

BRIGHT HORIZONS FAMILY SOLUTIONS INC.
Form 10-Q
November 09, 2015
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934.

For the quarterly period ended September 30, 2015

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: 001-35780

BRIGHT HORIZONS FAMILY SOLUTIONS INC.
(Exact name of Registrant as specified in its charter)

Delaware 80-0188269
(State or other jurisdiction (I.R.S. Employer
of incorporation) Identification Number)

200 Talcott Avenue South 02472
Watertown, MA
(Address of principal executive offices) (Zip code)

Registrant's telephone number, including area code: (617) 673-8000

Indicate by check mark whether the registrant has (1) 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 No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer Accelerated filer
Non-accelerated filer (Do not check if smaller reporting company) Smaller reporting company

Indicate by check mark whether the Registrant is a shell company (as defined in rule 12b-2 of the Exchange Act). Yes No

As of October 23, 2015, the Company had 60,042,113 shares of common stock, \$0.001 par value, outstanding.

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BRIGHT HORIZONS FAMILY SOLUTIONS INC.

FORM 10-Q

For the quarterly period ended September 30, 2015

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PART I. FINANCIAL INFORMATION

Item 1. Condensed Consolidated Financial Statements (Unaudited)

BRIGHT HORIZONS FAMILY SOLUTIONS INC.
 CONDENSED CONSOLIDATED BALANCE SHEETS
 (In thousands, except share data)
 (Unaudited)

	September 30, 2015	December 31, 2014
ASSETS		
Current assets:		
Cash and cash equivalents	\$21,393	\$87,886
Accounts receivable—net	73,331	83,066
Prepaid expenses and other current assets	59,370	39,147
Current deferred income taxes	13,047	13,059
Total current assets	167,141	223,158
Fixed assets—net	430,380	398,947
Goodwill	1,141,285	1,095,738
Other intangibles—net	394,545	406,249
Deferred income taxes	—	580
Other assets	20,590	16,404
Total assets	\$2,153,941	\$2,141,076
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Current portion of long-term debt	\$9,550	\$9,550
Borrowings on revolving line of credit	26,500	—
Accounts payable and accrued expenses	139,456	116,425
Deferred revenue	121,111	133,048
Other current liabilities	18,995	20,400
Total current liabilities	315,612	279,423
Long-term debt—net	907,137	911,627
Deferred rent and related obligations	47,113	43,105
Other long-term liabilities	32,784	23,401
Deferred revenue	4,909	5,525
Deferred income taxes	131,563	127,036
Total liabilities	1,439,118	1,390,117
Stockholders' equity:		
Preferred stock, \$0.001 par value; 25,000,000 shares authorized and no shares issued or outstanding at September 30, 2015 and December 31, 2014	—	—
Common stock, \$0.001 par value; 475,000,000 shares authorized; 60,005,293 and 61,534,802 shares issued and outstanding at September 30, 2015 and December 31, 2014, respectively	60	62
Additional paid-in capital	986,285	1,083,091
Accumulated other comprehensive loss	(31,024)	(21,687)
Accumulated deficit	(240,498)	(310,507)
Total stockholders' equity	714,823	750,959

Total liabilities and stockholders' equity	\$2,153,941	\$2,141,076
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See notes to condensed consolidated financial statements.

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CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

(In thousands, except share data)

(Unaudited)

	Three months ended September 30,		Nine months ended September 30,	
	2015	2014	2015	2014
Revenue	\$365,944	\$334,976	\$1,086,849	\$1,015,231
Cost of services	280,560	262,115	818,997	782,107
Gross profit	85,384	72,861	267,852	233,124
Selling, general and administrative expenses	36,419	32,856	110,154	101,464
Amortization of intangible assets	7,224	6,959	20,978	22,068
Income from operations	41,741	33,046	136,720	109,592
Interest income	32	48	117	74
Interest expense	(10,362)	(8,443)	(30,831)	(25,810)
Income before income taxes	31,411	24,651	106,006	83,856
Income tax expense	(10,853)	(9,272)	(35,997)	(30,715)
Net income	\$20,558	\$15,379	\$70,009	\$53,141
Earnings per common share:				
Common stock—basic	\$0.34	\$0.23	\$1.14	\$0.81
Common stock—diluted	\$0.33	\$0.23	\$1.11	\$0.79
Weighted average number of common shares outstanding:				
Common stock—basic	60,290,842	66,087,184	61,112,263	65,755,911
Common stock—diluted	61,846,725	67,635,657	62,631,444	67,433,972
See notes to condensed consolidated financial statements.				

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CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(In thousands)

(Unaudited)

	Three months ended		Nine months ended	
	September 30,		September 30,	
	2015	2014	2015	2014
Net income	\$20,558	\$15,379	\$70,009	\$53,141
Other comprehensive income (loss):				
Foreign currency translation adjustments	(8,065)	(16,562)	(9,337)	(9,548)
Total other comprehensive loss	(8,065)	(16,562)	(9,337)	(9,548)
Comprehensive income (loss)	\$12,493	\$(1,183)	\$60,672	\$43,593

See notes to condensed consolidated financial statements.

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CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(In thousands)

(Unaudited)

	Nine months ended September 30,	
	2015	2014
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	\$70,009	\$53,141
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	58,539	58,332
Amortization of original issue discount and deferred financing costs	2,672	2,259
Loss on foreign currency transactions	273	70
Non-cash revenue and other	(137)	(239)
Loss on disposal of fixed assets	280	376
Stock-based compensation	6,900	6,462
Deferred rent	2,304	2,132
Deferred income taxes	5,263	(59)
Changes in assets and liabilities:		
Accounts receivable	11,388	13,938
Prepaid expenses and other current assets	(19,267)	(1,121)
Accounts payable and accrued expenses	16,380	(3,617)
Deferred revenue	(12,732)	(4,502)
Accrued rent and related obligations	1,917	1,687
Other assets	(3,919)	675
Other current and long-term liabilities	2,393	(8,223)
Net cash provided by operating activities	142,263	121,311
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of fixed assets	(61,415)	(47,953)
Payments for acquisitions, net of cash acquired	(66,659)	(6,522)
Settlement of purchase price for prior year acquisitions	23	1,030
Net cash used in investing activities	(128,051)	(53,445)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Borrowings under revolving line of credit	118,100	—
Repayments under revolving line of credit	(91,600)	—
Principal payments of long-term debt	(7,163)	(5,925)
Purchase of treasury stock	(117,538)	(7,233)
Proceeds from issuance of common stock upon exercise of options	7,452	13,656
Proceeds from issuance of restricted stock	3,864	4,709
Tax benefit from stock-based compensation	6,379	6,856
Net cash (used in) provided by financing activities	(80,506)	12,063
Effect of exchange rates on cash and cash equivalents	(199)	(506)
Net (decrease) increase in cash and cash equivalents	(66,493)	79,423
Cash and cash equivalents—beginning of period	87,886	29,585
Cash and cash equivalents—end of period	\$21,393	\$109,008
NON-CASH TRANSACTION:		
Fixed asset purchases recorded in accounts payable and accrued expenses	\$3,500	\$2,000

SUPPLEMENTAL CASH FLOW INFORMATION:

Cash payments of interest	\$28,429	\$24,259
Cash payments of taxes	\$43,153	\$30,597

See notes to condensed consolidated financial statements.

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BRIGHT HORIZONS FAMILY SOLUTIONS INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

1. ORGANIZATION AND BASIS OF PRESENTATION

Organization—Bright Horizons Family Solutions Inc. (“Bright Horizons” or the “Company”) provides workplace services for employers and families throughout the United States and the United Kingdom, and also in Puerto Rico, Canada, Ireland, the Netherlands, and India. Workplace services include center-based child care, education and enrichment programs, elementary school education, back-up dependent care (for children and elders), before and after school care, college preparation and admissions counseling, tuition reimbursement program management, and other family support services.

Basis of Presentation—The accompanying unaudited condensed consolidated balance sheet as of September 30, 2015 and the condensed consolidated statements of operations, comprehensive income and cash flows for the interim periods ended September 30, 2015 and 2014 have been prepared by the Company in accordance with accounting principles generally accepted in the U.S. for interim financial information and pursuant to the rules and regulations of the Securities and Exchange Commission. Accordingly, they do not include all of the information and footnotes required in accordance with generally accepted accounting principles for complete financial statements and should be read in conjunction with the audited financial statements included in the Company’s Annual Report on Form 10-K for the year ended December 31, 2014.

In the opinion of the Company’s management, the Company’s unaudited condensed consolidated balance sheet as of September 30, 2015 and the condensed consolidated statements of operations, comprehensive income and cash flows for the interim periods ended September 30, 2015 and 2014, reflect all adjustments (consisting only of normal and recurring adjustments) necessary to present fairly the results of the interim periods presented. The operating results for the interim periods presented are not necessarily indicative of the results expected for the full year.

Stock Offerings—On January 30, 2013, the Company completed an initial public offering (the “Offering”) and, after the exercise of the overallotment option on February 21, 2013, issued a total of 11.6 million shares of common stock. Subsequent to the Offering, on June 19, 2013, March 25, 2014, December 10, 2014, May 27, 2015, and August 10, 2015, certain of the Company’s shareholders commenced the sale of 9.8 million, 7.9 million, 8.0 million, 3.0 million, and 3.0 million shares, respectively, of the Company’s common stock in secondary offerings (“secondary offerings”). The Company did not receive proceeds from the sale of shares in the secondary offerings. The Company incurred \$0.5 million and \$0.6 million in expenses during the nine months ended September 30, 2015 and September 30, 2014, respectively, in relation to the secondary offerings in 2015 and 2014, which are included in selling, general and administrative expenses. The Company purchased 0.7 million, 1.25 million and 4.5 million of the shares sold in the August 2015, May 2015 and December 2014 secondary offerings, respectively, from investment funds affiliated with Bain Capital Partners, LLC at the same price per share paid by the underwriter to the selling shareholders.

As of September 30, 2015, investment funds affiliated with Bain Capital Partners, LLC held approximately 33.5% of our common stock.

