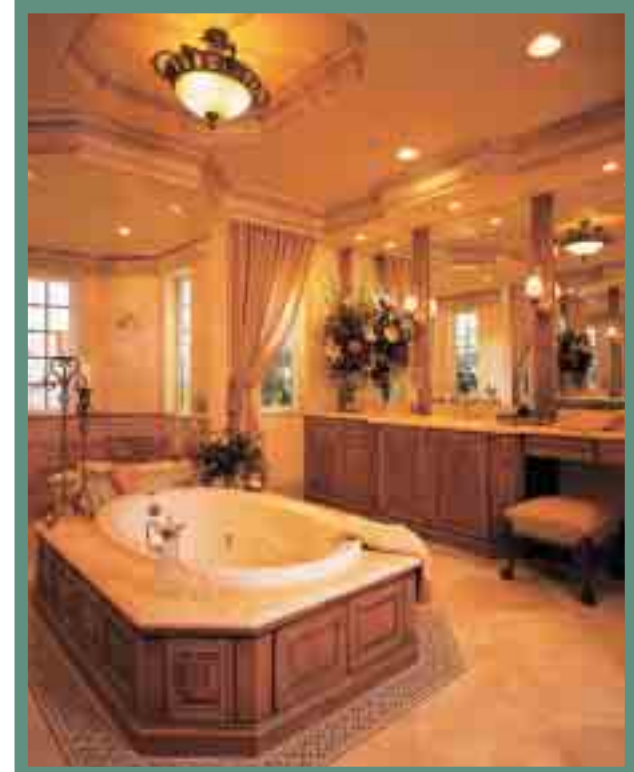
STRATEGY

We essentially “build to order” for each customer. We rarely start a home without a signed buyer contract and a non-refundable deposit equal to 7%–10% of the home purchase price—about \$40,000 on average.

We act as general contractor for all construction, from land improvements through home completion. We hire the excavators, painters, plumbers, roofers and other subcontractors who build our homes and communities. Thus, a major component of our cost structure is variable, not fixed, and we can deploy resources quickly and efficiently in response to changing local market conditions. Volume purchasing power and national supply contracts are other advantages that we benefit from as a *Fortune 1000* company.

Through Toll Integrated Systems (TIS), our component manufacturing and lumber distribution operations in suburban Philadelphia and southeast Virginia, we produce wall panels, roof trusses, floor panels, signature millwork and various other home components that serve communities from North Carolina through New England and into the Midwest. TIS also manages third-party component providers in markets where it does not yet operate.

In this age of choice, our unique systems afford our home buyers the opportunity to extensively customize their homes to fit their active lifestyles ♦ We pre-design and pre-budget each of the hundreds of options we offer in each of our homes ♦ This system improves quality and maximizes efficiencies ♦ Dramatic foyers and luxurious bathrooms are two features customers rate among their highest priorities when selecting a new home ♦ We offer elegant entrances and flooring choices to enhance our Malvern model (far right) ♦ Similarly, the master bath in the Magdalena (inset) can be upgraded with an array of fixtures, showers and baths



The Magdalena ♦ Palm Beach Gardens, FL



Leading a Consolidating Industry

GOAL

We plan to maintain our position as a leader in the rapidly consolidating home building industry by gaining market share and by expanding geographically and along product lines.

OVERVIEW

Projections are that the combination of new household formations, immigration, baby-boomer appetite for new second homes and the need to replace obsolescent housing will generate demand for 1.8 million or more new homes and apartments annually for the foreseeable future. Historically, our industry has been able to produce about 1.5 million units on average annually. With increasing constraints on land approvals, we believe demand will continue to outpace supply.

Increasing dominance over the land development process by the large, publicly-traded home building companies has increased their presence and added stability to the industry. In the past five years alone, the top 10 major builders have doubled their market share from 10% to 20%. Geographic and product diversification among these builders has facilitated their growth and decreased their dependence on any single market.

Other factors have reduced industry cyclicality. A highly liquid mortgage market now offers buyers a wide array of loan options that can soften the impact of rising rates. Speculative home building has been reduced as smaller builders face restrictions from their banks and larger builders build most of their homes to order rather than on speculation.

STRATEGY

By gaining market share, we believe we can continue to grow, regardless of whether interest rates rise or fall or housing starts increase or decrease. We continue to strengthen our balance sheet, to maintain the investment-grade ratings that allow us to access capital at rates much lower than the small builders who populate the luxury market. Through Internet marketing, via print ads and by word of mouth from our satisfied home buyers, we continue to build our brand and increase our share of the luxury market.

We blend the capital, management systems, national buying strength and branding power of a *Fortune 1000* company with the flexibility and attentive customer service of a small custom builder ♦ We have the resources to develop communities the size of Dominion Valley Country Club (far right), a nearly 3,000-home master planned, golf course community serving move-up, empty-nester and active-adult buyers with 10 product lines in northern Virginia ♦ We also have the agility to profitably develop small communities such as Alta Vista at Lakeway (inset), an enclave of 21 homes in Austin, Texas



The Strathmore ♦ Austin, TX





Elegant homes are just one element of the appeal of a Toll Brothers community. Another is the high-quality land we acquire and the care with which we develop it. Our goal is to offer our buyers a lifestyle that radiates luxury throughout our communities: from a signature entrance to beautifully landscaped winding roads and cul-de-sacs to an array of recreational amenities as simple as natural walking paths or as dramatic as the championship golf courses in our largest communities. This approach has enabled us to become *the brand name* in the luxury market for move-up, empty-nester and active-adult communities. Our philosophy, reflected in our culture of providing the best customer service to our buyers, has helped build our reputation across the United States.





18th hole on the Arnold Palmer Signature Golf Course at Mountain View Country Club ♦ Riverside, California



Toll Brothers' Eleven-Year Financial Summary

Summary Consolidated Income Statement Data

(Amounts in thousands, except per share data)

Year Ended October 31	2003	2002	2001	2000	1999	1998	1997	1996	1995	1994	1993
Revenues	\$2,775,241	\$2,328,972	\$2,229,605	\$1,814,362	\$1,464,115	\$1,210,816	\$ 971,660	\$760,707	\$646,339	\$504,064	\$395,261
Income before income taxes and change in accounting	\$ 411,153	\$ 347,318	\$ 337,889	\$ 230,966	\$ 162,750	\$ 134,293	\$ 107,646	\$ 85,793	\$ 79,439	\$ 56,840	\$ 42,820
Net income before change in accounting	\$ 259,820	\$ 219,887	\$ 213,673	\$ 145,943	\$ 101,566	\$ 84,704	\$ 65,075	\$ 53,744	\$ 49,932	\$ 36,177	\$ 26,751
Net income	\$ 259,820	\$ 219,887	\$ 213,673	\$ 145,943	\$ 101,566	\$ 84,704	\$ 65,075	\$ 53,744	\$ 49,932	\$ 36,177	\$ 28,058
Income per share											
Basic											
Net income before change in accounting	\$ 3.68	\$ 3.12	\$ 2.98	\$ 2.01	\$ 1.38	\$ 1.16	\$ 0.95	\$ 0.79	\$ 0.75	\$ 0.54	\$ 0.40
Net income	\$ 3.68	\$ 3.12	\$ 2.98	\$ 2.01	\$ 1.38	\$ 1.16	\$ 0.95	\$ 0.79	\$ 0.75	\$ 0.54	\$ 0.42
Weighted average number of shares	70,670	70,472	71,670	72,537	73,378	72,965	68,254	67,730	67,020	66,796	66,462
Diluted											
Net income before change in accounting	\$ 3.44	\$ 2.91	\$ 2.76	\$ 1.95	\$ 1.36	\$ 1.11	\$ 0.89	\$ 0.75	\$ 0.71	\$ 0.52	\$ 0.40
Net income	\$ 3.44	\$ 2.91	\$ 2.76	\$ 1.95	\$ 1.36	\$ 1.11	\$ 0.89	\$ 0.75	\$ 0.71	\$ 0.52	\$ 0.42
Weighted average number of shares	75,541	75,480	77,367	74,825	74,872	76,721	74,525	73,758	72,720	71,310	66,934

Summary Consolidated Balance Sheet Data

(Amounts in thousands, except per share data)

At October 31	2003	2002	2001	2000	1999	1998	1997	1996	1995	1994	1993
Inventory	\$3,080,349	\$2,551,061	\$2,183,541	\$1,712,383	\$1,443,282	\$1,111,223	\$ 921,595	\$772,471	\$623,830	\$506,347	\$402,515
Total assets	\$3,787,391	\$2,895,365	\$2,532,200	\$2,030,254	\$1,668,062	\$1,254,468	\$1,118,626	\$837,926	\$692,457	\$586,893	\$475,998
Debt											
Loans payable	\$ 281,697	\$ 253,194	\$ 362,712	\$ 326,537	\$ 213,317	\$ 182,292	\$ 189,579	\$132,109	\$ 59,057	\$ 17,506	\$ 24,779
Senior notes	546,669										
Senior subordinated notes	620,000	819,663	669,581	469,499	469,418	269,296	319,924	208,415	221,226	227,969	174,442
Mortgage warehouse loan	49,939	48,996	24,754								
Collateralized mortgage obligations payable					1,145	1,384	2,577	2,816	3,912	4,686	10,810
Total	\$1,498,305	\$1,121,853	\$1,057,047	\$ 796,036	\$ 683,880	\$ 452,972	\$ 512,080	\$343,340	\$284,195	\$250,161	\$210,031
Stockholders' equity	\$1,476,628	\$1,129,509	\$ 912,583	\$ 745,145	\$ 616,334	\$ 525,756	\$ 385,252	\$314,677	\$256,659	\$204,176	\$167,006
Number of shares outstanding	73,322	70,216	69,556	71,790	72,907	73,871	68,551	67,837	67,276	66,846	66,638
Book value per share	\$ 20.14	\$ 16.09	\$ 13.12	\$ 10.38	\$ 8.45	\$ 7.12	\$ 5.62	\$ 4.64	\$ 3.82	\$ 3.05	\$ 2.51
Return on beginning stockholders' equity	23.0%	24.1%	28.7%	23.7%	19.3%	22.0%	20.7%	20.9%	24.5%	21.7%	20.6%

