

SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549
FORM 10-Q

(Mark One)

X QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES
EXCHANGE ACT OF 1934 FOR THE QUARTERLY PERIOD ENDED April 30, 2000

OR

____ TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES
EXCHANGE ACT OF 1934 FOR THE TRANSITION PERIOD FROM _____ TO _____

Commission file number 1-9186

TOLL BROTHERS, INC.
(Exact name of registrant as specified in its charter)

<u>Delaware</u>	<u>23-2416878</u>
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

<u>3103 Philmont Avenue, Huntingdon Valley, Pennsylvania</u>	<u>19006</u>
(Address of principal executive offices)	(Zip Code)

(215) 938-8000
(Registrant's telephone number, including area code)

Not applicable
(Former name, former address and former fiscal year, if changed since last
report)

Indicate by check mark whether the registrant (1) has filed all reports
required to be filed by Section 13 or 15(d) of the Securities Exchange Act of
1934 during the preceding 12 months (or for such shorter period that the
registrant was required to file such reports), and (2) has been subject to
such filing requirements for the past 90 days.

Yes X No ____

Indicate the number of shares outstanding of each of the issuer's classes of
common stock, as of the latest practicable date:

Common Stock, \$.01 par value: 36,277,368 shares as of June 1, 2000

TOLL BROTHERS, INC. AND SUBSIDIARIES

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STATEMENT OF FORWARD-LOOKING INFORMATION

Certain information included herein and in other Company statements, reports and S.E.C. filings 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, increases in revenues, increased profitability, interest expense, growth and expansion, and its ability to acquire land. 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 statements, reports and S.E.C. filings. These risks and uncertainties include local, regional and national economic conditions, 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, the availability and cost of labor and materials, and weather conditions.

TOLL BROTHERS, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS
(Amounts in thousands)

	April 30, 2000 <u>(Unaudited)</u>	October 31, 1999 <u></u>
ASSETS		
Cash and cash equivalents	\$ 24,325	\$ 96,484
Residential inventories	1,604,473	1,443,282
Property, construction and office equipment, net	21,960	19,633
Receivables, prepaid expenses and other assets	94,516	87,469
Investments in unconsolidated entities	30,785	21,194
	<u>\$1,776,059</u>	<u>\$1,668,062</u>
LIABILITIES AND STOCKHOLDERS' EQUITY		
Liabilities:		
Loans payable	\$ 244,270	\$ 213,317
Subordinated notes	469,458	469,418
Customer deposits on sales contracts	108,080	82,495
Accounts payable	81,211	84,777
Accrued expenses	140,312	141,835
Income taxes payable	66,877	59,886
Total liabilities	<u>1,110,208</u>	<u>1,051,728</u>
Stockholders' equity:		
Common stock	364	365
Additional paid-in capital	105,252	105,239
Retained earnings	573,008	522,665
Treasury stock	(12,773)	(11,935)
Total stockholders' equity	<u>665,851</u>	<u>616,334</u>
	<u>\$1,776,059</u>	<u>\$1,668,062</u>

See accompanying notes

TOLL BROTHERS, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF INCOME
(Amounts in thousands, except per share data)
(Unaudited)

	Six months ended April 30		Three months ended April 30	
	2000	1999	2000	1999
Revenues:				
Housing sales	\$708,205	\$610,677	\$373,985	\$339,995
Land sales	20,517		11,492	

Equity earnings from unconsolidated joint venture	3,069		3,069	
Interest and other	<u>3,246</u>	<u>4,860</u>	<u>1,940</u>	<u>2,676</u>
	<u>735,037</u>	<u>615,537</u>	<u>390,486</u>	<u>342,671</u>
Costs and expenses:				
Housing sales	545,273	477,225	287,479	266,264
Land sales	15,648		8,609	
Selling, general & administrative	75,130	58,764	39,673	32,175
Interest	<u>19,295</u>	<u>17,258</u>	<u>10,362</u>	<u>9,511</u>
	<u>655,346</u>	<u>553,247</u>	<u>346,123</u>	<u>307,950</u>
Income before income taxes				
and extraordinary loss	79,691	62,290	44,363	34,721
Income taxes	<u>29,348</u>	<u>22,772</u>	<u>16,413</u>	<u>12,641</u>
Income before extraordinary loss	50,343	39,518	27,950	22,080
Extraordinary loss from extinguishment of debt, net of income taxes of \$857 in 1999		<u>1,461</u>		
Net income	<u>\$ 50,343</u>	<u>\$ 38,057</u>	<u>\$ 27,950</u>	<u>\$ 22,080</u>
Earnings per share:				
Basic				
Income before extraordinary loss	\$ 1.38	\$ 1.07	\$.77	\$.60
Extraordinary loss from extinguishment of debt		<u>.04</u>		
Net Income	<u>\$ 1.38</u>	<u>\$ 1.03</u>	<u>\$.77</u>	<u>\$.60</u>
Diluted				
Income before extraordinary loss	\$ 1.36	\$ 1.05	\$.75	\$.59
Extraordinary loss from extinguishment of debt		<u>.04</u>		
Net Income	<u>\$ 1.36</u>	<u>\$ 1.01</u>	<u>\$.75</u>	<u>\$.59</u>
Weighted average number of shares				
Basic	36,434	36,840	36,396	36,717
Diluted	36,973	37,686	37,036	37,339