New Accounting Pronouncements—In May 2014, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update (“ASU”) 2014-09, Revenue from Contracts with Customers, which provides guidance for revenue recognition. The standard’s core principle is that a company will recognize revenue when it transfers promised goods or services to customers in an amount that reflects the consideration to which the company expects to be entitled in exchange for those goods or services. In doing so, companies will need to use more judgment and make more estimates than under current guidance. These may include identifying performance obligations in the contract, estimating the amount of variable consideration included in the transaction price and allocating the transaction price to each separate performance obligation. On July 9, 2015, the FASB voted to defer the effective date by one year. The guidance is effective for interim and annual reporting periods beginning on or after December 15, 2017. Early adoption is permitted, but not for periods beginning on or before December 15, 2016. The Company is currently in the process of evaluating the impact of adoption of this ASU on the Company’s consolidated financial statements. In April 2015, the FASB issued ASU 2015-03, Interest - Imputation of Interest (Subtopic 835-30): Simplifying the Presentation of Debt Issuance Costs. This standard amends existing guidance to require the presentation of debt

issuance costs in the balance sheet as a deduction from the carrying amount of the related debt liability. This ASU is effective for fiscal years beginning after December 15, 2015, with early adoption permitted. The Company does not expect this standard to have a significant effect on the Company's consolidated financial statements.

In September 2015, the FASB issued ASU 2015-16, Business Combinations (Topic 805): Simplifying the Accounting for Measurement-Period Adjustments. This standard amends existing guidance to simplify the accounting for adjustments made to provisional amounts recognized in a business combination, and the amendments in this update eliminate the requirement to retrospectively account for those adjustments. This ASU is effective for fiscal years beginning after

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December 15, 2015. The Company does not expect this standard to have a significant effect on the Company's consolidated financial statements.

2. GOODWILL AND INTANGIBLE ASSETS

The changes in the carrying amount of goodwill for the nine months ended September 30, 2015 are as follows (in thousands):

	Full service center-based care	Back-up dependent care	Other educational advisory services	Total	
Beginning balance at December 31, 2014	\$913,043	\$158,894	\$23,801	\$1,095,738	
Additions from acquisitions	51,393	—	—	51,393	
Adjustments to prior year acquisitions	(15) —	—	(15)
Effect of foreign currency translation	(5,831) —	—	(5,831)
Balance at September 30, 2015	\$958,590	\$158,894	\$23,801	\$1,141,285	

The Company also has intangible assets, which consist of the following at September 30, 2015 and December 31, 2014 (in thousands):

	Weighted average amortization period	Cost	Accumulated amortization	Net carrying amount
September 30, 2015			Table of Contents	

The CEO Bonus Plan has two components a Company performance component and an individual performance component (referred to in the CEO Bonus Plan and herein as the Plan Year Performance Bonus). The Company performance component is set forth in the CEO Bonus Plan and is equal to 2.0% of our pre-tax, pre-CEO bonus income for the applicable fiscal year. The Executive Compensation Committee believes the Company performance component of the CEO Bonus Plan is complementary to, and does not overlap with, the Plan Year Performance Bonus.

The Plan Year Performance Bonus under the CEO Bonus Plan is determined on an annual basis by the Executive Compensation Committee, based on the CEO s achievement of one or more performance goals established by the Executive Compensation Committee at the beginning of each fiscal year based upon various business criteria for the Company as set forth in the CEO Bonus Plan. The Executive Compensation Committee included the Plan Year Performance Bonus in the CEO Bonus Plan because it believed the CEO s achievement of such performance goal or goals will, in the long-term, enhance our financial performance and strengthen our financial condition, while giving the Executive Compensation Committee flexibility with

respect to the type and amount of CEO compensation. The CEO Bonus Plan provides that in no event can the total amount of the Plan Year Performance Bonus exceed the greater of \$5.2 million or 1/10 of 1% of our gross revenues for the applicable fiscal year. The Executive Compensation Committee, in its sole discretion, has the power to reduce or completely eliminate, but not increase, the Plan Year Performance Bonus.

Bonuses under the CEO Bonus Plan may be paid in cash, in shares of our common stock (valued at the time of determination of the bonus amount due), or both; the method of payment is determined by the Executive Compensation Committee. In addition, in no event shall the sum of the Company performance component and the Plan Year Performance Bonus (cash and fair market value of stock) exceed \$25 million.

Fiscal 2008 Company Performance Component. In fiscal 2008, we did not have pre-tax, pre-CEO bonus income; therefore the CEO was not entitled to any bonus under the Company performance component of the CEO Bonus Plan.

Fiscal 2008 Individual Performance Component. At the beginning of fiscal 2008, the Executive Compensation Committee, mindful of the severe downturn the housing industry was experiencing, believed the achievement of revenues was an important goal for the CEO. It established that eligibility for the full amount available to the CEO under the Plan Year Performance Bonus was conditioned upon our achievement of at least \$1.5 billion in consolidated revenues in fiscal 2008. The Executive Compensation Committee selected this goal of \$1.5 billion by reviewing our backlog (homes under contract but not yet delivered) at the end of fiscal 2007, the average price of those homes, the number of homes in that backlog which were projected to be delivered during fiscal 2008, and the trends in cancellation rates and delivery delays we were experiencing at that time.

The Executive Compensation Committee also identified other factors at the beginning of fiscal 2008 that it would use to evaluate the CEO's performance if the goal of \$1.5 billion in revenues was achieved. The Executive Compensation Committee believed these additional factors were

important to our success and would aid the Executive Compensation Committee in evaluating how much, if any, of the maximum Plan Year Performance Bonus permitted by the CEO Bonus Plan would be awarded to the CEO. The Executive Compensation Committee determined it would evaluate the CEO in the areas of overhead cost reduction, management enhancement and efficiencies, and financial market visibility and access. The Executive Compensation Committee's objective in choosing these factors was to motivate the CEO to achieve certain short-term initiatives that the Executive Compensation Committee believed were essential and meaningful steps in ensuring our high quality performance as the homebuilding sector recovers, and to establish the foundation for what the Executive Compensation Committee believed would lead to future stockholder value. The Executive Compensation Committee, in its belief that the achievement of certain initiatives in fiscal 2008 would enhance our financial performance and strengthen our financial condition in the long-term, sought to have the CEO work with (a) the other NEOs to reduce overhead costs by at least 1.5% per quarter, (b) the CFO to increase the Company's visibility and reputation in, and access to, capital markets, and (c) the COO to enhance efficiency and integration at all levels of management.

The Executive Compensation Committee met in December 2008 and certified that we had achieved at least \$1.5 billion in revenues during fiscal 2008 and, therefore, the maximum amount (\$5,200,000) was available for the

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Plan Year Performance Bonus. The Executive Compensation Committee then evaluated the CEO's performance during fiscal 2008 in light of the other factors it had identified. The Executive Compensation Committee reviewed such factors and the evidence quantifying the CEO's efforts and achievements in these areas, including, among other things, more than a 3.0% per quarter reduction in overhead costs, our continuous visibility within the financial markets and investor community, and the relative maintenance of our reputation among investors, despite the overall decline of our sector. Although the Executive Compensation Committee determined Mr. Toll had both met his performance goal and performed well in the other areas identified by the Executive Compensation Committee for fiscal 2008, it decided that no Plan Year Performance Bonus would be paid to the CEO for fiscal 2008. The Executive Compensation Committee believed the achievement of the performance goal and the outstanding individual performance of the CEO in fiscal 2008 merited a long-term incentive compensation award, which was granted in December 2008 and is further described below under Elements of NEO Compensation for Fiscal Year 2009.

Annual Incentive Bonus – COO and CFO

Description of Executive Officer Bonus Plan. Since 2001, annual incentive bonuses have been paid to the COO and CFO under the terms of the Executive Officer Bonus Plan. The Executive Officer Bonus Plan has been approved by our stockholders, most recently in 2005, thereby allowing us to pay the COO and CFO bonuses that constitute performance-based compensation under Section 162(m). The awards paid under the Executive Officer Bonus Plan are designed to be a comprehensive component of annual compensation, so that the COO's, as well as the CFO's, annual compensation is dependent on both one or more measures of our financial results and one or more other performance goals established annually by the Executive Compensation Committee relating to the executive's contributions to our economic and strategic objectives, and rewards the efforts required of the executive and his ability to develop, execute and implement short-term and long-term corporate

goals for the current fiscal year.

The Executive Officer Bonus Plan is designed to permit us to pay our COO and CFO incentive compensation based upon the achievement of one or more pre-established performance goals. It is administered by the Executive Compensation Committee, which, at the beginning of each performance period in accordance with the requirements of Section 162(m), designates the specific executives who will participate in the Executive Officer Bonus Plan for that performance period and establishes one or more performance goals that it will use for determining each participant's bonus for such performance period. The only participants in the Executive Officer Bonus Plan since its adoption have been the COO and the CFO, although the Executive Compensation Committee has the discretion to add other participants. At or after the end of each performance period, the Executive Compensation Committee determines whether the pre-established performance goal or goals were satisfied during the performance period. The actual bonus award to any participant for a performance period is then determined by the Executive Compensation Committee. The Executive Officer Bonus Plan limits the maximum amount of any participant's bonus for any fiscal year to the lesser of (a) 350% of the participant's annual base salary as in effect at the beginning of that fiscal year or (b) \$3,500,000. It also limits the aggregate amount of all bonuses payable in any plan year under the Executive Officer Bonus Plan to 10% of our average annual income before taxes for the preceding five fiscal years. The Executive Compensation Committee has no discretion to increase the amount of any participant's bonus under the Executive Officer Bonus Plan, but may reduce the amount of, or totally eliminate, the bonus if it determines, in its absolute and sole discretion, that such a reduction or elimination is appropriate. In recent years when determining the amount of bonus to award to the COO and CFO for a fiscal year, the Executive Compensation Committee has reviewed the maximum amount for which each is eligible based on the terms of the Executive Officer Bonus Plan, and has exercised its discretion to award bonuses that were less than the maximum allowable amount.