Home Data

Year Ended October 31	2003	2002	2001	2000	1999	1998	1997	1996	1995	1994	1993
Number of homes closed	4,911	4,430	4,358	3,945	3,555	3,099	2,517	2,109	1,825	1,583	1,324
Sales value of homes closed (in thousands)	\$2,731,044	\$2,279,261	\$2,180,469	\$1,762,930	\$1,438,171	\$1,206,290	\$ 968,253	\$759,303	\$643,017	\$501,822	\$392,560
Number of homes contracted	6,161	5,113	4,366	4,418	3,845	3,387	2,701	2,398	1,846	1,716	1,595
Sales value of homes contracted (in thousands)	\$3,485,168	\$2,748,171	\$2,173,938	\$2,149,366	\$1,640,990	\$1,383,093	\$1,069,279	\$884,677	\$660,467	\$586,941	\$490,883
At October 31											
Number of homes in backlog	4,667	3,366	2,727	2,779	2,381	1,892	1,551	1,367	1,078	1,025	892
Sales value of homes in backlog (in thousands)	\$2,636,618	\$1,866,294	\$1,411,374	\$1,434,946	\$1,067,685	\$ 814,714	\$ 627,220	\$526,194	\$400,820	\$370,560	\$285,441
Number of selling communities	200	170	155	146	140	122	116	100	97	80	67
Home sites											
Owned	29,081	25,822	25,981	22,275	23,163	15,578	12,820	12,065	9,542	6,779	5,744
Optioned	18,977	15,022	13,165	10,843	11,268	14,803	9,145	5,237	5,042	4,445	4,271
Total	48,058	40,844	39,146	33,118	34,431	30,381	21,965	17,302	14,584	11,224	10,015

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

Management's Discussion and Analysis

Overview

Fiscal 2003 was another record year for us. Home sales revenues increased by 20% over fiscal 2002 and net income increased by 18%. In addition, our backlog of homes under contract but not yet delivered to home buyers ("backlog") at October 31, 2003 was 41% greater than the backlog at October 31, 2002. Based upon the increased level of backlog, the continued strong trend in new orders and the expected new community openings in fiscal 2004, we expect fiscal 2004 to be another record year of revenues and income. We currently own or control over 48,000 home sites in 44 affluent markets, a substantial number of which have the necessary development approvals. We believe that as the approval process becomes more difficult and the political pressure from no-growth proponents increases, our expertise in taking land through the approval process and our already approved land positions will allow us to continue to grow in fiscal 2005 and beyond. Because of the strong demand for our homes, we have been able to increase the base selling prices in many of our communities during the past several years.

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

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

We have grown on average over 20% per year in the last decade. We have funded this growth through the reinvestment of profits, bank borrowings and capital market transactions. In order to help fund our growth in fiscal 2004 and beyond, we raised approximately \$86 million from a common stock offering in August 2003 and raised \$550 million in two senior note offerings, a portion of which was used to retire \$200 million of senior subordinated notes which had shorter maturities and higher interest rates. At October 31, 2003, we had \$425 million of cash and cash equivalents and approximately \$460 million (net of \$115 million of letters of credit) available under our bank revolving credit facility. With these resources, our strong cash flow from operations before inventory growth and our record of accessing the public debt and equity markets, we believe we have the resources available to continue to grow in 2004 and beyond.

Critical Accounting Policies

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

Inventory

Inventory is stated at the lower of cost or fair value in accordance with SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets." In addition to direct acquisition, land development and home construction costs, costs include interest, real estate taxes and direct overhead costs related to development and construction, which are capitalized to inventories during the period beginning with the commencement of development and ending with the completion of construction.

It takes approximately four to five years to fully develop, sell and deliver all the homes in one of our typical communities. Longer or shorter time periods are possible depending on the number of home sites in a community. Our master planned communities, consisting of several smaller communities, may take up to 10 years or more to complete. Because our inventory is considered a long-lived asset under accounting principles generally accepted in the United States, we are required to review the carrying value of each of our communities and write down the value of those communities for which we believe the values are not recoverable. When the profitability of a current community deteriorates or the sales pace declines significantly or some other factor indicates a possible impairment

in the recoverability of the asset, we evaluate the property in accordance with the guidelines of SFAS No. 144. If this evaluation indicates that an impairment loss should be recognized, we charge cost of sales for the estimated impairment loss in the period determined.

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

Income Recognition

Revenue and cost of sales are recorded at the time each home, or lot, is closed and title and possession are transferred to the buyer.

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

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

Off-Balance Sheet Arrangements

We have investments in and advances to three joint ventures with independent third parties to develop and sell land that was owned or is currently owned by our venture partners. We recognize our share of earnings from the sale of lots to other builders. We do not recognize earnings from lots we purchase from the joint ventures, but instead reduce our cost basis in these lots by our share of the earnings on the lot sales.

We are obligated to purchase 180 lots from one of the joint ventures in which we have an interest, 45 of which we have purchased to date. We have the right to purchase up to 385 lots from the second venture. The third venture has sold all the land that it owned and is currently in the process of completing the final land improvements on the site, which could take 12 months or more to complete. Two of the joint ventures also participate in the profits earned from home sales on lots sold to other builders above certain agreed upon price levels. At October 31, 2003, we had approximately \$24.5 million invested in or advanced to the three joint ventures and were committed to contribute additional capital in an aggregate amount of approximately \$22.0 million if the joint ventures require it.

In October 2003, we acquired substantially all of the assets of The Manhattan Building Company. One of the assets acquired was a 40% interest in a joint venture that is building The Sky Club, a 326-unit, 17-story two-tower structure, located in Hoboken, New Jersey. At October 31, 2003, our investment in this joint venture was \$4.0 million. We do not have any commitment to contribute additional capital to this joint venture.

To take advantage of commercial real estate opportunities, we formed Toll Brothers Realty Trust Group (the "Trust") in 1998. The Trust is effectively owned one-third by us, one-third by Robert I. Toll, Bruce E. Toll (and members of his family), Zvi Barzilay (and members of his family), Joel H. Rassman, and other members of our senior management, and one-third by the Pennsylvania State Employees Retirement System. We provide development, finance and management services to the Trust and receive fees for our services. The Trust currently owns and operates several office buildings and an 806-unit apartment complex which it developed in Virginia, and is currently building a 635-unit apartment complex in New Jersey. At October 31, 2003, our investment in the Trust was \$5.5 million. The Trust has a \$25 million revolving credit facility that extends through June 2005. As collateral for this facility, we and the other groups of investors each entered into a subscription agreement whereby each group of investors agreed to invest up to an additional \$9.3 million if required by the Trust. The subscription agreements, which were due to expire in August 2003, were extended until August 2005.

We do not currently guarantee any indebtedness of the joint ventures or the Trust. Our total commitment to these entities is not material to our financial condition. These investments are accounted for on the equity method.

Results of Operations

The following table provides a comparison of certain income statement items related to our operations (amounts in millions):

Year Ended October 31	2003		2002		2001	
	\$	%	\$	%	\$	%
Home sales						
Revenues	2,731.0		2,279.3		2,180.5	
Costs	1,977.4	72.4	1,655.3	72.6	1,602.3	73.5
Land sales						
Revenues	27.4		36.2		27.5	
Costs	17.9	65.2	25.7	70.9	21.5	78.0
Equity earnings in unconsolidated entities	1.0		1.9		6.8	
Interest and other	15.8		11.7		14.9	
Total revenues	2,775.2		2,329.0		2,229.6	
Selling, general and administrative expenses*	288.3	10.4	236.1	10.1	209.7	9.4
Interest expense*	73.2	2.6	64.5	2.8	58.2	2.6
Expenses related to early retirement of debt*	7.2	0.3				
Total costs and expenses*	2,364.1	85.2	1,981.7	85.1	1,891.7	84.8
Income before income taxes*	411.2	14.8	347.3	14.9	337.9	15.2
Income taxes	151.3		127.4		124.2	
Net income*	\$ 259.8	9.4	\$ 219.9	9.4	\$ 213.7	9.6

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

Fiscal 2003 Compared to Fiscal 2002

Home Sales

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

The value of new sales contracts signed was \$3.49 billion (6,161 homes) in fiscal 2003, a 27% increase over the \$2.75 billion (5,113 homes) value of new sales contracts signed in fiscal 2002. The increase in fiscal 2003 was attributable to a 20% increase in the number of units sold and a 5% increase in the average selling price of the homes. The increase in the average selling price in fiscal 2003 was attributable to increases in base selling prices and increases in option and lot premiums selected by our home buyers. The increase in the number of units sold in fiscal 2003 was attributable to the continued demand for our homes and the increase in the number of communities from which we were selling homes. We were selling from 200 communities (including seven communities which we acquired from Richard R. Dostie, Inc. in September 2003) at October 31, 2003, compared to 170 communities at October 31, 2002. At October 31, 2004 we expect to be selling from approximately 225 communities. We believe that the demand for our homes is attributable to an increase in the number of affluent households, the maturation of the baby boom generation, a constricted supply of available new home sites in our markets, attractive mortgage rates and the belief of potential customers that the purchase of a home is a stable investment in the current period of economic uncertainty. At October 31, 2003, we had over 48,000 home sites under our control nationwide, compared to approximately 41,000 home sites at October 31, 2002.