See accompanying notes

TOLL BROTHERS, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(Amounts in thousands)
(Unaudited)

	Six months ended April 30	
	2000	1999
Cash flows used in operating activities:		
Net income	\$50,343	\$38,057
Adjustments to reconcile net income to net cash used in operating activities:		
Depreciation and amortization	3,966	2,942
Equity in the earnings of unconsolidated joint venture	(3,069)	
Extraordinary loss from extinguishment of debt		2,318
Deferred tax provision	2,656	2,838
Changes in operating assets and liabilities net of assets and liabilities acquired:		

Increase in residential inventories	(13,513)	(20,550)
Increase in receivables, prepaid expenses and other assets	(8,267)	(16,396)
Increase in customer deposits on sales contracts	25,585	13,426
(Decrease) increase in accounts payable and accrued expenses	(3,696)	10,312
Increase (decrease) in current income taxes payable	4,767	(674)
Net cash used in operating activities	<u>(87,230)</u>	<u>(154,733)</u>
Cash flows from investing activities:		
Purchase of property, construction and office equipment, net	(4,759)	(3,385)
Acquisition of company, net of cash acquired		(11,092)
Investments in unconsolidated entities		(12,635)
Distribution from unconsolidated entities	2,699	
Net cash used in investing activities	<u>(2,060)</u>	<u>(27,112)</u>
Cash flows from financing activities:		
Proceeds from loans payable	230,060	167,500
Principal payments of loans payable	(210,275)	(149,063)
Net proceeds from the issuance of senior subordinated notes		267,716
Redemption of subordinated notes		(71,359)
Proceeds from stock options exercised and employee stock plan purchases	870	2,064
Purchase of treasury stock	<u>(3,524)</u>	<u>(13,220)</u>
Net cash provided by financing activities	<u>17,131</u>	<u>203,638</u>
Net (decrease) increase in cash and cash equivalents	(72,159)	21,793
Cash and cash equivalents, beginning of period	<u>96,484</u>	<u>80,143</u>
Cash and cash equivalents, end of period	<u>\$ 24,325</u>	<u>\$101,936</u>

See accompanying notes

TOLL BROTHERS, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Amounts in thousands)

(Unaudited)

1. Basis of Presentation

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with the rules and regulations of the Securities and Exchange Commission for interim financial information. The October 31, 1999 balance sheet amounts and disclosures included herein have been derived from the October 31, 1999 audited financial statements of the Registrant. Since the accompanying condensed consolidated financial statements do not include all the information and footnotes required by generally accepted accounting principles for complete financial statements, it is suggested that they be read in conjunction with the financial statements and notes thereto included in the Registrant's October 31, 1999 Annual Report on Form 10-K. In the opinion of management, the accompanying unaudited condensed consolidated financial statements include all adjustments, which are of a normal recurring nature, necessary to present fairly the Company's financial position as of April 30, 2000 and April 30, 1999, the results of its operations for the six months then ended and its cash flows for the six months then ended. The results of operations for such interim periods are not necessarily indicative of the results to be expected for the full year.

2. Residential Inventories

Residential inventories consisted of the following:

	April 30, 2000	October 31, 1999
Land and land development costs	\$ 396,722	\$506,869
Construction in progress	1,072,114	794,599
Sample homes	53,923	57,995
Land deposits and costs of future development	49,364	55,575
Deferred marketing costs	32,350	28,244
	<u>\$1,604,473</u>	<u>\$1,443,282</u>

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

The Company capitalizes certain interest costs to inventories during the development and construction period. Capitalized interest is charged to interest expense when the related inventories are closed. Interest incurred, capitalized and expensed is summarized as follows:

	Six months ended April 30		Three months ended April 30	
	2000	1999	2000	1999
Interest capitalized, beginning of period	\$64,984	\$53,966	70,188	\$56,338
Interest incurred	28,631	23,468	14,438	13,342
Interest expensed	(19,295)	(17,258)	(10,362)	(9,511)
Write off to cost of sales	(149)	(31)	(93)	(24)
Interest capitalized, end of period	<u>\$74,171</u>	<u>\$60,145</u>	<u>\$74,171</u>	<u>\$60,145</u>

3. Extinguishment of Debt

In January 1999, the Company called for redemption on March 15, 1999 of all of its outstanding 9 1/2% Senior Subordinated Notes due 2003 at 102% of principal amount plus accrued interest. The principal amount outstanding at January 31, 1999 was \$69,960,000. The redemption resulted in an extraordinary loss in the first quarter of fiscal 1999 of \$1,461,000, net of \$857,000 of income taxes. The loss represents the redemption premium and a write-off of unamortized deferred issuance costs.

4. Earnings per share information: (in thousands)

Information pertaining to the calculation of earnings per share for the six months and three months ended April 30, 2000 and 1999 is as follows:

	Six months ended April 30		Three months ended April 30	
	2000	1999	2000	1999
Basic weighted average shares outstanding	36,434	36,840	36,396	36,717
Stock options	539	846	640	622
Diluted weighted average shares	<u>36,973</u>	<u>37,686</u>	<u>37,036</u>	<u>37,339</u>

5. Stock Repurchase Program

In April 1997, the Company's Board of Directors authorized the repurchase of up to 3,000,000 shares of its Common Stock, par value \$.01, from time to time, in open market transactions or otherwise, for the purpose of providing shares for its various employee benefit plans. As of April 30, 2000, the Company had repurchased 1,136,000 shares under the program, of which approximately 487,000 shares have been re-issued under its various employee benefit plans.

6. Supplemental Disclosure to Statement of Cash Flows

The following are supplemental disclosures to the statements of cash flow for six months ended April 30, 2000 and 1999:

	2000	1999
Supplemental disclosures of cash flow information:		
Interest paid, net of capitalized amount	<u>\$ 4,575</u>	<u>\$ 3,667</u>
Income taxes paid	<u>\$ 21,925</u>	<u>\$ 19,750</u>
Supplemental disclosures of non-cash activities:		
Cost of residential inventories acquired through seller financing	<u>\$ 2,893</u>	<u>\$ 7,504</u>
Investment in unconsolidated subsidiary acquired through seller financing	<u>\$ 8,000</u>	
Income tax benefit relating to exercise of employee stock options	<u>\$ 492</u>	<u>\$ 506</u>
Stock bonus awards	<u>\$ 1,395</u>	<u>\$ 2,461</u>
Contributions to employee retirement plan	<u>\$ 781</u>	<u>490</u>
Acquisition of company:		
Fair value of assets acquired		56,124
Liabilities assumed		<u>45,032</u>
Cash paid		<u>\$ 11,092</u>

PART I. ITEM 2. **MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION
AND RESULTS OF OPERATIONS**

RESULTS OF OPERATIONS

The following table sets forth, for the periods indicated, certain income statement items related to the Company's operations (dollars in millions):

	Six months ended April 30		1999		Three months ended April 30		1999	
	2000		2000		2000		1999	
	\$	%	\$	%	\$	%	\$	%
Housing sales								
Revenues	708.2		610.7		374.0		340.0	
Costs	545.3	77.0	477.2	78.1	287.5	76.9	266.3	78.3
Land sales								
Revenues	20.5				11.5			
Costs	15.6	76.3			8.6	74.9		
Equity earnings in unconsolidated joint venture	3.1				3.1			
Other	3.2		4.9		1.9		2.7	
Total Revenues	735.0		615.5		390.5		342.7	
Selling, general & administrative expense	75.1	10.2	58.8	9.5	39.7	10.2	32.2	9.4
Interest expense	19.3	2.6	17.3	2.8	10.4	2.7	9.5	2.8
Total costs and expenses	655.3	89.2	553.2	89.9	346.1	88.6	308.0	89.9

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

HOUSING SALES

Housing revenues for the six-month and three-month periods ended April 30, 2000 were higher than those of the comparable periods of 1999 by approximately \$98 million or 16%, and \$34 million or 10%, respectively. The increase in revenues in the six-month period of 2000 was attributable to an 8% increase in the number of homes delivered and a 7% increase in the average price of the homes delivered. The 10% increase in revenues in the three-month period of 2000 was attributable to an increase in the average price of the homes delivered. The increase in the number of homes delivered in the six month period was due to the greater number of communities from which the Company was delivering homes, the larger backlog of homes at the beginning of fiscal 2000 as compared to the beginning of fiscal 1999, offset in part by a slight decrease in the number of homes delivered per community. The increase in the backlog was the result of the 19% increase in contracts signed in fiscal 1999 as compared to fiscal 1998. The increase in the average price of homes delivered was the result of increased selling prices and a shift in the location of homes delivered to more expensive areas. Over the past ten years, housing revenues have grown at a 23% compound annual rate.