Fiscal 2008 Executive Officer Bonus Plan Components. For fiscal 2008, the Executive Compensation Committee determined that incentive bonuses payable to the COO and CFO under the Executive Officer Bonus Plan would be comprised of two components – a Company performance component and an individual performance component. The Executive Compensation Committee wanted to tie annual compensation to a Company performance goal as well as the Executive Compensation Committee’s assessment of each such executive officer’s individual performance, based upon a performance goal established for each executive officer at the beginning of fiscal 2008. The Executive Compensation Committee also established caps for each bonus component: the Company performance component for each such executive officer was capped at \$1,250,000, with a possible

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reduction to \$600,000 at the Executive Compensation Committee's discretion, and the individual performance component for each such executive officer was capped at \$2,625,000, which is 75% of the aggregate cap.

Company Performance Component for Fiscal 2008 Bonuses for the COO and CFO. For fiscal 2008, the Executive Compensation Committee established a formula for the Company performance component for the COO and CFO equal to 0.4% of our fiscal 2008 income before taxes, NEO bonuses and write-offs. In fiscal 2008, this formula amounted to approximately \$1,540,000, which was in excess of the \$1,250,000 cap for each executive officer. The Executive Compensation Committee awarded a bonus under the Company performance component of \$1,250,000 to the COO, and \$1,098,000 to the CFO.

Individual Performance Component for Fiscal 2008 Bonuses for COO and CFO. At the beginning of fiscal 2008, the Executive Compensation Committee established that eligibility for the full amount available to the COO and CFO under the individual performance component was conditioned upon our achievement of at least \$1.5 billion in consolidated revenues in fiscal 2008, because the Executive Compensation Committee, mindful of the severe downturn the housing industry was experiencing at the beginning of fiscal 2008, believed the achievement of revenues was an important goal related to the individual performance of the COO and CFO. The Executive Compensation Committee reviewed our backlog (homes under contract but not yet delivered) at the end of fiscal 2007, the average price of those homes, the number of homes in that backlog that were projected to be delivered during fiscal 2008, and the trends in cancellation rates and delivery delays we were experiencing at that time.

The Executive Compensation Committee also identified other factors at the beginning of fiscal 2008 that it would use to evaluate the COO's and CFO's performance if \$1.5 billion in revenues was achieved. These additional factors would be used to evaluate their performance in other areas that the Executive Compensation Committee believed were important to our success and would aid the

Executive Compensation Committee in evaluating how much bonus, if any, of the maximum amount available under the individual performance component would be awarded to each executive officer. The Executive Compensation Committee determined it would evaluate the COO in the areas of operations strategy, management enhancement and efficiencies, and cash flow management, and the CFO in the areas of financial strategy and financial market visibility and access. The Executive Compensation Committee determined that it would evaluate both executives in the area of overhead cost reduction and mortgage strategy. The Executive Compensation Committee's objective in choosing these factors was to motivate the executive officers to achieve certain short-term initiatives that the Executive Compensation Committee believed were essential and meaningful steps in ensuring our high quality performance as the homebuilding sector recovers, and to establish the foundation for what the Executive Compensation Committee believed would lead to future stockholder value. The Executive Compensation Committee, in its belief that the achievement of certain initiatives in fiscal 2008 would enhance our financial performance and strengthen our financial condition in the long-term, sought to have the executives (a) work with the CEO to reduce overhead costs by at least 1.5% per quarter and (b) work together to develop a strategy for our mortgage subsidiary during the current crisis in the homebuilding industry. The Executive Compensation Committee also sought to have the COO work with the CEO to enhance efficiency and integration at all levels of management and to work independently to develop an operations strategy to enable us to effectively respond to the current crisis in the homebuilding industry, and to have the CFO work with the CEO to increase our visibility and reputation in, and access to, capital markets, and to work independently to develop and implement a financial strategy for the Company during fiscal 2008.

The Executive Compensation Committee reviewed the factors it had identified for the COO and the evidence relating to his efforts and achievements in these areas, including, among other things, more than a 3.0% per quarter reduction in our overhead costs, development of relationships between our mortgage subsidiary and a variety of lenders, in the context of the credit crunch which gripped the

nation in 2008, a cash-flow management strategy that resulted in over \$1.63 billion in cash on hand at the end of fiscal 2008 and an operations strategy that minimized costs and helped retain existing homeowner value during the downturn. The Executive Compensation Committee reviewed the factors it had identified for the CFO and the evidence relating to his efforts and achievements in these areas, including, among other things, more than a 3.0% per quarter reduction in our overhead costs, our continuous visibility within the financial markets and investor community, the relative maintenance of our reputation among investors in the face of the overall decline of our sector, development and maintenance of substantial relationships between the Company's mortgage subsidiary and a variety of lenders, our cash position (over \$1.63 billion) at fiscal

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year end, minimal exposure to the risky investment vehicles that caused massive losses at other companies, and continued access to over \$1 billion of credit at the end of fiscal 2008. The Executive Compensation Committee also consulted with the CEO regarding the COO's and CFO's performance during fiscal 2008. The Executive Compensation Committee determined that the performance goal for the COO and CFO had been met and that each of them had delivered outstanding performance in the context of the factors that the Executive Compensation Committee had identified for fiscal 2008.

The Executive Compensation Committee believed that both the COO and CFO should be rewarded under the individual performance component for their outstanding performance during fiscal 2008; however, mindful of its objective to reduce NEO bonuses by 10% from fiscal 2007 levels, it decided as follows: (a) to award the COO an individual performance bonus of \$118,000 for fiscal 2008, which brought his total fiscal 2008 bonus to \$1,368,000, which is 10% less than his fiscal 2007 bonus, and (b) to award the CFO a total fiscal 2008 bonus in the amount of \$1,098,000 under the Company performance component, which is 10% less than his total fiscal 2007 bonus. In addition, the Executive Compensation Committee believed the achievement of the performance goal and the outstanding individual performance of the COO and CFO in fiscal 2008 merited long-term incentive compensation awards, which were granted in December 2008 and are further described below under Elements of NEO Compensation for Fiscal Year 2009.

Long-Term Incentive Compensation

The long-term incentive compensation component of the compensation of NEOs has been designed to provide NEOs with incentives to enhance stockholder value through their efforts. No constant criteria are used by the Executive Compensation Committee from year to year in the granting of equity compensation. The Executive Compensation Committee makes a subjective determination of the effectiveness of each NEO and the extent of his contributions to our success and, based on that

determination, awards equity compensation.

Equity compensation to any of our employees, including our NEOs, may be either in the form of stock options, stock appreciation rights, stock awards or stock units (which may be restricted, unrestricted or performance-based), in accordance with the terms of the Employee Plan, which was approved by our stockholders in March of 2007, amended by our stockholders in March of 2008 and restated by our Board of Directors in October of 2008 to incorporate the amendments as part of one document.

The Employee Plan is administered by the Executive Compensation Committee, whose primary purpose and objective when granting equity compensation to our NEOs under the Employee Plan is to:

constitute a part of our overall compensation program for NEOs and to serve as a particular incentive for NEOs to devote themselves to our future success;

provide NEOs with an opportunity to increase their proprietary interest in the Company;

provide NEOs with additional incentive to remain in our employ; and

protect us by providing for forfeiture of the grant in the event that the NEO retires, or otherwise leaves our employ, and competes with us.

The Employee Plan permits granting of incentive stock options, non-qualified stock options, stock appreciation rights, stock awards or stock units. No employee may be granted options or stock appreciation rights to acquire more than 1,000,000 shares during any calendar year.

During fiscal 2008, the Executive Compensation Committee decided to grant equity compensation to the NEOs in the following amounts:

**Options to Acquire Common
Stock Granted During Fiscal
2008**

**(Grant Date: December 20,
2007)**

Robert I. Toll	550,000 shares
Zvi Barzilay	120,000 shares
Joel H. Rassman	66,000 shares

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The Executive Compensation Committee chose to grant these stock options to the NEOs in order to further the Executive Compensation Committee's objectives of motivating the NEOs to achieve long-term financial results such as improved financial performance that may ultimately cause an increase in the market price of our stock. Because the options are granted with exercise prices equal to the fair market value of the underlying common stock on the date of the grant, any value that ultimately accrues to the NEO is based entirely upon our performance, as perceived by investors who establish the market price of our common stock. In addition, the Executive Compensation Committee believes equity compensation gives overall NEO compensation an appropriate balance between long-term and short-term compensation. In determining the number of shares able to be acquired by each NEO upon exercise of the option, the Executive Compensation Committee reviewed its prior grants and also noted that annual incentive compensation for the NEOs for fiscal 2008 may be substantially reduced or eliminated, based on the projected Company performance levels when the Executive Compensation Committee made the grants in December 2007. In making the December 2007 grants, the Executive Compensation Committee sought to be consistent with prior grants as well as to supplement the anticipated reduction in annual incentive compensation for fiscal 2008.

The term of an option is generally 10 years from the date of the grant and options generally vest equally over a four year period, beginning on the first anniversary of the date of the grant. Option exercise prices are equal to the fair market value of our common stock on the date of the grant, which has been determined by the Executive Compensation Committee to be the closing price of our common stock on the NYSE on the date of the grant. Options granted to NEOs will continue to vest and be exercisable upon death, disability or retirement of the NEO. Our NEOs generally have not exercised options when they became fully vested based on the vesting schedule contained in the option grant documents, tending instead to hold their options for most of the ten year term before exercising. In addition, all stock options, vested and unvested, that are granted to NEOs are subject to forfeiture in the

event that, after the NEO retires or otherwise leaves our employ, the NEO competes with us.

Our traditional grant date for all equity compensation is December 20 of each year (or the immediately preceding or succeeding business day, if December 20 falls on a weekend) for all employees, including NEOs; all determinations with regard to such grants have been made in advance of that date. We grant equity compensation on a set date each year and we do not time or plan the release of material, non-public information for the purpose of affecting the value of executive compensation.

We cannot grant, and have not granted, discounted options under the terms of the Employee Plan or any other equity compensation plan and we have not back-dated any stock options. During fiscal 2008, we conducted a stockholder-approved stock option exchange program for certain eligible employees; our NEOs were not eligible to participate in that program.