At October 31, 2003, our backlog of homes under contract was \$2.64 billion (4,667 homes), an increase of 41% over the \$1.87 billion (3,366 homes) backlog at October 31, 2002. The increase in backlog at October 31, 2003, compared

to the backlog at October 31, 2002, was primarily attributable to the increase in the value and number of new contracts signed during fiscal 2003 as compared to fiscal 2002, offset, in part, by an increase in the number of homes delivered in fiscal 2003 as compared to fiscal 2002.

Based on the size of our current backlog, the continued demand for our products, the increased number of selling communities from which we are operating and the additional communities we expect to open in the coming months, we believe that we will deliver between 6,000 and 6,400 homes in fiscal 2004. We estimate that the average price of the homes delivered will be between \$545,000 and \$555,000 in fiscal 2004.

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

For fiscal 2004, we expect that home costs as a percentage of home sales will be equal to or slightly lower than the fiscal 2003 percentage.

Land Sales

We are developing several communities in which we sell a portion of the land to other builders. The amount of land sales will vary from year to year depending upon the scheduled timing of the delivery of the land parcels. Land sales revenues amounted to \$27.4 million in fiscal 2003, including \$6.6 million from the sale of land to the Trust. (See Note 10 to the financial statements, "Related Party Transactions," for a description of the sale to the Trust.) Land sales revenue in fiscal 2002 amounted to \$36.2 million. Land costs as a percentage of land sales revenues decreased from 70.9% in fiscal 2002 to 65.2% in fiscal 2003 due to lower cost parcels being sold in fiscal 2003 compared to 2002. For fiscal 2004, we expect land sales revenues to be approximately \$16.0 million and land costs to be approximately 72% of the sales value.

Equity Earnings in Unconsolidated Entities

We are a participant in several joint ventures and in the Trust. We recognize income for our proportionate share of the earnings from these entities. (See "Off-Balance Sheet Arrangements" for a description of our investments in and commitments to these entities.) Earnings from the joint ventures will vary significantly from year to year. For fiscal 2003, we recognized \$1.0 million of earnings from these unconsolidated entities, as compared to \$1.9 million in fiscal 2002. For fiscal 2004, we expect to realize approximately \$5.0 million of income from our investments in the joint ventures and in the Trust.

Interest and Other Income

For fiscal 2003, interest and other income was \$15.8 million, an increase of \$4.1 million as compared to \$11.7 million in fiscal 2002. This increase was primarily the result of a \$3.5 million profit realized from the sale of a small commercial property in fiscal 2003, and higher income realized from our ancillary businesses offset, in part, by decreases in forfeited customer deposits, lower management and construction fee income, and a decrease in gains from the sale of miscellaneous assets. For fiscal 2004, we expect interest and other income to be approximately \$15.0 million.

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

In fiscal 2003, SG&A spending increased by 22%, or \$52.2 million, as compared to fiscal 2002 while revenues in fiscal 2003 increased by 19.2% compared to fiscal 2002. The increased spending was principally due to higher sales commissions, higher costs incurred to operate the greater number of selling communities that we had during fiscal 2003 as compared to fiscal 2002, increased compensation and benefit costs and higher insurance costs. We expect that SG&A as a percentage of revenues will increase slightly in fiscal 2004 as compared to fiscal 2003's percentage. We expect to open approximately 84 communities in fiscal 2004 as compared to 75 in fiscal 2003 and 57 in fiscal 2002.

Expenses Related to the Early Retirement of Debt

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

Fiscal 2002 Compared to Fiscal 2001

Home Sales

Home sales revenues for fiscal 2002 were higher than those for fiscal 2001 by approximately \$99 million, or 5%. This increase was attributable to a 2% increase in the number of homes delivered and a 3% increase in the average price of the homes delivered. The increase in the average price of the homes delivered in fiscal 2002 was principally the result of increased base selling prices and an increase in the average value of options and lot premiums that our buyers paid. In fiscal 2002, our buyers paid approximately 21% above the base selling price for options and lot premiums.

The slight increase in the number of homes delivered in fiscal 2002 was due primarily to the small increase in the number of delivering communities and a slight decline in the number of homes delivered per community.

We have encountered and continue to encounter delays in the opening of new communities and new sections of existing communities due to increased governmental regulation in many of the markets in which we operate. These delays resulted in a decline in the number of selling communities we had in the later part of fiscal 2000, which did not reverse until the middle of fiscal 2001. In addition, it often takes more than nine months from the signing of an agreement of sale to the delivery of a home to a buyer. Because of the delays in the opening of new communities in fiscal 2000 and 2001 and the long period of time before a new community can start delivering homes once it opens for sale, the increase in the average number of communities delivering homes in fiscal 2002 compared to fiscal 2001 was slight.

The number of homes delivered per community in fiscal 2002 declined slightly compared to fiscal 2001. This decline was primarily due to the decline in backlog at October 31, 2001 as compared to October 31, 2000 and a softness in new contract signings that we encountered in the first portion of the first quarter of fiscal 2002. The decline in backlog at October 31, 2001 and the softness in the first part of the first quarter of fiscal 2002 were due primarily to the slowing economy at the time, exacerbated by the tragic events of September 11, 2001.

The value of new sales contracts signed was \$2.75 billion (5,113 homes) in fiscal 2002, a 26% increase over the \$2.17 billion (4,366 homes) signed in fiscal 2001. This increase was attributable to a 17% increase in the number of homes sold and an 8% increase in the average selling price of the homes (due primarily to the location and size of homes sold and increases in base selling prices). The increase in the number of homes sold was attributable to an increase in the number of communities from which we were selling and the continued demand for our homes. At October 31, 2002, we were selling from 170 communities compared to 155 communities at October 31, 2001.

We believe that the demand for our homes in fiscal 2002 was attributable to an increase in the number of affluent households, the maturation of the baby boom generation, a constricted supply of available new home sites, attractive mortgage rates and the belief on the part of potential customers that the purchase of a home is a stable investment in the current period of economic uncertainty. At October 31, 2002, we had over 40,800 home sites under our control nationwide in markets we consider to be affluent.

At October 31, 2002, our backlog of homes under contract was \$1.87 billion (3,366 homes), 32% higher than the \$1.41 billion (2,727 homes) backlog at October 31, 2001. The increase in backlog was primarily attributable to the increase in the number of new contracts signed and the increased prices of the homes sold during fiscal 2002 as previously discussed.

Home costs as a percentage of home sales revenues decreased to 72.6% in fiscal 2002 compared to 73.5% in fiscal 2001. The decrease was largely the result of selling prices increasing at a faster rate than costs, lower land and improvement costs, improved operating efficiencies and lower inventory write-downs, offset, in part, by the cost of increased sales incentives provided to customers in the later part of the fourth quarter of fiscal 2001 and the beginning of the first quarter of fiscal 2002. These incentives were used to help increase new contract signings which were adversely affected by the economic slowdown in the later part of fiscal 2001 and the effect the tragic events of September 11, 2001 had on new orders. We incurred \$6.1 million in write-offs in fiscal 2002 as compared to \$13.0 million in fiscal 2001.

Land Sales

We are developing several master planned communities in which we sell land to other builders. The amount of land sales revenues will vary from year to year depending upon the scheduled timing of the delivery of the land parcels. Land sales revenues amounted to \$36.2 million for fiscal 2002, as compared to \$27.5 million for fiscal 2001.

Equity Earnings in Unconsolidated Joint Ventures

We are a party to several joint ventures and in the Trust. We recognize income for our proportionate share of the earnings from these entities. (See "Off-Balance Sheet Arrangements" for a narrative of our investments in and commitments to these entities.) In fiscal 2002 and 2001, only two of the joint ventures were operating. We recognized \$1.9 million of earnings from these entities in fiscal 2002 compared to \$6.8 million in fiscal 2001. The decline in earnings was caused by the reduction in the number of lots delivered by one of the joint ventures in fiscal 2002 compared to fiscal 2001. The reduction in fiscal 2002 was the result of fewer lots being available for sale by the joint venture due to the delivery of the last lots owned by it. Earnings from joint ventures will vary significantly from year to year depending on the level of activity of the entities.

Interest and Other Income

Interest and other income decreased by \$3.2 million in fiscal 2002 compared to fiscal 2001. The decrease was principally due to a decrease in interest income, a decrease in earnings from our ancillary businesses and a non-recurring gain in fiscal 2001 from the sale of an office building constructed by us, offset, in part, by increased income from forfeited customer deposits.

Selling, General and Administrative Expenses

SG&A spending increased by \$26.4 million or 12.6% in fiscal 2002 as compared to fiscal 2001 and increased as a percentage of revenues from 9.4% in fiscal 2001 to 10.1% in fiscal 2002. The increased spending was principally due to costs incurred because of the greater number of selling communities that we had during fiscal 2002 as compared to fiscal 2001, costs associated with the continued expansion of the number of new communities and increased insurance costs, offset, in part, by the discontinuance of amortization of goodwill pursuant to our adoption of Statement of Financial Accounting Standards Board No. 142 in November 2001.

Interest Expense

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

As a percentage of total revenues, interest expense varies depending on many factors including the period of time that we have owned the land, the length of time that the homes delivered during the period were under construction, and the interest rates and the amount of debt carried by us in proportion to the amount of our inventory during those periods. Interest expense as a percentage of revenues was slightly lower in fiscal 2003 than in fiscal 2002 and slightly higher in fiscal 2002 than in fiscal 2001. For fiscal 2004, we expect interest expense to be approximately 2.6% of total revenues.

Income Before Income Taxes

Income before income taxes increased 18% in fiscal 2003 as compared to fiscal 2002 and increased 2.8% in fiscal 2002 as compared to fiscal 2001.

Income Taxes

Income taxes for fiscal 2003, 2002 and 2001 were provided at effective rates of 36.8%, 36.7% and 36.8%, respectively.