The aggregate sales value of signed contracts for the six-month and three-month periods ended April 30, 2000 increased by 26% compared to each of the comparable periods of fiscal 1999. These increases were the result of increases in the number of communities that the Company was offering homes for sale, increases in the average price of homes sold (due primarily to the location, size and an increase in the base selling prices) and increases in the number of homes sold per

community. The increases in the number of selling communities was the result of the Company's continued expansion both geographically and by product offering and its continued penetration of existing markets. Over the past ten years, the value of signed contracts has grown at a 25% compound annual rate.

As of April 30, 2000, the backlog of homes under contract but not delivered amounted to \$1.39 billion (2,957 homes), a 29% increase over the \$1.08 billion (2,516 homes) backlog as of April 30, 1999 and a 31% increase over the \$1.07 billion (2,381 homes) backlog as of October 31, 1999.

Based upon the aforementioned 16% increase in homes delivered for the six months ended April 30, 2000 and the 29% higher backlog of homes under contract but not delivered as of April 30, 2000 as compared to April 30, 1999, the Company expects fiscal 2000 homebuilding revenues to be higher than fiscal 1999 homebuilding revenues.

Housing costs as a percentage of housing sales decreased in both periods of fiscal 2000 as compared to the comparable periods of fiscal 1999. The decreases were the result of improved operating efficiencies and selling prices increasing at a greater rate than costs, offset in part by higher overhead costs and higher inventory write-offs. The Company incurred \$4.1 million and \$2.1 million in write-offs in the six-month and three-month periods of fiscal 2000, respectively, as compared to \$2.4 million and \$1.5 million in the comparable periods of fiscal 1999.

LAND SALES

In March 1999, the Company acquired land for homes, apartments, retail, office and industrial space in the master planned community of South Riding, located in Loudoun County, Virginia. The Company will use some of the property for its own homebuilding operations and will also sell home sites and commercial parcels to other builders. The Company recorded its first sale of land from this operation in the third quarter of fiscal 1999. The Company is also developing several other master planned communities which it may sell land to other builders. In the three-month period ended April 30, 2000, the Company realized land sales from South Riding and one other master planned community. Land sales are expected to continue for the next several years but the amounts will vary from quarter to quarter.

EQUITY EARNINGS IN UNCONSOLIDATED JOINT VENTURE

In fiscal 1998, the Company entered into a joint venture to develop and sell land owned by the other partner. Under the terms of the agreement the Company has the right to purchase up to a specified number of lots with the majority of the lots to be sold to other builders. In the quarter ended April 30, 2000, the joint venture sold its first group of lots to other builders and to the Company. The Company recognized earnings from the sale of lots to other builders but does not recognize earnings from lots that it purchases but reduces its cost basis in the lots. Earnings from this joint venture will vary significantly from quarter to quarter and are expected to continue into fiscal 2001.

OTHER INCOME

Other income decreased \$1.6 million in the six-month and \$.7 million in the three-month period ended April 30, 2000 as compared to the same periods of fiscal 1999. The decrease was principally due to a decrease in interest income and increases in expenses related to the Company's expansion of its ancillary businesses.

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

SG&A spending increased by \$16.4 million or 28%, and \$7.5 million or 23% in the six-month and three-month periods ended April 30, 2000 as compared to the same periods of fiscal 1999. This increased spending was primarily due to the increase in housing revenues in fiscal 2000 as compared to 1999, the increase in the number of communities that the Company was selling from, the Company's expansion into new

markets, expenses incurred in the opening of divisional offices to manage the growth and spending related to the development of its master planned communities and land sales.

INTEREST EXPENSE

The Company determines interest expense on a specific lot-by-lot basis for its homebuilding operations and on a parcel-by-parcel basis for its land sales. As a percentage of total revenues, interest expense will vary depending on many factors including the period of time that the land was owned, the length of time that the homes delivered during the period were under construction, and the interest rates and the amount of debt carried by the Company in proportion to the amount of its inventory during those periods. Interest expense as a percentage of revenues was lower in fiscal 2000 than in fiscal 1999.

OPERATING INCOME

Operating income increased 28% in each of the six-month and three-month periods of fiscal 2000 over the same periods of fiscal 1999.