Benefits and Perquisites

We provide all of our employees, including our NEOs, with certain employee benefits. These include the opportunity to save for retirement through the Toll Brothers 401(k) Savings Plan (the 401(k) Plan), which is more fully described below, and various health and welfare benefit programs, including medical, dental, life and short-term disability insurance. We share the cost of these benefit programs with our employees. Our NEOs participate in these programs on the same terms as our other employees. These programs are intended to promote the health and financial security of our employees and are provided at competitive market levels to attract, retain and reward employees.

Retirement Benefits. We provide various plans to meet the retirement needs of our NEOs. Retirement plans are an important part of the overall compensation scheme because we seek to provide our NEOs with the ability to plan for their future while keeping them focused on our present success.

401(k) Savings Plan. All employees, including our NEOs, after six months of service with us, are eligible to participate in the 401(k) Plan. The 401(k)

Plan is a qualified retirement savings plan under Section 401(k) of the Code. Participants in the 401(k) Plan may contribute a portion of their compensation, subject to IRS regulations and certain limitations applicable to highly compensated employees, as such term is defined in the Code. After a year of service, we match a portion of each participant's contribution and also make an annual discretionary contribution to each active participant's account. All of the NEOs are participants in the 401(k) Plan.

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During fiscal 2008, we contributed \$11,550 in matching and discretionary contributions to each NEO's 401(k) Plan account. In January 2009, as an additional cash-conservation measure, we suspended the matching 401(k) contribution for all employees, including the NEOs and Bruce E. Toll, who had not reached the maximum matching contribution at the time of the suspension. The annual discretionary contribution for 2008 will be made in March 2009. It is expected that the discretionary contribution for 2009 and thereafter will also be suspended.

Supplemental Executive Retirement Plan (SERP). We also maintain our SERP, which provides retirement benefits to our NEOs. The SERP was adopted by the Board of Directors in 2005 and is administered by the Executive Compensation Committee. The Board's intention when adopting the SERP was to provide competitive retirement benefits, to protect against reductions in retirement benefits due to tax law limitations on qualified plans, and to encourage continued employment or service with us.

All of the NEOs are participants in the SERP. The SERP, which is currently an unfunded plan, generally provides for an annual benefit, payable for 20 years following retirement, once a participant has completed 20 years of service with us and reached normal retirement age, which is age 62 under the SERP. In December 2007, the Executive Compensation Committee recommended, and the Board approved, an amendment to the SERP to provide for increases in annual retirement benefits to the NEOs for each year of service to the Company after age 62. The Executive Compensation Committee, in an effort to provide competitive benefits to our NEOs and in furtherance of its objective of encouraging continued service to us, determined that an increase in retirement benefits was warranted due to each of our NEOs' length of service with the Company. Effective for each NEO on his birthday during fiscal 2008, annual retirement benefits under the SERP increased by 10% of the applicable original annual benefit amount (set forth below), and the annual retirement benefit to each NEO shall continue to increase each year by 10% of the applicable original annual benefit amount (set forth below), effective on each NEO's birthday each

year for up to ten years or earlier if the NEO retires or his service with us ends due to death or disability. In determining the amount of the increase, the Executive Compensation Committee consulted with Mercer regarding trends in executive retirement benefits, both in the homebuilding industry and among the Fortune 1000. Based on data provided by Mercer, the Executive Compensation Committee believed that the increases in retirement benefits under the SERP to our NEOs would effectively bring our NEOs' retirement benefits more in line with prevailing trends and will cause the SERP to continue to provide competitive retirement benefits to our NEOs. In order to be eligible for the annual increase in any given year, the NEO must be employed by us on his birthday during such year, have completed twenty years of service with us on or prior to his birthday during such year, and have reached normal retirement age on or prior to his birthday during such year. The original annual benefit amounts, the fiscal 2008 increase and the annual benefits to our NEOs under the SERP as of the end of fiscal 2008 are set forth in the table below.

	Original Annual Benefit Amount	Fiscal 2008 Increase	Annual Benefit Amount at October 31, 2008
Robert I. Toll	\$ 500,000	\$ 50,000	\$ 550,000
Zvi Barzilay	\$ 260,000	\$ 26,000	\$ 286,000
Joel H. Rassman	\$ 250,000	\$ 25,000	\$ 275,000

As of the date of this proxy statement, all of the NEOs have completed the requisite 20 years of service with us and have reached normal retirement age and are, therefore, fully vested in their SERP benefits. Benefits under the SERP will cease if any participant competes with us following retirement.

Perquisites. Perquisites did not constitute a material portion of the compensation paid to the NEOs for fiscal 2008. We provide our NEOs with limited perquisites and personal benefits that the Company and the Executive Compensation Committee believe

are consistent with our executive compensation philosophy and objectives. Each fiscal year, the Executive Compensation Committee reviews and approves those perquisites which are to be provided to our NEOs. The Executive Compensation Committee believes the perquisites for fiscal 2008 which included auto and gas allowances, insurance, telephone and internet services and tax and financial statement preparation as more fully described in the Summary Compensation Table in this proxy statement are reasonable, consistent with past practices and consistent with general practices in our industry.

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Deferred Compensation Plan. Our NEOs may elect to defer receipt of all or part of their cash compensation pursuant to the Toll Bros., Inc. Nonqualified Deferred Compensation Plan (the Deferred Compensation Plan). The purpose of the Deferred Compensation Plan is to offer eligible employees an opportunity to elect to defer the receipt of compensation in order to provide deferred compensation, post-employment, supplemental retirement and related benefits. The Deferred Compensation Plan is open to those management and highly compensated employees identified from time to time; all of the NEOs are eligible to participate in the Deferred Compensation Plan. Under the Deferred Compensation Plan, NEOs may elect, prior to the beginning of the year, to defer a portion of their cash compensation during any calendar year. They may select a fixed payment date or dates for payment of the deferred amounts, or elect to have such amounts paid upon termination of employment. We have the right under the Deferred Compensation Plan to make discretionary contributions for the benefit of any participant in the plan. We did not make any discretionary contributions under the Deferred Compensation Plan for any NEO in fiscal 2008.

During fiscal 2008, Zvi Barzilay and Joel H. Rassman elected to defer compensation under the Deferred Compensation Plan; Robert I. Toll did not participate in the Deferred Compensation Plan during fiscal 2008. Compensation that is deferred under the Deferred Compensation Plan earns various rates of return, depending upon when the compensation was deferred and the length of time it has been deferred. Interest earned during fiscal 2008 on any NEO deferred compensation is included under Change in Pension Value and Nonqualified Deferred Compensation Earnings in the Summary Compensation Table in this proxy statement, and further information about NEO deferred compensation is contained in the Nonqualified Deferred Compensation at October 31, 2008 table in this proxy statement.

Employment Agreements, Change of Control Provisions and Severance Payments

Other than as described below with respect to our CFO, none of our NEOs has an employment agreement with us. We do not have a severance plan for our NEOs. Our equity compensation plans and our SERP provide for the acceleration of certain benefits in the event we experience a change of control.

CFO Agreement

We are a party to an agreement, dated June 30, 1988, with our CFO, Joel H. Rassman (the CFO Agreement). The CFO Agreement is an amended and restated version of an agreement that was a condition to Mr. Rassman's employment with us in 1984. The CFO Agreement provides, among other things, Mr. Rassman with certain protections in the event his employment with us terminates. The CFO Agreement provides for a one-time payment of at least \$250,000, with the potential for an additional one-time payment to Mr. Rassman in the event he (a) is terminated by us without cause, (b) leaves our employ after a material reduction in duties or benefits or (c) leaves our employ due to his compensation being less than \$350,000. The CFO Agreement also provides for payment of three months' base salary in the event Mr. Rassman is terminated for cause. In addition, the CFO Agreement provides that in the event of Mr. Rassman's death, his widow will be entitled to receive two months' base salary and, in certain circumstances, his legal representatives may be entitled to an additional amount which shall not exceed \$350,000.

Change of Control Provisions

We have no change of control agreements relating to employment; however, under our equity compensation plans and our SERP, awards and benefits are generally subject to special provisions upon a defined change of control transaction. Upon a change of control, any outstanding options, restricted stock, deferred cash or other plan awards will generally immediately vest and any restrictions will immediately lapse. Under the SERP, if there is a change of control of the Company, all participants in the SERP shall be fully vested in their SERP benefits and potentially eligible for a lump sum payout.

Tax and Accounting Implications

Tax Regulations. Section 162(m) generally disallows a tax deduction to a public company for compensation over \$1 million paid to certain covered employees (its chief executive officer and to any of its three other most highly-compensated executive officers). Performance-based compensation will not be subject to the deduction

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limitation if certain requirements set forth in the Code and applicable Treasury Regulations are met. We generally structure our compensation plans for our NEOs to comply with the performance-based compensation exemption requirements of Section 162(m); however, since corporate objectives may not always be consistent with the requirements for full deductibility, the Board of Directors and the Executive Compensation Committee may award non-deductible compensation to our NEOs as they deem appropriate. During fiscal 2008, the Executive Compensation Committee believes that all base salary, bonus and long-term incentive compensation paid to our NEOs, except for \$300,000, was deductible under Section 162(m).

Accounting Considerations. When making decisions about executive compensation, the Executive Compensation Committee also considers how elements of compensation will impact our financial results. We accrue our NEOs' salaries and cash bonus awards as an expense when earned by the NEO. For equity compensation grants, SFAS 123R requires us to recognize compensation expense for all share-based payment arrangements, based upon the grant date fair value of those awards.

Elements of NEO Compensation for Fiscal Year 2009

Base Salary

In December 2008, the Executive Compensation Committee decided to maintain the COOs' and CFOs' base salary for fiscal 2009 at \$1,000,000. In addition, the Executive Compensation Committee decided to reduce the CEO's base salary for fiscal 2009 by 10% to \$1,170,000.