Capital Resources and Liquidity

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

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

Cash flow from operating activities before land inventory purchases has improved as operating results have improved. One of the main factors that determines cash flow from operating activities before land inventory purchases is the level of revenues from the delivery of homes and from land sales. We anticipate that cash flow from operating activities before land inventory purchases will continue to be strong in fiscal 2004 due to the expected increase in home deliveries as compared to fiscal 2003. We expect that our inventory will continue to increase as we are currently negotiating and searching for additional opportunities to obtain control of land for future communities. At October 31, 2003, we had option contracts to acquire land of approximately \$1.08 billion, of which approximately \$99.2 million had been paid or deposited. We have used our cash flow from operating activities before land inventory purchases, bank borrowings and the proceeds of public debt and equity financing, to: acquire additional land for new communities; fund additional expenditures for land development; fund construction costs needed to meet the requirements of our increased backlog and the increasing number of communities in which we are offering homes for sale; repurchase our stock; and repay debt.

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

At October 31, 2003, we had a revolving credit facility of \$575 million which extends to March 2006. At October 31, 2003, we had no borrowings and approximately \$114.8 million of letters of credit outstanding under the facility.

During fiscal 2003, we issued \$300 million of 6.875% Senior Notes due 2012 and \$250 million of 5.95% Senior Notes due 2013. We used the aggregate net proceeds to repay all of the \$100 million principal amount outstanding of our 8 3/4% Senior Subordinated Notes due 2006, to repay all of the \$100 million principal amount outstanding of our 7 3/4% Senior Subordinated Notes due 2007, to repay bank debt and for general corporate purposes.

In August 2003, we sold in a public offering 3.0 million shares of common stock for aggregate net sales proceeds of \$86.4 million. The proceeds from this sale were used for general corporate purposes.

We believe that we will be able to continue to fund our activities through a combination of existing cash resources, cash flow from operating activities and the public debt and equity markets.

Inflation

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

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

Quantitative and Qualitative Disclosures about Market Risk

We are exposed to market risk primarily due to fluctuations in interest rates. We utilize both fixed-rate and variable-rate debt. For fixed-rate debt, changes in interest rates generally affect the fair market value of the debt instrument, but not our earnings or cash flow. Conversely, for variable-rate debt, changes in interest rates generally

do not impact the fair market value of the debt instrument but do affect our earnings and cash flow. We do not have the obligation to prepay fixed-rate debt prior to maturity, and, as a result, interest rate risk and changes in fair market value should not have a significant impact on such debt until we are required to refinance such debt.

At October 31, 2003, our long-term 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 Expected Maturity	Fixed Rate Debt		Variable Rate Debt	
	Amount	Weighted Average Interest Rate	Amount	Weighted Average Interest Rate
2004	\$ 40,746	5.72%	\$50,089	2.74%
2005	227,342	7.38%	150	1.15%
2006	3,990	6.75%	150	1.15%
2007	2,567	5.96%	150	1.15%
2008	1,142	8.66%	150	1.15%
Thereafter	1,171,300	7.37%	3,860	1.15%
Discount	(3,331)			
Total	\$1,443,756	7.32%	\$54,549	2.61%
Fair value at October 31, 2003	\$1,545,524		\$54,549	

We have a \$575 million revolving credit facility with 17 banks which extends through March 2006. Interest is payable on borrowings under this facility at 0.90% (this rate will vary based upon our corporate debt rating and leverage ratios) above the Eurodollar rate or at other specified variable rates as selected by us from time to time. At October 31, 2003, we had no borrowings and approximately \$114.8 million of letters of credit outstanding under the facility.

One of our subsidiaries has a \$100 million line of credit with three banks to fund mortgage originations. The line is due within 90 days of demand by the banks and bears interest at the bank's overnight rate plus an agreed upon margin. At October 31, 2003, the subsidiary had \$49.9 million outstanding under the line at an average interest rate of 2.74%. Borrowing under this line is included in the fiscal 2004 maturities.

Based upon the amount of variable rate debt outstanding at October 31, 2003, and holding the variable rate debt balance constant, each one percentage point increase in interest rates would increase the interest incurred by us by approximately \$.5 million per year.

Statement on Forward-Looking Information

Certain information included herein and in other Company reports, SEC filings, statements and presentations is forward-looking within the meaning of the Private Securities Litigation Reform Act of 1995, including, but not limited to, statements concerning anticipated operating results, financial resources, changes in revenues, changes in profitability, interest expense, growth and expansion, anticipated income from joint ventures and the Toll Brothers Realty Trust Group, the ability to acquire land, the ability to secure governmental approvals and the ability to open new communities, the ability to sell homes and properties, the ability to deliver homes from backlog, the average delivered price of homes, the ability to secure materials and subcontractors, the ability to maintain the liquidity and capital necessary to expand and take advantage of future opportunities, and stock market valuations. Such forward-looking information involves important risks and uncertainties that could significantly affect actual results and cause them to differ materially from expectations expressed herein and in other Company reports, SEC filings, statements and presentations. These risks and uncertainties include local, regional and national economic conditions, the demand for homes, domestic and international political events, uncertainties created by terrorist attacks, the effects of governmental regulation, the competitive environment in which the Company operates, fluctuations in interest rates, changes in home prices, the availability and cost of land for future growth, the availability of capital, uncertainties and fluctuations in capital and securities markets, changes in tax laws and their interpretation, legal proceedings, the availability of adequate insurance at reasonable cost, the ability of customers to finance the purchase of homes, the availability and cost of labor and materials, and weather conditions.

Financial Statements

Consolidated Statements of Income

(Amounts in thousands, except per share data)

Year Ended October 31	2003	2002	2001
Revenues			
Home sales	\$2,731,044	\$2,279,261	\$2,180,469
Land sales	27,399	36,183	27,530
Equity earnings in unconsolidated entities	981	1,870	6,756
Interest and other	15,817	11,658	14,850
	2,775,241	2,328,972	2,229,605
Costs and expenses			
Home sales	1,977,439	1,655,331	1,602,276
Land sales	17,875	25,671	21,464
Selling, general and administrative	288,337	236,123	209,729
Interest	73,245	64,529	58,247
Expenses related to early retirement of debt	7,192		
	2,364,088	1,981,654	1,891,716
Income before income taxes	411,153	347,318	337,889
Income taxes	151,333	127,431	124,216
Net income	\$ 259,820	\$ 219,887	\$ 213,673
Earnings per share			
Basic	\$ 3.68	\$ 3.12	\$ 2.98
Diluted	\$ 3.44	\$ 2.91	\$ 2.76
Weighted average number of shares			
Basic	70,670	70,472	71,670
Diluted	75,541	75,480	77,367

See accompanying notes.

Consolidated Balance Sheets

(Amounts in thousands)

At October 31	2003	2002
Assets		
Cash and cash equivalents	\$ 425,251	\$ 102,337
Inventory	3,080,349	2,551,061
Property, construction and office equipment, net	43,711	38,496
Receivables, prepaid expenses and other assets	113,633	95,503
Mortgage loans receivable	57,500	61,756
Customer deposits held in escrow	31,547	23,019
Investments in and advances to unconsolidated entities	35,400	23,193
	\$3,787,391	\$2,895,365
Liabilities and Stockholders' Equity		
Liabilities		
Loans payable	\$ 281,697	\$ 253,194
Senior notes	546,669	
Subordinated notes	620,000	819,663
Mortgage company warehouse loan	49,939	48,996
Customer deposits	176,710	134,707
Accounts payable	151,730	126,391
Accrued expenses	346,944	281,275
Income taxes payable	137,074	101,630
Total liabilities	2,310,763	1,765,856
Stockholders' Equity		
Preferred stock, none issued		
Common stock, 77,002 shares and 74,002 shares issued at October 31, 2003 and 2002, respectively	770	740
Additional paid-in capital	190,596	102,600
Retained earnings	1,361,619	1,101,799
Treasury stock, at cost - 3,680 shares and 3,785 shares at October 31, 2003 and 2002, respectively	(76,357)	(75,630)
Total stockholders' equity	1,476,628	1,129,509
	\$3,787,391	\$2,895,365

See accompanying notes.

Consolidated Statements of Cash Flows

(Amounts in thousands)

Year Ended October 31	2003	2002	2001
Cash flow from operating activities			
Net income	\$ 259,820	\$219,887	\$213,673
Adjustments to reconcile net income to net cash used in operating activities:			
Depreciation and amortization	12,075	10,495	9,356
Equity earnings in unconsolidated entities	(981)	(1,870)	(6,756)
Deferred tax provision	17,933	1,831	7,323
Provision for inventory write-offs	5,638	6,081	13,035
Write-off of unamortized debt discount and financing costs	1,692		
Changes in operating assets and liabilities:			
Increase in inventory	(478,478)	(360,409)	(456,922)
Origination of mortgage loans	(714,505)	(412,431)	(199,102)
Sale of mortgage loans	718,761	376,764	183,449
(Increase) decrease in receivables, prepaid expenses and other assets	(27,331)	(27,430)	10,793
Increase (decrease) in customer deposits	42,003	32,929	(3,146)
Increase in accounts payable and accrued expenses	94,471	52,761	71,776
Increase in current income taxes payable	22,831	9,042	8,142
Net cash used in operating activities	(46,071)	(92,350)	(148,379)
Cash flow from investing activities			
Purchase of property and equipment, net	(15,475)	(14,170)	(15,020)
Investment in and advances to unconsolidated entities	(15,268)	(11,281)	
Distribution from unconsolidated entities	4,550	4,200	15,750
Net cash (used in) provided by investing activities	(26,193)	(21,251)	730
Cash flow from financing activities			
Proceeds from loans payable	1,096,897	528,710	208,628
Principal payments of loans payable	(1,117,047)	(627,270)	(180,094)
Net proceeds from issuance of public debt	544,174	149,748	196,930
Net proceeds from issuance of common stock	86,241		
Redemption of senior subordinated notes	(200,000)		
Proceeds from stock-based benefit plans	10,478	12,997	14,932
Purchase of treasury stock	(25,565)	(31,087)	(71,767)
Net cash provided by financing activities	395,178	33,098	168,629
Net increase (decrease) in cash and cash equivalents	322,914	(80,503)	20,980
Cash and cash equivalents, beginning of year	102,337	182,840	161,860
Cash and cash equivalents, end of year	\$ 425,251	\$102,337	\$182,840

See accompanying notes.