INCOME TAXES

Income taxes were provided at an effective rate of 36.8% and 37% for the six-month and three-month periods of fiscal 2000, respectively. For the comparable periods of fiscal 1999, income taxes were provided at 36.6% and 36.4%.

EXTRAORDINARY LOSS FROM EXTINGUISHMENT OF DEBT

In January 1999, the Company called for redemption on March 15, 1999 of all of its outstanding 9 1/2% Senior Subordinated Notes due 2003 at 102% of principal amount plus accrued interest. The redemption resulted in an extraordinary loss of \$1,461,000, net of \$857,000 of income taxes. The loss represents the redemption premium and a write-off of unamortized deferred issuance costs.

CAPITAL RESOURCES AND LIQUIDITY

Funding for the Company's operations has been principally provided by cash flows from operations, unsecured bank borrowings, and from the public debt and equity markets.

Cash flow from operations, before inventory additions, has improved as operating results have improved. The Company anticipates that the cash flow from operations, before inventory additions, will continue to improve as a result of an increase in revenues from the delivery of homes from its existing backlog as well as from new sales contracts and land sales. The Company has used the cash flow from operations, bank borrowings and public debt to acquire additional land for new communities, to fund additional expenditures for land development and construction costs needed to meet the requirements of the increased backlog and continuing expansion of the number of communities in which the Company is offering homes for sale, and to reduce debt. The Company expects that inventories will continue to increase and is currently negotiating and searching for additional opportunities to obtain control of land for future communities.

The Company has a \$465 million unsecured revolving credit facility with sixteen banks which extends through February 2003. As of April 30, 2000, the Company had \$100 million of loans and approximately \$35.6 million of letters of credit outstanding under the facility. The Company believes that it will be able to fund its activities through a combination of existing cash resources, cash flow from operations and existing sources of credit.

HOUSING DATA

Six Months

Three Months

	Ended April 30		Ended April 30	
	2000	1999	2000	
1999				
# of homes closed	1,657	1,531	858	857
Sales value of homes closed (in thous.)	\$708,205	\$610,677	\$373,985	\$339,995
# of homes contracted	2,262	1,964	1,398	1,208
Sales value of homes contracted (in thous.)	\$1,041,496	\$826,583	\$649,918	\$517,303
Average number of selling communities	146	135	151	143
	April 30, 2000	April 30, 1999	Oct. 31, 1999	Oct. 31, 1998
# of homes in backlog	2,957	2,516	2,381	1,892
Sales value of homes in backlog (in thous.)	\$1,394,181	\$1,080,156	\$1,067,685	\$814,714

* Contract totals for the six-month and three-month periods ended April 30, 2000 include \$7,894,000 (30 homes) and \$3,135,000 (12 homes), respectively, from an unconsolidated 50% owned joint venture. As of April 30, 2000 and October 31, 1999 backlog includes \$14,855,000 (55 homes) and \$13,756,000 (54 homes), respectively, from the joint venture.

PART II. Other Information

ITEM 1. Legal Proceedings

None.

ITEM 2. Changes in Securities and Use of Proceeds

None.

ITEM 3. Defaults upon Senior Securities

None.

ITEM 4. Submission of Matters to a Vote of Security Holders

- (a) The Company's 2000 Annual Meeting of Shareholders was held on March 23, 2000.
- (b) Not required.
- (c) The following proposals were submitted to a vote of shareholders and were approved by the affirmative vote of a majority of the shares of common stock of the Company that were present in person or by proxy, as indicated below.

- (i) The election of three directors to hold office until the 2003 Annual Meeting of Shareholders.

NOMINEES	FOR	WITHHELD AUTHORITY
Robert S. Blank	30,387,711	420,278
Roger S. Hillas	30,780,961	427,028
Paul E. Shapiro	30,383,143	424,846

- (ii) The approval of Ernst & Young LLP as the Company's independent auditors for the 2000 fiscal year.

FOR	AGAINST	ABSTAIN
30,740,267	54,667	12,392

ITEM 5. Other Information

None.

ITEM 6. Exhibits and Reports on Form 8-K

- (a) Exhibits

Exhibit 27 Financial Data Schedule

- (b) Reports on Form 8-K

None

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

TOLL BROTHERS, INC.
(Registrant)

Date: June 5, 2000

By: /s/ Joel H. Rassman
Joel H. Rassman
Senior Vice President,
Treasurer and Chief
Financial Officer

Date: June 5, 2000

By: /s/ Joseph R. Sicree
Joseph R. Sicree
Vice President -
Chief Accounting Officer
(Principal Accounting Officer)