Annual Incentive Bonus – CEO

The CEO will be entitled to a Company performance bonus under the CEO Bonus Plan for fiscal 2009 equal to 2.0% of our fiscal 2009 income before taxes and CEO bonuses. As noted above, the CEO Bonus Plan also contains a Plan Year Performance Bonus. The amount of the Plan Year Performance Bonus is determined by evaluating the CEO's performance in light of one or more

performance goals established by the Executive Compensation Committee. In December 2008, the Executive Compensation Committee determined that, for the fiscal year ending October 31, 2009, the CEO's Plan Year Performance Bonus is conditioned upon our achievement of a specified level of net revenues in fiscal 2009. If the net revenues goal is achieved, the CEO is eligible for a Plan Year Performance Bonus, which may not exceed the greater of \$5,200,000 or 1/10 of 1% of fiscal 2009 gross revenues, as set forth in the CEO Bonus Plan. The Executive Compensation Committee may reduce the maximum amount otherwise payable under the Plan Year Performance Bonus based upon such facts and circumstances that the Executive Compensation Committee deems relevant. The Executive Compensation Committee believes this goal of net revenues will properly address the CEO's performance in the context of current conditions in the homebuilding industry. All bonuses under the CEO Bonus Plan are subject to a \$25 million cap.

Annual Incentive Bonus – COO and CFO

In December 2008, the Executive Compensation Committee determined that potential bonuses under the Executive Officer Bonus Plan for the fiscal year ending October 31, 2009 for the COO and CFO will be conditioned upon our achievement of a specified level of net revenues. If the net revenues goal is achieved, each participant is eligible for a bonus, which may not exceed the maximum amount permitted under the Executive Officer Bonus Plan. However, the Executive Compensation Committee may reduce the amount otherwise payable based upon such facts and circumstances that the Executive Compensation Committee deems relevant. The Executive Compensation Committee believes this goal of net revenues will properly address the COO's and CFO's performance in the context of current conditions in the homebuilding industry.

The total bonus payable to each participant for fiscal 2009 is subject to all applicable limitations of the Executive Officer Bonus Plan. The Executive Officer Bonus Plan limits the maximum amount of any participant's bonus for any fiscal year to the lesser of (a) 350% of the participant's annual base salary as in effect at the beginning of that fiscal year or (b) \$3,500,000. It also limits the aggregate

amount of all bonuses payable in any plan year under the Executive Officer Bonus Plan to 10% of our average annual income before taxes for the preceding five fiscal years.

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Long-Term Incentive Compensation

The Executive Compensation Committee met on December 11, 2008 and granted stock options to acquire 120,000 shares of common stock to the COO, and 66,000 shares of common stock to the CFO. Such grants were made as of December 19, 2008, have an exercise price equal to the closing price of our common stock on the NYSE on December 19, 2008 and will vest equally over four years. On December 18, 2008, the Executive Compensation Committee, in lieu of granting stock options, awarded a restricted stock unit (RSU) relating to 200,000 shares of our common stock to the CEO. The underlying shares were valued based on the closing price of our common stock on the NYSE on December 19, 2008. The RSU is performance-based and will only vest if the average closing price of our common stock on the NYSE, measured over any twenty consecutive trading days ending on or prior to December 19, 2013, increases 30% or more over the closing price of our common stock on the NYSE on December 19, 2008, and provided Mr. Toll continues to be employed by us or serve as a member of our Board of Directors until December 19, 2011. The performance-based RSU will also vest if Mr. Toll dies, becomes disabled, or we experience a change of control prior to satisfaction of the aforementioned performance criteria.

The Executive Compensation Committee also decided on December 11, 2008 to award RSUs worth \$130,000 to the CEO, \$152,000 to the COO and \$122,000 to the CFO, which correspond to the 10% reduction in the CEO's base salary and the COO's and CFO's bonuses. The exact number of shares underlying each RSU was determined by dividing the dollar value set forth above by the closing price of our common stock on the NYSE on December 19, 2008. Each RSU vests over a four year period and is subject to automatic vesting upon the NEO's death, disability or retirement or upon a change of control of the Company.

The following Executive Compensation Committee Report shall not be deemed to be soliciting material or to be filed with the Securities Exchange Commission under the Securities Act of

1933 or the Securities Exchange Act of 1934 or incorporated by reference in any document so filed.

**EXECUTIVE COMPENSATION COMMITTEE
REPORT**

The Executive Compensation Committee of our Board of Directors has reviewed and discussed with our management the Compensation Discussion and Analysis section of this proxy statement, as required by Item 402(b) of the SEC's Regulation S-K. Based on such review and discussion, the Executive Compensation Committee has recommended to the Board of Directors that the Compensation Discussion and Analysis be included in this proxy statement.

Respectfully submitted by the members of the Executive Compensation Committee of the Board of Directors.

Carl B. Marbach (Chairman)
Stephen A. Novick

Table of Contents**EXECUTIVE COMPENSATION TABLES****Summary Compensation Table**

Name and Principal Position	Fiscal Year	Salary (\$)	Option Awards (\$)(1)	Non-Equity Incentive	Change in Pension Value and Nonqualified Deferred	All Other
				Plan Compensation (\$)(2)	Earnings Compensation (\$)(3)	Compensation (\$)(4)
Robert I. Toll, Chairman of the Board and Chief Executive Officer	2008	1,300,000	7,360,143			108,135
	2007	1,300,000	7,031,846		36,000	94,987
Zvi Barzilay, Chief Operating Officer and President	2008	1,000,000	3,121,503	1,368,000	130,128	49,595
	2007	1,000,000	2,521,944	1,520,000	170,212	55,695
Joel H. Rassman, Executive Vice President, Chief Financial Officer and Treasurer	2008	1,000,000	1,062,877	1,098,000	129,169	49,065
	2007	1,000,000	1,675,002	1,220,000	164,338	55,855

(1) The value of option awards is the compensation expense recognized in our financial statements attributable to options granted in fiscal 2008 and prior years, calculated in accordance with SFAS 123R. Further information regarding the valuation of stock options can be found in Note 9 in the Notes to Consolidated Financial Statements in our Annual Report on Form 10-K for the year ended October 31, 2008.

(2) Mr. Toll did not earn an award for fiscal 2008 under the terms of the CEO Bonus Plan or for fiscal 2007 under the terms of the Toll Brothers, Inc. Cash Bonus Plan. The awards for Messrs. Barzilay and Rassman for fiscal 2008 and fiscal 2007 were earned based upon the terms of the Executive Officer Bonus Plan.

(3) The amounts in this column represent the increase in the actuarial present value of accumulated benefits under the SERP for each named executive officer and the amount of interest earned on their respective balances in the Deferred Compensation Plan. The amounts shown for fiscal 2008 represent the increase in the actuarial present value of accumulated benefits under the SERP from October 31, 2007 to October 31, 2008 for Messrs. Toll, Barzilay and Rassman and the amount of interest earned on Messrs. Barzilay's and Rassman's respective balances in the Deferred Compensation Plan during such period. In fiscal 2008, the increase in the actuarial present value of Mr. Toll's accumulated benefit under the SERP was \$36,000; Mr. Toll did not participate in the Deferred Compensation Plan during fiscal 2008. In fiscal 2008, the increase in the actuarial present value of Mr. Barzilay's accumulated benefit under the SERP was \$19,000, and the total amount of interest earned on his balance in the Deferred Compensation Plan was \$111,128. In fiscal 2008, the increase in the actuarial present value of Mr. Rassman's accumulated benefit under the SERP was \$18,000, and the total amount of interest earned on his balance in the Deferred Compensation Plan was \$111,169. In fiscal 2007, the actuarial present value of Mr. Toll's accumulated plan benefit decreased by \$151,850; Mr. Toll did not participate in the Deferred Compensation Plan in fiscal 2007. In fiscal 2007, the increase in the actuarial present value of Mr. Barzilay's accumulated benefit under the SERP was \$90,178, and the total amount of interest earned on his balance in the Deferred Compensation Plan was \$80,034. In fiscal 2007, the increase in the actuarial present value of Mr. Rassman's accumulated benefit under the SERP was \$86,710, and the total amount of interest earned on his balance in the Deferred Compensation Plan was \$77,628.

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(4) Fiscal 2008 All Other Compensation consists of:

	Robert I. Toll	Zvi Barzilay	Joel H. Rassman
Tax and financial statement preparation assistance	\$ 58,048	\$ 12,022	\$ 14,201
Contribution to 401(k) Plan	11,550	11,550	11,550
Life and disability premiums	9,215	6,172	6,544
Auto and gas expenses	22,845	17,503	16,770
Telecommunication and internet expenses	1,226	2,352	
Club dues	5,255		
	\$ 108,139	\$ 49,599	\$ 49,065

Table of Contents**Grants of Plan-Based Awards during Fiscal 2008**

Name	Grant Date	Threshold (\$)	Estimated Future Payouts Under Non-Equity Incentive Plan Awards		All Other Option Awards: Number of Securities Underlying Options (#)	Exercise or Base Price of Option Awards (\$/Sh)
			Target (\$)	Maximum (\$)		
Robert I. Toll	12/10/07 12/20/07	\$ 0(1)	\$ 0(2)	\$ 25,000,000	550,000	20.76
Zvi Barzilay	12/10/07 12/20/07	\$ 0(3)	\$ 1,520,000(4)	\$ 3,500,000	120,000	20.76
Joel H. Rassman	12/10/07 12/20/07	\$ 0(3)	\$ 1,220,000(4)	\$ 3,500,000	66,000	20.76

(1) Awards to Mr. Toll are made pursuant to the terms of the CEO Bonus Plan. The CEO Bonus Plan does not include a threshold amount; awards in any fiscal year, whether pursuant to the formula contained in the CEO Bonus Plan or pursuant to the Plan Year Performance Bonus (as described in the CEO Bonus Plan) could be as low as \$0.

(2) The CEO Bonus Plan does not include a target amount. When the Executive Compensation Committee met on December 10, 2007 to establish performance criteria for fiscal 2008 under the Plan Year Performance Bonus contained in the CEO Bonus Plan, it did not establish a target amount for the fiscal 2008 award. The amount shown is equal to the award paid to Mr. Toll for performance during fiscal 2007.