Summary Consolidated Quarterly Financial Data (Unaudited)

(Amounts in thousands, except per share data)

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

Fiscal 2002				
Three Months Ended	Oct. 31	July 31	April 30	Jan. 31
Revenue	\$705,590	\$580,707	\$550,496	\$492,179
Gross profit	\$192,433	\$162,103	\$156,897	\$136,537
Income before income taxes	\$109,905	\$ 84,603	\$ 82,826	\$ 69,984
Net income	\$ 69,383	\$ 53,500	\$ 52,510	\$ 44,494
Earnings per share*				
Basic	\$ 0.99	\$ 0.76	\$ 0.74	\$ 0.63
Diluted	\$ 0.93	\$ 0.70	\$ 0.69	\$ 0.60
Weighted average number of shares				
Basic	70,204	70,835	70,849	70,001
Diluted	74,752	76,685	76,237	74,244

*Due to rounding, the sum of the quarterly earnings per share amounts may not equal the reported earnings per share for the year. Share and per share amounts have been adjusted for a two-for-one stock split in March 2002.

Notes to Consolidated Financial Statements

Note 1: Significant Accounting Policies

Basis of Presentation

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

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

Income Recognition

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

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

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

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

Cash and Cash Equivalents

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

Property, Construction and Office Equipment

Property, construction and office equipment are recorded at cost and are stated net of accumulated depreciation of \$54.1 million and \$44.5 million at October 31, 2003 and 2002, respectively. Depreciation is recorded by using the straight-line method over the estimated useful lives of the assets.

Inventory

Inventory is stated at the lower of cost or fair value in accordance with Statement of Financial Accounting Standards (“SFAS”) No. 144, “Accounting for the Impairment or Disposal of Long-Lived Assets.” In addition to direct land acquisition, land development and home construction costs, costs include interest, real estate taxes and direct overhead costs related to development and construction, which are capitalized to inventories during the period beginning with the commencement of development and ending with the completion of construction.

It takes approximately four to five years to fully develop, sell and deliver all the homes in one of the Company’s typical communities. Longer or shorter time periods are possible depending on the number of home sites in a community. The Company’s master planned communities, consisting of several smaller communities, may take up

to 10 years or more to complete. Since the Company’s inventory is considered a long-lived asset under accounting principles generally accepted in the United States, the Company is required to review the carrying value of each of its communities and write down the value of those communities for which it believes the values are not recoverable. When the profitability of a current community deteriorates or the sales pace declines significantly or some other factor indicates a possible impairment in the recoverability of the asset, the Company evaluates the property in accordance with the guidelines of SFAS No. 144. If this evaluation indicates an impairment loss should be recognized, the Company charges cost of sales for the estimated impairment loss in the period determined.

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

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

Joint Venture Accounting

The Company is a party to three joint ventures with independent third parties to develop and sell land that was owned or is currently owned by its joint venture partners. The Company recognizes its proportionate share of the earnings of the sale of lots to other builders. The Company does not recognize earnings from the lots it purchases from these ventures, but reduces its cost basis in the lots by its share of the earnings from those lots.

In addition, the Company effectively owns one-third of the Toll Brothers Realty Trust Group (the “Trust”), a 50% interest in a joint venture that is selling and building an active-adult, age-qualified community, and a 40% interest in a joint venture that is constructing a 326-unit, 17-story two-tower structure in Hoboken, New Jersey. The Company recognizes its proportionate share of the earnings of these entities. (See Note 10, “Related Party Transactions,” for a description of the accounting for sales of land to the Trust.)

Treasury Stock

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

Advertising Costs

The Company expenses advertising costs as incurred.

Warranty Costs

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

Insurance Costs

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

Segment Reporting

SFAS No. 131, “Disclosures about Segments of an Enterprise and Related Information,” establishes standards for the manner in which public enterprises report information about operating segments. The Company has determined that its operations primarily involve one reportable segment, home building.

Goodwill and Other Intangible Assets

SFAS No. 142, "Goodwill and Other Intangible Assets," provides guidance on accounting for intangible assets and eliminates the amortization of goodwill and certain other intangible assets. Intangible assets, including goodwill, that are not subject to amortization are required to be tested for impairment and possible writedown on an annual basis. The Company adopted SFAS No. 142 as of November 1, 2001, the first day of its 2002 fiscal year. The adoption of SFAS No. 142 did not have a material impact on the Company's fiscal 2002 financial statements. The Company had \$9.4 million of unamortized goodwill as of November 1, 2001. The Company amortized \$1.1 million (net of \$674,000 of income taxes) in fiscal 2001. Had the Company not amortized goodwill during fiscal 2001, net income, diluted earnings per share and basic earnings per share would have been \$214.8 million, \$2.78 and \$3.00, respectively. At October 31, 2003, the Company had \$12.1 million of unamortized goodwill including \$2.7 million from the acquisition of the assets of Richard R. Dostie, Inc.

Acquisitions

In September 2003, the Company acquired substantially all of the assets of Richard R. Dostie, Inc. ("Dostie"), a privately owned homebuilder in the Jacksonville, Florida area. Of the approximately \$48 million (153 homes) of homes sold but not delivered at the acquisition date, the Company delivered \$11.8 million (39 homes) of homes from the acquisition date to October 31, 2003. The Company realized no profit on the delivery of these homes since they were substantially complete as of the acquisition date and, under purchase accounting rules, the Company allocated a portion of the purchase price to the unrealized profit on these homes as of the acquisition date. The Company has reduced the value of the acquired inventory by the amount of revenue realized on these homes. The Company expects the operations purchased from Dostie to deliver approximately \$65 million (200 homes) of homes in fiscal 2004. The Company also expects to deliver an additional \$7.8 million (25 homes) of homes in fiscal 2004 that were substantially complete at the acquisition date, and it will account for those homes in the same manner as the aforementioned homes delivered from the acquisition date to October 31, 2003.

In October 2003, the Company acquired substantially all of the assets of The Manhattan Building Company ("MBC"), a privately owned developer of urban in-fill locations in northern New Jersey. MBC, which is now operating under the name City Living by Toll Brothers, is currently building for a joint venture in which it has a 40% interest, The Sky Club, a 326-unit, 17-story two-tower structure under construction in Hoboken, New Jersey. MBC also is in the planning stages on several additional high-rise and mid-rise projects in Jersey City, New Jersey, on the Hoboken border.

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

New Accounting Pronouncements

SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets," provides guidance on financial accounting and reporting for the impairment or disposal of long-lived assets and supersedes SFAS No. 121, "Accounting for the Impairment of Long-Lived Assets and Long-Lived Assets to be Disposed Of," and the accounting and reporting provisions of Accounting Principles Board Opinion No. 30, "Reporting the Results of Operations - Reporting the Effects of Disposal of a Segment of a Business, and Extraordinary, Unusual and Infrequently Occurring Events and Transactions." The adoption of SFAS No. 144 as of November 1, 2002 did not have a material impact on the Company's financial condition or results of operations.

SFAS No. 145, "Rescission of FASB Statements No. 4, 44, and 64, Amendment of FASB Statement 13, and Technical Corrections," requires all gains and losses from the extinguishment of debt to be included as an item from continuing operations. The provisions of SFAS No. 145 relating to the rescission of SFAS No. 4, "Reporting Gains and Losses from Extinguishment of Debt," became effective for the Company's fiscal year ended October 31, 2003. During fiscal 2003, the Company recognized pretax charges of approximately \$7.2 million related to the retirement in December 2002 of our 8 3/4% Senior Subordinated Notes due 2006 and in October 2003 of our 7 3/4% Senior Subordinated Notes due 2007. Under previous accounting principles generally accepted in the United States, this charge would have been treated as an extraordinary item.

SFAS No. 148, "Accounting for Stock-Based Compensation—Transition and Disclosure," which amends SFAS No. 123, "Accounting for Stock-Based Compensation," provides alternative methods of transition for a voluntary change to the fair value based method of accounting for stock-based compensation. It also requires prominent disclosures in

both annual and interim financial statements about the method of accounting for stock-based employee compensation and the effect of the method used on reported results. The Company has not elected to change to the fair-value based method of accounting for stock-based employee compensation. The financial disclosures required by SFAS No. 148 have been provided in the notes to the financial statements. The Financial Accounting Standards Board ("FASB") has announced that it intends to have a new rule in place, effective for years beginning after December 15, 2004, requiring stock-based compensation be treated as a cost that is reflected in the financial statements.

SFAS No. 150, "Accounting for Certain Financial Instruments With Characteristics of both Liabilities and Equity," establishes standards for how an issuer classifies and measures financial instruments with characteristics of both liabilities and equity. With the exception of certain financial measurement criteria deferred indefinitely by the FASB, SFAS No. 150 was adopted in fiscal 2003. The implementation of SFAS No. 150 had no impact on the Company's financial condition or results of operations.

The FASB issued FASB Interpretation No. 45 ("FIN 45"), "Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others." FIN 45 elaborates on the existing disclosure requirements for most guarantees, including loan guarantees such as standby letters of credit. It also clarifies that at the time a company issues a guarantee, the company must recognize an initial liability for the fair value, or market value, of the obligation it assumes under the guarantee and must disclose that information in its interim and annual financial statements. The provisions related to recognizing a liability at inception of the guarantee for the fair value of the guarantor's obligations do not apply to product warranties. The initial recognition and initial measurement provisions apply on a prospective basis to guarantees issued or modified after December 31, 2002. The adoption of the initial recognition and initial measurement provisions of FIN 45 did not have a material effect on the Company's financial position or results of operations. The disclosures related to product warranty costs required by FIN 45 have been provided in the notes to the financial statements.