(3) Awards to Mr. Barzilay and Mr. Rassman are made pursuant to the terms of the Executive Officer Bonus Plan. The Executive Officer Bonus Plan does not include a threshold amount; awards in any fiscal year could be as

low as \$0.

- (4) The Executive Officer Bonus Plan does not include a target amount and, when the Executive Compensation Committee met on December 10, 2007 to establish performance goals for fiscal 2008 under the Executive Officer Bonus Plan for each of Mr. Barzilay and Mr. Rassman, it did not establish a target amount for fiscal 2008 awards. The amounts shown are equal to the respective awards paid to each of Mr. Barzilay and Mr. Rassman for their performance during fiscal 2007. For a detailed discussion of the formula and criteria applied for such performance-based awards, please see Compensation Discussion and Analysis in this proxy statement.

All equity compensation granted to the NEOs during fiscal 2008 was awarded under the terms and conditions of the Employee Plan. The stock options awarded to the NEOs all have an exercise price of \$20.76, the closing price of our common stock on the NYSE on December 20, 2007, the date of the grants, and all stock options vest equally over four years, beginning on the first anniversary of the date of the grant. If an NEO retires or terminates his employment with us due to death or disability, all options will continue to vest on their normal vesting schedule and will continue to be exercisable for the full option term, as if he were still employed by us. However the NEOs will forfeit all unvested options or unexercised vested options if they retire or otherwise leave our employ and directly or indirectly compete with us. Upon a change of control of the Company, as defined in the Employee Plan, the Executive Compensation Committee may act to cause all unvested options to immediately vest and become exercisable.

Table of Contents**Outstanding Equity Awards at October 31, 2008**

Name	Grant Date	Option Awards				Number of Shares or Units of Stock That Have Not Vested (#)
		Number of Securities Underlying Unexercised Options (#) Exercisable	Number of Securities Underlying Unexercised Options (#) Unexercisable	Option Exercise Price (\$)	Option Expiration Date	
Robert I. Toll	12/20/1999	3,000,000		\$ 4.3750	12/20/2009	
	12/20/2000	1,000,000		\$ 9.6563	12/20/2010	
	12/20/2001	1,000,000		\$ 10.8800	12/20/2011	
	12/20/2002	500,000		\$ 10.5250	12/20/2012	
	12/20/2003	500,000		\$ 20.1350	12/20/2013	
	12/20/2004	375,000	125,000(1)	\$ 32.5500	12/20/2014	
	12/20/2005	125,000	125,000(2)	\$ 35.9700	12/20/2015	
	12/20/2006	137,500	412,500(3)	\$ 31.8200	12/20/2016	
	12/20/2007		550,000(4)	\$ 20.7600	12/20/2017	
	1/5/2007					48,293(5)
Zvi Barzilay	12/20/1999	469,964		\$ 4.3750	12/20/2009	
	12/20/2000	242,800		\$ 9.6563	12/20/2010	
	12/20/2001	480,000		\$ 10.8800	12/20/2011	
	12/20/2002	250,000		\$ 10.5250	12/20/2012	
	12/20/2003	254,000		\$ 20.1350	12/20/2013	
	12/20/2004	180,000	60,000(1)	\$ 32.5500	12/20/2014	
	12/20/2005	60,000	60,000(2)	\$ 35.9700	12/20/2015	
	12/20/2006	30,000	90,000(3)	\$ 31.8200	12/20/2016	
	12/20/2006		30,000(4)	\$ 31.8200	12/20/2016	
	12/20/2007		120,000(4)	\$ 20.760	12/20/2017	
Joel H. Rassman	12/20/1999	317,144		\$ 4.3750	12/20/2009	
	12/20/2000	60,000		\$ 9.6563	12/20/2010	
	12/20/2001	200,000		\$ 10.8800	12/20/2011	
	12/20/2002	110,000		\$ 10.5250	12/20/2012	
	12/20/2003	114,000		\$ 20.1350	12/20/2013	
	12/20/2004	87,000	29,000(1)	\$ 32.5500	12/20/2014	
	12/20/2005	30,000	30,000(2)	\$ 35.9700	12/20/2015	
	12/20/2006	15,000	45,000(3)	\$ 31.8200	12/20/2016	
	12/20/2006		30,000(4)	\$ 31.8200	12/20/2016	
	12/20/2007		66,000(4)	\$ 20.7600	12/20/2017	

- (1) 100% of the options vested on December 20, 2008.
- (2) 50% of the options vest on each of December 20, 2008 and 2009.
- (3) 33.33% of the options vest on each of December 20, 2008, 2009 and 2010.
- (4) 25% of the options vest on each of December 20, 2008, 2009, 2010 and 2011.
- (5) In December 2006, the Executive Compensation Committee and Mr. Toll agreed to revise Mr. Toll's bonus payment for fiscal 2006 to provide that \$3,000,000 (\$1,800,000 of cash and \$1,200,000 of unrestricted Company common stock valued as of the date of the bonus payment) be exchanged for shares of restricted Company common stock on the date of the bonus payment. On January 5, 2007, the date of his fiscal 2006 bonus payment, Mr. Toll exchanged \$3,000,000 of cash and unrestricted stock he received as part of his fiscal 2006 bonus award for 96,586 restricted shares, or \$3,000,000 worth, of our common stock. The price per share paid by Mr. Toll for the restricted stock was \$31.06, the closing price of our common stock on the NYSE on January 5, 2007. The restricted stock Mr. Toll received vested 50% on the first anniversary of the exchange and 50% on the second anniversary of the exchange. The closing price of our common stock on the NYSE on October 31, 2008 was \$23.12.

Table of Contents**Option Exercises and Stock Vested during Fiscal 2008**

Name	Option Awards(1)	
	Number of Shares Acquired on Exercise (#)	Value Realized on Exercise (\$)
Robert I. Toll	2,600,000	46,800,368
Zvi Barzilay	616,548	12,430,582
Joel H. Rassman	296,148	5,611,725

(1) Our stock incentive plans permit participants to exercise stock options using a net exercise method at the discretion of the Executive Compensation Committee. In a net exercise, we withhold from the total number of option shares that otherwise would be issued to the participant upon exercise of the stock option that number of option shares having a fair market value at the time of exercise equal to the option exercise price and applicable income tax withholdings, and remit the remaining shares to the participant. Mr. Toll used 900,941 option shares with a fair market value of \$22,740,398 to exercise 1,640,000 option shares with a fair market value \$41,655,800 in fiscal 2008. Mr. Barzilay used 204,330 option shares with a fair market value of \$5,408,637 to exercise 382,516 option shares with a fair market value of \$10,125,199 in fiscal 2008. Mr. Rassman used 97,174 option shares to with a fair market value of \$2,572,210 to exercise 182,516 option shares with a fair market value of \$4,831,199 in fiscal 2008.

Pension Benefits at October 31, 2008

Number of Years of Credited	Present Value of Accumulated	Payments During Last Fiscal
------------------------------------	-------------------------------------	------------------------------------

Name	Plan			
	Name	Service (#)	Benefit (\$)	Year (\$)
Robert I. Toll	SERP	20	\$ 5,936,000	0
Zvi Barzilay	SERP	20	\$ 3,087,000	0
Joel H. Rassman	SERP	20	\$ 2,968,000	0

- (1) For a discussion of the material terms of the SERP, please see Compensation Discussion and Analysis Benefits and Perquisites Supplemental Executive Retirement Plan in this proxy statement.
- (2) Twenty years is the maximum number of years of credited service under the SERP.
- (3) For a description of the SERP and the assumptions used in the calculation of the present value of plan benefits, see Note 11, Employee Retirement and Deferred Compensation Plans in the notes to the Consolidated Financial Statements contained in our Annual Report on Form 10-K for the fiscal year ended October 31, 2008.

Nonqualified Deferred Compensation at October 31, 2008

Under the Deferred Compensation Plan, NEOs may elect, prior to the beginning of the year, to defer a portion of their cash compensation during any calendar year. Compensation that is deferred under the Deferred Compensation Plan earns various rates of return, depending on the length of time of the deferral. Interest rates are established by a majority of the board of directors of Toll Bros., Inc., our wholly owned subsidiary that administers the Deferred Compensation Plan, and are reviewed and adjusted annually for new deferrals. When establishing interest rates, the directors review the rates charged to us for borrowings, as well as interest rates generally available in the market. During fiscal 2008, interest rates for amounts deferred under the Deferred Compensation Plan ranged from 7% to 8%, based upon when the compensation was deferred and the length of time it has been or was to be deferred. For more information on the Deferred Compensation Plan, see

Compensation Discussion and Analysis Benefits and Perquisites Deferred Compensation Plan in this proxy statement.

The amounts reported in the table below under

Executive Contributions in Last FY are fiscal 2007 bonuses which were to be paid in fiscal 2008 and which the applicable NEO elected to defer. The amounts reported in the table below under

Aggregate Earnings in Last FY are also included under Change in Pension Value and Non-Qualified Deferred Compensation Earnings in the Summary Compensation Table in this proxy statement. The

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amounts reported in the table below under

Aggregate Balance at Last FYE consist of compensation that was earned and deferred in prior years and the interest accrued on such deferred amounts.

Name	Executive	Registrar	Aggregate	Aggregate
	Contributions	Contributions	Earnings	Balance
	in			
	in Last	Last	in Last	Withdrawals
	FY (\$)	FY (\$)	FY (\$)	at Last
				FYE (\$)
Robert I. Toll				
Zvi Barzilay	304,000		111,128	1,646,150
Joel H. Rassman	305,000		111,169	1,655,935

Potential Payments upon Termination or Change of Control

None of our NEOs has an employment agreement with us, nor are they entitled to any sort of cash severance payment upon termination or separation from us, other than under an agreement with our CFO that provides for certain payments and benefits upon a termination or separation, as further described below. We do maintain plans that provide for the continuation or acceleration of benefits in the event of specified separations from employment with us or a change of control of the Company.

The dollar amounts or dollar values of the potential payments to the NEOs in the event of a termination of employment or change of control of the Company are disclosed in the following tables. The amounts and values shown assume that such termination of employment or change of control occurred on October 31, 2008, the last day of our 2008 fiscal year, and are based, as applicable, on a share price of \$23.12, the closing price of our common stock on the NYSE on October 31, 2008. These amounts and values are estimates of the amounts and values that would be paid to the NEOs upon an actual termination of employment or a change of control. The actual amounts and values can only be determined at the time of such NEO's separation or a change of control.

Below is a description of the assumptions that were used in creating the tables that follow. Unless otherwise noted, the descriptions of the payments below are applicable to all of the tables. In accordance with SEC regulations, we do not report in the tables below any amount to be provided to an NEO under any arrangement which does not discriminate in scope, terms or operation in favor of our NEOs and which is available generally to all salaried employees.

Termination of Employment

Vesting of Equity Compensation Plan

Awards. Generally, unvested equity awards held by any of our employees, including the NEOs, are cancelled upon termination of employment with the Company, and the right to exercise vested stock options terminates within a specified period of time (depending on the terms of the applicable grant documents and the manner of termination) after termination of employment. However, under certain circumstances, such as retirement, death, disability or a change of control, special vesting rules apply, as described below. All unexercised stock option awards, whether vested or unvested, held by an NEO terminate immediately upon a termination of employment for cause.

Special Vesting upon Retirement. With respect to stock options issued after December 20, 2001, if an NEO retires from service with us after reaching age 62, he is entitled to continued vesting and exercisability of any unvested and/or unexercised options. Options do not automatically vest upon retirement, but will continue to vest on their normal vesting schedule, as if the NEO were still employed by us. In addition, the NEO will have the remainder of the option term to exercise the option, rather than being forced to exercise within a specified period of time following retirement. This continued vesting and exercisability is conditioned upon the NEO refraining from competing with us. The tables below do not reflect a payment for unvested options upon retirement, because vesting is not accelerated at retirement.

Restricted stock awards held by an NEO fully vest and all restrictions immediately lapse upon the NEO's retirement on or after age 62, provided the

NEO refrains from competing with us. Mr. Robert I. Toll was the only NEO on October 31, 2008 with outstanding shares of restricted stock. The amount in the table below is the amount that would have been recognized by Mr. Toll if he had retired and sold all of his previously unvested restricted shares on October 31, 2008.

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Special Vesting upon Death or Disability. If an NEO's employment with us terminates due to death or disability, he (or his estate) is entitled to continued vesting and exercisability of any unvested and/or unexercised options. Options do not vest upon death or disability, but will continue to vest on their normal vesting schedule, as if the NEO were still employed by us. In addition, the NEO will have the remainder of the option term to exercise the option, rather than being forced to exercise within a specified period of time following termination of employment. This continued vesting and exercisability is conditioned upon, in the event of the NEO's disability, the NEO refraining from competing with us. The tables below do not reflect a payment for unvested options upon termination due to death or disability, because vesting is not accelerated upon these events.

Restricted stock awards held by an NEO fully vest and all restrictions immediately lapse upon the NEO's termination of his employment with the us due to death or disability, provided the NEO refrains from competing with us. Mr. Robert I. Toll was the only NEO on October 31, 2008 with outstanding shares of restricted stock. The amount in the table below is the amount that would have been recognized by Mr. Toll if his employment with us had terminated due to death or disability and all of his previously unvested restricted shares were sold on October 31, 2008.

Vesting of SERP Benefits. Under the SERP, participants become 100% vested in their retirement benefits once they have completed 20 years of service with us and reached age 62. As of October 31, 2008 all three NEOs were fully vested in their SERP benefits. The tables below reflect the full vesting of Mr. Toll and Mr. Rassman for purposes of determining benefits payable upon any termination of employment, other than termination for cause.

In addition, if a SERP participant has not yet reached age 62, but has completed 20 years of service with us and dies or terminates employment due to his disability, or is terminated by us without cause, vesting in their SERP benefits will accelerate and they will be deemed to be fully vested and

entitled to their benefits. As of October 31, 2008, each NEO had completed 20 years of service with us and was entitled to acceleration of his SERP benefits upon death, disability or termination without cause. The tables below reflect this acceleration.

If a SERP participant is terminated for cause, all SERP benefits are subject to forfeiture.

CFO Agreement. As more fully described above under Compensation Discussion and Analysis Employment Agreements, Change of Control Provisions and Severance Payments CFO Agreement, Joel H. Rassman, our CFO, is entitled to certain payments in the event his employment with us is terminated (a) by us, with or without cause, (b) by Mr. Rassman, following certain actions by us, or (c) due to Mr. Rassman's death. The cash severance payments to the CFO in the table below are based on the CFO's base salary at October 31, 2008 of \$1,000,000. The table below also assumes voluntary termination of employment means that Mr. Rassman notified us of his intention to terminate his employment within a specified period of time following (x) any material reduction or material adverse change in Mr. Rassman's duties, (y) the removal of certain fringe benefits to Mr. Rassman or (z) our failure to provide Mr. Rassman with annual compensation, including salary and bonus, of at least \$350,000. In addition, the table assumes that Mr. Rassman's employment terminated as of October 31, 2008, and that he had received, prior to such termination, all fringe benefits to which he was entitled for fiscal 2008.

Change of Control

Immediately prior to a change of control of the Company, the Board of Directors may take action to cause all unvested outstanding stock options to fully vest and become exercisable. In addition, all shares of restricted stock fully vest and all restrictions lapse. Under the SERP, if there is a change of control of the Company, all participants in the SERP shall be fully vested in their SERP benefits and potentially eligible for a lump sum payout. The tables below reflect the amounts that would have been recognized by each NEO if a change of control had occurred on October 31, 2008 and (a) the Board of Directors had caused the unvested options to vest,

(b) he had exercised and sold all of his previously unvested in-the-money stock options and previously unvested restricted shares that vested as a result of the change of control, and (c) he had received a lump sum payout of his SERP benefits.

Table of Contents**Tables*****Robert I. Toll***

The following table describes the potential payments and benefits to Robert I. Toll upon termination of his employment or a change of control of the Company had such termination or change of control occurred on October 31, 2008.

Payments and Benefits	Termination of Employment (\$)				Disability
	Normal Voluntary Retirement	Not for Cause	For Cause	Death	
Accelerated vesting of unvested equity awards: Stock option(1)					
Restricted stock(2)	1,116,534	1,116,534		1,116,534	1,116,534
Payment of SERP benefits(3)	11,000,000	11,000,000		11,000,000	11,000,000
Total:	12,116,534	12,116,534		12,116,534	12,116,534

(1) Value represents the number of in-the-money options that are unvested at October 31, 2008 multiplied by the difference of the closing price of our common stock on the NYSE on October 31, 2008 and the applicable option strike price.

(2) See footnote 5 to the Outstanding Equity Awards at October 31, 2008 table in this proxy statement. Had Mr. Toll terminated his employment at October 31, 2008, the value of his restricted stock award, based upon the closing price of our common stock on the NYSE on October 31, 2008, would have been \$1,116,534.

(3) The amount of the benefit shown would be paid in semi-monthly installments over a 20 year period, except in the event of a change of control. Upon a change of control, the amount

of the benefit shown would be paid in a lump sum, unless prohibited by applicable tax regulations.

Zvi Barzilay

The following table describes the potential payments and benefits to Zvi Barzilay upon termination of his employment or a change of control of the Company had such termination or change of control occurred on October 31, 2008.

Payments and Benefits	Termination of Employment (\$)				Disability
	Normal Voluntary Retirement	Not for Cause	Involuntary For Cause	Death	
Accelerated vesting of unvested equity awards Stock option(1) Payment of SERP benefits(2)	5,720,000	5,720,000		5,720,000	5,720,000
Total:	5,720,000	5,720,000		5,720,000	5,720,000

(1) Value represents the number of in-the-money options that are unvested at October 31, 2008 multiplied by the difference of the closing price of our common stock on the NYSE on October 31, 2008 and the applicable option strike price.

(2) The amount of the benefit shown would be paid in semi-monthly installments over a 20 year period, except in the event of a change of control. Upon a change of control, the amount of the benefit shown would be paid in a lump sum, unless prohibited by applicable tax regulations.

Table of Contents*Joel H. Rassman*

The following table describes the potential payments and benefits to Joel H. Rassman upon termination of his employment or a change of control of the Company had such termination or change of control occurred on October 31, 2008.

Payments and Benefits	Termination of Employment (\$)				Disability
	Normal Voluntary Retirement	Not for Cause	For Cause	Death	
Accelerated vesting of unvested equity awards Stock option(1)					
Payment of SERP benefits(2)	5,500,000	5,500,000		5,500,000	5,500,000
Cash payment under employment agreement		250,000	250,000	166,666	
Total:	5,500,000	5,750,000	250,000	5,666,666	5,500,000

(1) Value represents the number of in-the-money options that are unvested at October 31, 2008 multiplied by the difference of the closing price of our common stock on the NYSE on October 31, 2008 and the applicable option strike price.

(2) The amount of the benefit shown would be paid in semi-monthly installments over a 20 year period, except in the event of a change of control. Upon a change of control, the amount of the benefit shown would be paid in a lump sum, unless prohibited by applicable tax regulations.

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The following Audit Committee Report shall not be deemed to be soliciting material or to be filed with the Securities Exchange Commission under the Securities Act of 1933 or the Securities Exchange Act of 1934 or incorporated by reference in any document so filed.

REPORT OF THE AUDIT COMMITTEE

The Audit Committee of the Board of Directors (the Audit Committee) oversees the Company s financial reporting process on behalf of, and reports to, the Board of Directors. Company management has primary responsibility for preparation of the financial statements and the overall reporting process, including the Company s system of internal control. In fulfilling its oversight responsibilities, the Audit Committee reviewed the Company s audited financial statements for the year ended October 31, 2008 with management, including a discussion of the quality, not just the acceptability, of accounting principles, the reasonableness of significant judgments, and the clarity of disclosures in the financial statements. The Audit Committee reviewed with Ernst & Young LLP, the Company s independent registered public accounting firm, which is responsible for expressing an opinion on the conformity of the Company s audited financial statements with U.S. generally accepted accounting principles, its judgment as to the quality, not just the acceptability, of the Company s accounting principles and such other matters as are required to be discussed with the Audit Committee under U.S. generally accepted auditing standards (including Statement on Auditing Standards No. 61).