The FASB issued FASB Interpretation No. 46 ("FIN 46"), "Consolidation of Variable Interest Entities, an interpretation of ARB No. 51." A Variable Interest Entity ("VIE") is an entity with insufficient equity investment or in which the equity investors lack some of the characteristics of a controlling financial interest. Pursuant to FIN 46, an enterprise that absorbs a majority of the expected losses of the VIE must consolidate the VIE. FIN 46 is effective immediately for VIEs created after January 31, 2003. For VIEs created on or before January 31, 2003, FIN 46 must be applied at the beginning of our quarter ending January 31, 2004. FIN 46 may apply to certain of our option contracts to acquire land that we entered into prior to January 31, 2003. We are in the process of evaluating the applicability of FIN 46 to these contracts. The adoption of FIN 46 for entities created after January 31, 2003, did not have a material effect on our financial position and results of operations and we do not believe that it will have a material effect on our financial position or results of operations for entities created prior to January 31, 2003.

Stock Split

On March 4, 2002, the Company's Board of Directors declared a two-for-one split of the Company's common stock in the form of a stock dividend to stockholders of record on March 14, 2002. The additional shares were distributed on March 28, 2002. All share and per share amounts have been restated to reflect the split.

Reclassification

Certain prior year amounts have been reclassified to conform with the fiscal 2003 presentation.

Note 2: Inventory

Inventory at October 31, 2003 and 2002 consisted of the following (amounts in thousands):

	2003	2002
Land and land development costs	\$1,115,805	\$ 772,796
Construction in progress	1,609,314	1,491,108
Sample homes and sales offices	188,592	163,722
Land deposits and costs of future development	155,649	114,212
Other	10,989	9,223
	\$3,080,349	\$2,551,061

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

The Company provided for inventory write-downs and the expensing of costs which it believed not to be recoverable of \$5.6 million in fiscal 2003, \$6.1 million in fiscal 2002 and \$13.0 million in fiscal 2001. Of these amounts, \$2.0 million, \$2.5 million and \$3.8 million were applicable to future communities in fiscal 2003, fiscal 2002 and fiscal 2001, respectively.

Interest capitalized in inventories is charged to interest expense when the related inventory is delivered. Changes in capitalized interest for each of the three years ended October 31, 2003, 2002 and 2001, were as follows (amounts in thousands):

	2003	2002	2001
Interest capitalized, beginning of year	\$123,637	\$ 98,650	\$78,443
Interest incurred	104,754	90,313	79,209
Interest expensed	(73,245)	(64,529)	(58,247)
Write-off to cost and expenses	(832)	(797)	(755)
Interest capitalized, end of year	\$154,314	\$123,637	\$98,650

Note 3: Loans Payable, Senior Notes, Senior Subordinated Notes, and Mortgage Company Warehouse Loan

Loans payable at October 31, 2003 and 2002 consisted of the following (amounts in thousands):

	2003	2002
Term loan due July 2005	\$222,500	\$207,500
Other	59,197	45,694
	\$281,697	\$253,194

The Company has a \$575 million unsecured revolving credit facility with 17 banks that extends through March 2006. Interest is payable on borrowings under the facility at 0.90% (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. The Company had no outstanding borrowings against the facility at October 31, 2003. At October 31, 2003, letters of credit and obligations under escrow agreements of approximately \$114.8 million were outstanding under the facility. Under the terms of the revolving credit agreement, the Company is not permitted to allow its maximum leverage ratio (as defined in the agreement) to exceed 2.00 to 1.00 and is required to maintain a minimum tangible net worth (as defined in the agreement) of approximately \$914.7 million at October 31, 2003. At October 31, 2003, the Company's leverage ratio was approximately .61 to 1.00 and its tangible net worth was approximately \$1.44 billion. Based upon the minimum tangible net worth requirement, the Company's ability to pay dividends and repurchase its common stock is limited to approximately \$527.6 million at October 31, 2003.

The Company has an unsecured term loan of \$222.5 million from nine banks at a weighted-average interest rate of 7.43% repayable in July 2005. Under the terms of the term loan agreement, the Company is not permitted to allow its maximum leverage ratio (as defined in the agreement) to exceed 2.25 to 1.00 and is required to maintain a minimum tangible net worth (as defined in the agreement) of approximately \$736.6 million at October 31, 2003. At October 31, 2003, the Company's leverage ratio was approximately .61 to 1.00 and its tangible net worth was approximately \$1.45 billion.

At October 31, 2003, the aggregate estimated fair value of the Company's loans payable was approximately \$298.6 million. The fair value of loans was estimated based upon the interest rates at October 31, 2003 that the Company believed were available to it for loans with similar terms and remaining maturities.

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

At October 31, 2003 and 2002, the Company's senior notes and senior subordinated notes consisted of the following (amounts in thousands):

	2003	2002
Senior notes:		
6.875% Senior Notes due November 15, 2012	\$300,000	
5.95% Senior Notes due September 15, 2013	250,000	
Bond discount	(3,331)	
	\$546,669	-
Senior subordinated notes:		
8 3/4% Senior Subordinated Notes due November 15, 2006		\$100,000
7 3/4% Senior Subordinated Notes due September 15, 2007		100,000
8 1/8% Senior Subordinated Notes due February 1, 2009	\$170,000	170,000
8% Senior Subordinated Notes due May 1, 2009	100,000	100,000
8 1/4% Senior Subordinated Notes due February 1, 2011	200,000	200,000
8.25% Senior Subordinated Notes due December 1, 2011	150,000	150,000
Bond discount		(337)
	\$620,000	\$819,663

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

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

At October 31, 2003, the aggregate fair value of all the outstanding senior notes and senior subordinated notes, based upon their indicated market prices, was approximately \$589.9 million and \$661.7 million, respectively.

A subsidiary of the Company has a \$100 million bank line of credit with three banks to fund mortgage originations. The line of credit is due within ninety days of demand by the banks and bears interest at the bank's overnight rate plus an agreed upon margin. At October 31, 2003, the subsidiary had borrowed \$49.9 million under the line of credit at an average interest rate of 2.74%. The line of credit is collateralized by all the assets of the subsidiary, which amounted to approximately \$61.0 million at October 31, 2003.

The annual aggregate maturities of the Company's loans and notes during each of the next five fiscal years are: 2004 - \$90.8 million; 2005 - \$227.5 million; 2006 - \$4.1 million; 2007 - \$2.7 million; and 2008 - \$1.3 million.

Note 4: Income Taxes

The Company's estimated combined federal and state tax rate before providing for the effect of permanent book-tax differences ("Base Rate") was 37% in 2003, 2002 and 2001. The effective tax rate in 2003, 2002 and 2001 was

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

The provision for income taxes for each of the three years ended October 31, 2003, 2002 and 2001 was as follows (amounts in thousands):

	2003	2002	2001
Federal	\$139,046	\$117,233	\$114,131
State	12,287	10,198	10,085
	\$151,333	\$127,431	\$124,216
Current	\$133,400	\$125,600	\$116,893
Deferred	17,933	1,831	7,323
	\$151,333	\$127,431	\$124,216

The components of income taxes payable at October 31, 2003 and 2002 consisted of the following (amounts in thousands):

	2003	2002
Current	\$ 85,681	\$ 68,170
Deferred	51,393	33,460
	\$137,074	\$101,630

The components of net deferred taxes payable at October 31, 2003 and 2002 consisted of the following (amounts in thousands):

	2003	2002
Deferred tax liabilities:		
Capitalized interest	\$48,679	\$38,783
Deferred expense	43,166	22,192
Total	91,845	60,975
Deferred tax assets:		
Inventory valuation reserves	18,014	14,618
Inventory valuation differences	2,684	2,204
Deferred income	2,960	431
Accrued expenses deductible when paid	2,401	2,105
Other	14,393	8,157
Total	40,452	27,515
Net deferred tax liability	\$51,393	\$33,460

Note 5: Stockholders' Equity

The Company's authorized capital stock consists of 100 million shares of Common Stock, \$.01 par value per share, and 1 million shares of Preferred Stock, \$.01 par value per share. The Board of Directors is authorized to amend the Company's Certificate of Incorporation to increase the number of authorized shares of Common Stock to 200 million shares and the number of shares of authorized Preferred Stock to 15 million shares.

Issuance of Common Stock

In August 2003, the Company issued 3 million shares of its common stock at a price of \$28.80 realizing net proceeds of \$86.4 million.

Redemption of Common Stock

To help provide for an orderly market in the Company's Common Stock in the event of the death of either Robert I. Toll or Bruce E. Toll (the "Tolls"), or both of them, the Company and the Tolls have entered into agreements in

which the Company has agreed to purchase from the estate of each of the Tolls, \$10 million of the Company's Common Stock (or a lesser amount under certain circumstances) at a price equal to the greater of fair market value (as defined) or book value (as defined). Further, the Tolls have agreed to allow the Company to purchase \$10 million of life insurance on each of their lives. In addition, the Tolls have granted the Company an option to purchase up to an additional \$30 million (or a lesser amount under certain circumstances) of the Company's Common Stock from each of their estates. The agreements expire in October 2005.

Stock Repurchase Program

In December 2000, the Company's Board of Directors authorized the repurchase of up to 10 million shares of its Common Stock, par value \$.01, from time to time, in open market transactions or otherwise, for the purpose of providing shares for its various employee benefit plans. In March 2003, the Board of Directors re-authorized and renewed the repurchase program to allow the Company to repurchase up to 10 million shares (including any shares remaining under the original authorization.) At October 31, 2003, the Company had approximately 9.8 million shares remaining under the repurchase authorization.

Stockholder Rights Plan

Shares of the Company's Common Stock outstanding are subject to stock purchase rights. The rights, which are exercisable only under certain conditions, entitle the holder, other than an acquiring person (and certain related parties of an acquiring person), as defined in the plan, to purchase common shares at prices specified in the rights agreement. Unless earlier redeemed, the rights will expire on July 11, 2007. The rights were not exercisable at October 31, 2003.

Changes in Stockholders' Equity

Changes in stockholders' equity for each of the three years ended October 31, 2003, 2002 and 2001 were as follows (amounts in thousands):

	Common Stock		Additional Paid-In Capital	Retained Earnings	Treasury Stock	Total
	Shares	Amount				
Balance, November 1, 2000	71,790	\$369	\$105,454	\$ 668,608	\$(29,286)	\$ 745,145
Net income				213,673		213,673
Purchase of treasury stock	(4,122)				(71,767)	(71,767)
Exercise of stock options	1,562		(336)		20,452	20,116
Executive bonus award	272		1,678		2,735	4,413
Employee benefit plan issuances	52		218		785	1,003
Balance, October 31, 2001	69,554	369	107,014	882,281	(77,081)	912,583
Net income				219,887		219,887
Purchase of treasury stock	(1,238)				(31,087)	(31,087)
Exercise of stock options	1,411		(4,137)		24,192	20,055
Executive bonus award	440		(647)		7,502	6,855
Two-for-one stock split		371	(2)	(369)		-
Employee benefit plan issuances	50		372		844	1,216
Balance, October 31, 2002	70,217	740	102,600	1,101,799	(75,630)	1,129,509
Net income				259,820		259,820
Issuance of shares	3,000	30	86,241			86,271
Purchase of treasury stock	(1,340)		160		(25,725)	(25,565)
Exercise of stock options	897		(240)		15,690	15,450
Executive bonus award	471		1,685		7,959	9,644
Employee benefit plan issuances	77		150		1,349	1,499
Balance, October 31, 2003	73,322	\$770	\$190,596	\$1,361,619	\$(76,357)	\$1,476,628

Note 6: Stock-Based Benefit Plans

Stock-Based Compensation Plans

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

SFAS No. 123, "Accounting for Stock-Based Compensation," requires the disclosure of the estimated value of employee option grants and their impact on net income using option pricing models that are designed to estimate the value of options that, unlike employee stock options, can be traded at any time and are transferable. In addition to restrictions on trading, employee stock options may include other restrictions such as vesting periods. Further, such models require the input of highly subjective assumptions, including the expected volatility of the stock price. Therefore, in management's opinion, the existing models do not provide a reliable single measure of the value of employee stock options.

For the purposes of providing the pro forma disclosures, the fair value of options granted was estimated using the Black-Scholes option pricing model with the following weighted average assumptions used for grants in each of the three fiscal years ended October 31, 2003, 2002 and 2001:

	2003	2002	2001
Risk-free interest rate	3.53%	5.02%	4.01%
Expected life (years)	7.07	7.50	7.31
Volatility	43.37%	41.30%	37.40%
Dividends	none	none	none

At October 31, 2003, the Company's stock-based compensation plans consisted of its four stock option plans. Net income and net income per share as reported in these consolidated financial statements and on a pro forma basis, as if the fair value-based method described in SFAS No. 123 had been adopted, were as follows (in thousands, except per share amounts):

	2003	2002	2001
Net income:			
As reported	\$259,820	\$219,887	\$213,673
Pro forma	\$245,158	\$205,314	\$202,597
Basic net income per share:			
As reported	\$ 3.68	\$ 3.12	\$ 2.98
Pro forma	\$ 3.47	\$ 2.91	\$ 2.83
Diluted net income per share:			
As reported	\$ 3.44	\$ 2.91	\$ 2.76
Pro forma	\$ 3.25	\$ 2.72	\$ 2.62
Weighted-average grant date fair value per share of options granted	\$ 10.24	\$ 11.17	\$ 8.93

Stock Option Plans

The Company's four stock option plans for employees, officers and directors provide for the granting of incentive stock options and non-statutory options with a term of up to ten years at a price not less than the market price of the stock at the date of grant.

No additional options may be granted under the Company's Stock Option Plan (1986) and the Company's Stock Option and Incentive Stock Plan (1995).

The Company's Stock Incentive Plan (1998) provides for automatic increases each November 1 in the number of shares available for grant by 2.5% of the number of shares issued (including treasury shares). The 1998 Plan restricts the number of shares available for grant in a year to a maximum of 5 million shares.

The following table summarizes stock option activity for the four plans during each of the three years ended October 31, 2003, 2002 and 2001 (in thousands, except per share amounts):

	2003		2002		2001	
	Number of Options	Average Exercise Price	Number of Options	Average Exercise Price	Number of Options	Average Exercise Price
Outstanding, November 1,	15,321	\$13.24	14,486	\$11.44	14,007	\$ 9.94
Granted	1,280	21.05	2,586	21.76	2,299	19.31
Exercised	(926)	11.86	(1,530)	9.98	(1,590)	9.59
Cancelled	(142)	19.39	(221)	17.68	(230)	11.51
Outstanding, October 31	15,533	\$13.91	15,321	\$13.24	14,486	\$11.44
Options exercisable, October 31,	11,083	\$11.62	9,781	\$10.64	9,276	\$ 9.96
Options available for grant October 31,	3,275		3,498		5,619	

The following table summarizes information about stock options outstanding and exercisable at October 31, 2003:

Range of Exercise Prices	Options Outstanding			Options Exercisable	
	Number Outstanding	Weighted-Average Remaining Contractual Life (in years)	Weighted-Average Exercise Price	Number Exercisable	Weighted-Average Exercise Price
\$ 4.35 - \$ 8.70	1,351,800	1.6	\$ 6.19	1,351,800	\$ 6.19
8.71 - 10.88	4,686,062	4.8	9.14	4,192,537	9.19
10.89 - 13.06	2,572,817	4.8	11.86	2,572,817	11.86
13.07 - 15.23	1,395,000	4.2	14.01	1,395,000	14.01
15.24 - 21.76	5,527,681	8.0	20.76	1,571,315	20.26
\$ 4.35 - \$21.76	15,533,360	5.6	\$ 13.91	11,083,469	\$ 11.62

Bonus Award Shares

Under the terms of the Company's Cash Bonus Plan covering Robert I. Toll, Mr. Toll is entitled to receive cash bonus awards based upon the pre-tax earnings and stockholders' equity of the Company. In December 1998, Mr. Toll and the Board of Directors agreed that any bonus payable for each of the three fiscal years ended October 31, 1999, 2000 and 2001 would be made (except for specific conditions) in shares of the Company's Common Stock using the value of the stock as of the date of the agreement (\$12.125 per share). The stockholders approved the plan at the Company's 1999 Annual Meeting. The Company recognized compensation expense in 2001 of \$6.9 million which represented the fair market value of the 440,002 shares issued to Mr. Toll.

In December 2000, Mr. Toll and the Board of Directors agreed that any bonus payable for each of the three fiscal years ending October 31, 2002, 2003 and 2004 would be made (except for specific conditions) in shares of the Company's Common Stock using the value of the stock as of the date of the agreement (\$19.3125 per share). The stockholders approved the plan at the Company's 2001 Annual Meeting. The Company recognized compensation expense in 2003 and 2002 of \$20.3 million and \$9.6 million, respectively, which represented the fair market value of shares issued to Mr. Toll (550,857 shares for 2003 and 471,099 shares for 2002).

On October 31, 2003, 2002 and 2001, the closing price of the Company's Common Stock on the New York Stock Exchange was \$36.84, \$20.48 and \$15.58, respectively.

Under the Company's deferred compensation plan, Mr. Toll can elect to defer receipt of his bonus until a future date. Mr. Toll elected to defer receipt of his bonus for fiscal 2002 and 2001. In December 2003, Mr. Toll will receive 199,920 shares of his 2001 bonus.

Employee Stock Purchase Plan

The Company's Employee Stock Purchase Plan enables substantially all employees to purchase the Company's Common Stock at 95% of the market price of the stock on specified offering dates without restriction or at 85% of the market price of the stock on specified offering dates subject to restrictions. The plan, which terminates in December 2007, provides that 600,000 shares be reserved for purchase. As of October 31, 2003, a total of 433,191 shares were available for issuance.

The number of shares and the average price per share issued under this plan during each of the three fiscal years ended October 31, 2003, 2002 and 2001 were 15,085 shares and \$21.12; 15,672 shares and \$21.24; and 12,536 shares and \$15.24, respectively. No compensation expense was recognized by the Company under this plan.

Note 7: Earnings Per Share Information

Information pertaining to the calculation of earnings per share for each of the three years ended October 31, 2003, 2002 and 2001 is as follows (amounts in thousands):

	2003	2002	2001
Basic weighted average shares	70,670	70,472	71,670
Assumed conversion of dilutive stock options	4,871	5,008	5,697
Diluted weighted average shares	75,541	75,480	77,367

Note 8: Employee Retirement and Deferred Compensation Plans

The Company maintains a salary deferral savings plan covering substantially all employees. The plan provides for Company contributions totaling 2% of all eligible compensation, plus 2% of eligible compensation above the social security wage base, plus matching contributions of up to 2% of eligible compensation of employees electing to contribute via salary deferrals. Company contributions with respect to the plan totaled \$5.3 million, \$3.5 million, and \$3.1 million for the years ended October 31, 2003, 2002 and 2001, respectively.

The Company has an unfunded, non-qualified deferred compensation plan that permits eligible employees to defer a portion of their compensation. The deferred compensation, together with certain Company contributions, earns various rates of return depending upon when the compensation was deferred and the length of time that it was deferred. A portion of the deferred compensation and interest earned may be forfeited by a participant if he or she elects to withdraw the compensation prior to the end of the deferral period. At October 31, 2003 and 2002, the Company had accrued \$2.3 million and \$1.0 million, respectively, for its obligations under the plan.

Note 9: Commitments and Contingencies

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

Balance, November 1, 2002	\$29,197
Additions	19,732
Charges incurred	(15,177)
Balance, October 31, 2003	\$33,752

At October 31, 2003, the Company had agreements to purchase land for future development with aggregate purchase price of approximately \$1.08 billion, of which \$99.2 million had been paid or deposited. Purchase of the properties is contingent upon satisfaction of certain requirements by the Company and the sellers.

At October 31, 2003, the Company had outstanding surety bonds amounting to approximately \$637.0 million related primarily to its obligations to various governmental entities to construct improvements in the Company's

various communities. The Company estimates that approximately \$300.3 million of work remains on these improvements. The Company has an additional \$58.0 million of surety bonds outstanding which guarantee other obligations of the Company. The Company does not believe that any outstanding bonds will likely be drawn upon.

At October 31, 2003, the Company had agreements of sale outstanding to deliver 4,667 homes with an aggregate sales value of approximately \$2.64 billion.

At October 31, 2003, the Company was committed to provide approximately \$505 million of mortgage loans to its home buyers and to others. All loans with committed interest rates are covered by take-out commitments from third-party lenders, which minimizes the Company's interest rate risk. The Company also arranges a variety of mortgage programs that are offered to its home buyers through outside mortgage lenders.

The Company leases certain facilities and equipment under non-cancelable operating leases. Rental expense incurred by the Company amounted to \$3.4 million for 2003, \$2.8 million for 2002 and \$2.6 million for 2001. At October 31, 2003, future minimum rent payments under these operating leases were \$5.5 million for 2004, \$4.5 million for 2005, \$2.7 million for 2006, \$1.5 million for 2007, and \$0.3 million for 2008.

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

Note 10: Related Party Transactions

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

The Shareholders entered into subscription agreements whereby each group has agreed to invest additional capital in an amount not to exceed \$9.3 million if required by the Trust. The subscription agreements, which were to expire in August 2003, were extended until August 2005. At October 31, 2003, the Company had an investment of \$5.5 million in the Trust. This investment is accounted for on the equity method.

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

The Company provides development, finance and management services to the Trust and received fees under the terms of various agreements in the amounts of \$1.0 million, \$1.2 million and \$1.7 million in fiscal 2003, 2002 and 2001, respectively. The Company believes that the transactions, including the sale of the Property, between itself and the Trust were on no less favorable terms than it would have agreed to with unrelated third parties.

Note 11: Supplemental Disclosure to Statements of Cash Flows

The following are supplemental disclosures to the statements of cash flows for each of the three years ended October 31, 2003, 2002 and 2001 (amounts in thousands):

	2003	2002	2001
Cash flow information:			
Interest paid, net of amount capitalized	\$ 39,154	\$ 29,867	\$ 26,985
Income taxes paid	\$ 109,018	\$ 116,558	\$ 108,750
Non-cash activity:			
Cost of inventory acquired through seller financing	\$ 56,956	\$ 13,284	\$ 32,395
Income tax benefit related to exercise of employee stock options	\$ 5,320	\$ 7,394	\$ 5,396
Stock bonus awards	\$ 9,643	\$ 6,855	\$ 4,413
Contributions to employee retirement plan	\$ 1,180	\$ 883	\$ 791

Report of Independent Auditors

The Board of Directors and Stockholders
Toll Brothers, Inc.

We have audited the accompanying consolidated balance sheets of Toll Brothers, Inc. and subsidiaries as of October 31, 2003 and 2002, and the related consolidated statements of income and cash flows for each of the three years in the period ended October 31, 2003. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Toll Brothers, Inc. and subsidiaries at October 31, 2003 and 2002, and the consolidated results of their operations and their cash flows for each of the three years in the period ended October 31, 2003, in conformity with accounting principles generally accepted in the United States.

Ernst + Young LLP

Philadelphia, Pennsylvania
December 9, 2003



Corporate Information

Board of Directors and Executive Officers

Robert I. Toll*	<i>Chairman of the Board and Chief Executive Officer</i>
Bruce E. Toll	<i>Vice Chairman of the Board</i>
Zvi Barzilay*	<i>President and Chief Operating Officer</i>
Robert S. Blank	<i>Partner - Whitcom Partners, a media company</i>
Edward G. Boehne	<i>Retired President - Federal Reserve Bank of Philadelphia</i>
Richard J. Braemer	<i>Partner - Ballard, Spahr, Andrews & Ingersoll, LLP, Attorneys at Law</i>
Roger S. Hillas	<i>Retired Chairman - Meritor Savings Bank</i>
Carl B. Marbach	<i>President - Internetwork Publishing Corp., an electronic publisher</i>
Stephen A. Novick	<i>Vice Chairman and Chief Creative Officer - Grey Global Group, a marketing company</i>
Joel H. Rassman*	<i>Executive Vice President, Treasurer and Chief Financial Officer</i>
Paul E. Shapiro	<i>Senior Vice President - MacAndrews & Forbes Holdings, Inc.</i>

*Executive Officer and Director of the Company

Officers

<i>First Senior Vice President</i>	<i>Senior Vice President and General Counsel</i>	<i>First Vice President and Secretary</i>
Wayne S. Patterson	Kenneth J. Gary	Michael I. Snyder

Senior Vice Presidents

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

Vice Presidents - Operations

Peter Alles	John P. Elcano	Webb A. Koschene	Michael J. Palmer
Keith L. Anderson	Alan E. Euvrard	B. Mitchell Kotler	Jon Paynter
Thomas J. Anhut	Augustine P. Flores	Gary Lemon	William D. Perry
William J. Bestimt	Christopher G. Gaffney	James Majewski, Jr.	William C. Reilly
Ronald Blum	William J. Gilligan	John G. Mangano	Ralph E. Reinert
Charles W. Bowie	John D. Harris	Gary M. Mayo	David K. Sadler
Roger A. Brush	John Jakominich	Marc F. McAlpine	Douglas C. Shipe
Scott L. Coleman	Benjamin D. Jogodnik	Richard C. McCormick	James A. Smith
Perry J. Devlin	Robert A. Johnson	Thomas J. Murray	
Michael J. Donnelly	Gregory E. Kamedulski	Walt I. Nowak	
Kevin D. Duermit	Gregory S. Kelleher	Robert Parahus	

Vice Presidents - Administration

Paul Brukartd	Tracy Graves	Charles E. Moscony	Steven A. Turbyfill
Frederick N. Cooper	Bette-Jo Heilner	George W. Nelson	Phillip M. Turner
Jonathan C. Downs	Daniel J. Kennedy	Joseph J. Palka	Christopher S. Utschig
Evan G. Ernest	Manfred P. Marotta	David H. Richey	Mark J. Warshauer
Robert B. Fuller	Kira McCarron	Joseph R. Sicree	
Patrick Galligan	Robert N. McCarron	Ronnie E. Snyder	
Jed Gibson	Kevin J. McMaster	Michael J. Sosinski	

Vice Presidents - City Living by Toll Brothers

Sanford Weiss	Joseph Caulfield	Dennis Devino
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Subsidiary Operations

Kenneth J. Gary	<i>President, Westminster Security Company</i>
Charles E. Moscony	<i>President, Westminster Title Company</i>
Donald L. Salmon	<i>President, Westminster Mortgage Corporation</i>
Richard R. Dostie	<i>President, Toll-Jacksonville, LP</i>
Michael J. Zammit	<i>Managing Director, Advanced Broadband</i>

Affiliate Operations

James M. Steuterman	<i>Senior Vice President, Toll Brothers Realty Trust</i>
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Employee listings are as of 11/1/03.

Employees

As of October 31, 2003, the Company had 3,416 full-time employees.

Shareholders

As of October 31, 2003, the Company had 649 shareholders of record.

Stock Listing

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

Corporate Office

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

Transfer Agent and Registrar

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

Independent Auditors

Ernst & Young LLP
Philadelphia, Pennsylvania

Securities Counsel

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

Investor Relations - Information Requests

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

Common Stock Price Range - New York Stock Exchange

(adjusted for 2-for-1 stock split in March 2002)

Quarter Ended

2003	High	Low	2002	High	Low
October 31	\$37.02	\$25.67	October 31	\$27.20	\$17.76
July 31	\$32.13	\$22.64	July 31	\$31.80	\$20.81
April 30	\$23.65	\$17.63	April 30	\$30.20	\$20.93
January 31	\$21.92	\$18.85	January 31	\$23.20	\$15.42

Photography:

James B. Abbott, Mark Boisclair, Rob Brown, Chris Burkhalter, Mert Carpenter, Greg Cava, Barry Grossman, Levi Ellyson, Jeff Rycus, Omar Salinas, Evan Schiller, Frank Short, Walt Stoneham, Bill Taylor

Photos:

Cover: Magdalena at Frenchman's Reserve, Palm Beach Gardens, FL; **Pg. 2:** (left) Magdalena at Frenchman's Reserve, Palm Beach Gardens, FL; (right) Chamberlain at Trotters Gate, Powell, Ohio; **Back cover:** Milano at Toscana, Las Vegas, NV

Quote Sources:

Pg. 2: Barron's, Feb. 10, 2003, - Gimme Shelter by Andrew Bary; **Pg. 3:** The Conference Board, Oct. 23, 2003 - "Portfolios of America's Affluent Families are Healthy..."; **Pg. 4:** Joint Center for Housing Studies of Harvard University, the State of the Nation's Housing 2003

Demographic data:

The sources for the demographic data included in this annual report are *American Demographics* magazine; Bloomberg L.P.; Citigroup Salomon Smith Barney; Claritas; The Conference Board; Credit Suisse First Boston; International Strategy & Investment Group; The Joint Center for Housing Studies of Harvard University; Merrill Lynch; National Association of Home Builders; National Association of Realtors; Raymond James & Associates, Inc.; UBS; U.S. Census Bureau; U.S. Department of Labor; U.S. Immigration and Naturalization Service; Wachovia Securities



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