The Audit Committee reviewed and discussed with Ernst & Young LLP its independence from the Company and the Company s management, and has received the written disclosures and letters from the independent registered public accounting firm required by the applicable requirements of the Public Company Accounting Oversight Board regarding the independent registered public accounting firm s communications with the Audit Committee concerning independence. The Audit Committee also reviewed and approved the compatibility of non-audit services, including tax services, with the independent registered public

accounting firm's independence. The Audit Committee reviewed the services provided by Ernst & Young LLP and approved the fees paid to Ernst & Young LLP for all services for fiscal 2008.

The Audit Committee met four times during fiscal year 2008. In the course of the meetings, the Audit Committee discussed with the Company's internal auditors and the independent registered public accounting firm the overall scope and plans for their respective audits. The Audit Committee met with the internal auditors and the independent registered public accounting firm, with and without management present, to discuss the results of their examinations, their evaluations of the Company's systems of internal control, and the overall quality of the Company's financial reporting. The Audit Committee reviewed the Company's internal controls and, consistent with Section 302 of the Sarbanes-Oxley Act of 2002 and the rules adopted thereunder, met with management and the auditors prior to the filing of officers' certifications required by that statute to receive any information concerning (a) significant deficiencies in the design or operation of internal control over financial reporting which could adversely affect the Company's ability to record, process, summarize and report financial data and (b) any fraud, whether or not material, that involves management or other employees who have a significant role in the Company's internal control over financial reporting. The Audit Committee received reports throughout the year on the progress of the review of the Company's internal controls for compliance with the requirements of Section 404 of the Sarbanes-Oxley Act of 2002 and the rules promulgated thereunder. The Audit Committee obtained periodic updates from management on the process and reviewed management's and the independent registered public accounting firm's evaluation of the Company's system of internal controls to be included in the Annual Report on Form 10-K for the fiscal year ended October 31, 2008 filed with the SEC.

In addition to the four Audit Committee meetings, the Audit Committee's Chairman had eight meetings with the independent registered public accounting firm and management during fiscal 2008; such meetings were held prior to each release of Company quarterly and annual financial information or the filing of any such information with the SEC.

Based on the reviews and discussions referred to above, the Audit Committee recommended to the Board of Directors that the audited financial statements be included in the Annual Report on Form 10-K for the fiscal year ended October 31, 2008 for filing with the SEC. The Audit Committee's recommendation was considered and

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approved by the Board of Directors. The Audit Committee also re-appointed Ernst & Young LLP as the Company's independent registered public accounting firm for the 2009 fiscal year, subject to stockholder ratification.

The Audit Committee reviewed its charter and recommended changes to the Board of Directors. It also conducted a committee self-assessment process and reported to the Board of Directors on its performance.

Respectfully submitted by the members of the Audit Committee of the Board of Directors.

Paul E. Shapiro (Chairman)
Edward G. Boehne
Roger S. Hillas
Carl B. Marbach

**SECTION 16(a) BENEFICIAL OWNERSHIP
REPORTING COMPLIANCE**

Section 16(a) of the Exchange Act and the regulations thereunder require certain of our officers, as well as our directors and persons who own more than ten percent of a registered class of our equity securities (collectively, the reporting persons) to file reports of ownership and changes in ownership with the SEC and to furnish us with copies of these reports. Based on our review of the copies of these reports we received, and written representations we received from the reporting persons, we believe that all filings required to be made by the reporting persons for the period November 1, 2007 through October 31, 2008 were made on a timely basis, with the exception of the inadvertent late filing of a Form 4 report on December 31, 2008 by Mr. Joseph R. Sicree, one of our officers, which reported an exchange of stock options on July 18, 2008, pursuant to our stockholder-approved stock option exchange program.

CERTAIN TRANSACTIONS

We have a written Related Party Transaction Policy (Policy), which provides guidelines applicable to any transaction, arrangement or relationship

between us and a related party. Under the Policy, the Nominating and Corporate Governance Committee (the Governance Committee) of the Board of Directors is responsible for reviewing and determining whether to approve or ratify any related party transaction. In making its determination to approve or ratify a transaction, the Governance Committee considers such factors as (i) the extent of the related party's interest in the transaction, (ii) if applicable, the availability of other sources of comparable products or services, (iii) whether the terms of the related party transaction are no less favorable than terms generally available in unaffiliated transactions under like circumstances, (iv) the benefit to us, and (v) the aggregate value of the transaction. Pursuant to the Policy, the Governance Committee has delegated to its Chairman the authority to review and determine whether to approve or ratify any related party transaction in which the aggregate amount involved is reasonably expected to be less than \$120,000. The Policy requires that all proposed related party transactions be reported to our legal department prior to consummation. The legal department reports the transaction to the Governance Committee or its Chairman, as applicable, for review. The legal department maintains a list of all related parties and periodically distributes that list to our officers and employees to help facilitate compliance with the Policy and the proper reporting of proposed related party transactions. Under the Policy, all related party transactions that continue over a period of time are required to be reviewed and approved annually by the Governance Committee.

All related party transactions disclosed below were approved or ratified in accordance with the terms of the Policy.

During fiscal 2008, Mr. Robert I. Toll paid approximately \$227,844 to us for legal and investment services, car service and office space for personal use. The aforementioned services were provided by us or our employees and such amounts were billed at rates based on the relevant employee's compensation or the cost to the Company, as applicable, and paid throughout the year with monies deposited with us in advance by Mr. Toll. The Executive Compensation Committee reviewed and approved the receipt of such services by Mr. Toll.

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We formed Toll Brothers Realty LP (the Trust) in 1998 to take advantage of commercial real estate opportunities. The Trust is effectively owned one-third by us, one-third by Mr. Robert I. Toll, Mr. Bruce E. Toll (and trusts established for the benefit of members of his family), Mr. Zvi Barzilay (and trusts established for the benefit of members of his family), Mr. Joel H. Rassman, and other current and former members of our senior management, and one-third by the Pennsylvania State Employees Retirement System. At October 31, 2008, our investment in the Trust was approximately \$431,566. We earned fees from the Trust of approximately \$2,160,724 in fiscal 2008 under the terms of various development, finance and management services agreements. We believe that these transactions were on terms no less favorable than we would have agreed to with unrelated parties. Under such agreements, we also incur certain costs on behalf of the Trust for which we are reimbursed by the Trust. These fees and reimbursements were paid to us throughout the year. The amount due to us for fees and reimbursements as of October 31, 2008, was approximately \$348,837; amounts due are paid on a monthly basis. The largest amount due to us from the Trust at any time during the last fiscal year was approximately \$5,532,073.

As we previously reported in the proxy statement for our 2008 Annual Meeting of Stockholders, in December 2007, we sold a condominium to a trust, the beneficiary of which is Jacob Toll, the son of Robert I. Toll, for a price of approximately \$2,235,672, which reflects a discount of \$93,153 from the normal purchase price. The discount is consistent with our policy of providing home purchase discounts to immediate family members of our employees. In addition, a title insurance policy was purchased for the property from Westminster Title Company, Inc., our wholly owned title insurance subsidiary, for \$6,322, representing the full amount of the premium; no discount was provided on the title insurance policy.

As we previously reported in the proxy statement for our 2008 Annual Meeting of Stockholders, in January 2008, Wendy Topkis, Bruce E. Toll s daughter, and her husband informed us that they did not intend to make settlement on a condominium for

which they had entered into an agreement of sale to purchase from us. We have retained the buyers deposit of \$530,800 pursuant to our rights under the agreement of sale.

From time to time, we charter an aircraft for business purposes that is owned by Grey Falcon LLC, a company ultimately owned by Robert I. Toll. Mr. Toll retains an unrelated charter company to operate and manage the chartering of his aircraft, and the charter company pays Mr. Toll an hourly fee whenever his aircraft is chartered, whether by us or by an unrelated party. When we charter this aircraft, the rates we are charged by the charter company are lower than those it charges to other parties who charter the plane. During fiscal 2008, Mr. Toll received or was entitled to receive approximately \$152,000 in fees from the charter company related to the chartering of his aircraft by us.

Ballard, Spahr, Andrews & Ingersoll, LLP, the law firm of which Richard J. Braemer, one of our directors, is a partner, acted as counsel to us in various matters during fiscal 2008 and was paid aggregate fees of approximately \$1,187,687 during fiscal 2008.

Bruce E. Toll is the Chairman of, and has an ownership interest in, Philadelphia Media Holdings, L.L.C., which is the parent company of the Philadelphia Inquirer and the Philadelphia Daily News, two newspapers where we routinely advertise our homes and employment opportunities. During fiscal 2008, we paid approximately \$584,553 in advertising to the Philadelphia Inquirer and the Philadelphia Daily News.

For information regarding certain other transactions, see Proposal One Election of Directors for Terms Ending 2012 Director Compensation.

STOCKHOLDER PROPOSALS FOR THE 2010 ANNUAL MEETING OF STOCKHOLDERS

Stockholders interested in submitting a proposal to be considered for inclusion in our proxy statement and form of proxy for the 2010 Annual Meeting of Stockholders may do so by following the procedures prescribed by Rule 14a-8 under the Exchange Act. To be eligible for inclusion, proposals must be submitted in writing and received by us at the

address appearing on the first page of this proxy statement by October 9, 2009.

A stockholder may wish to have a proposal presented at the 2010 Annual Meeting of Stockholders, but not to have the proposal included in our proxy statement and form of proxy relating to that meeting. Under our bylaws, except as otherwise prescribed by the presiding officer, no business may be brought before the annual meeting

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unless it is specified in the notice of meeting or is otherwise brought before the meeting at the direction of the Board of Directors, by the presiding officer, or by a stockholder entitled to vote who has delivered written notice to us (containing certain information specified in the bylaws about the stockholder and the proposed action) not less than 45 or more than 75 days prior to the first anniversary of the mailing of proxy materials for the preceding year's annual meeting that is, with respect to the 2010 Annual Meeting of Stockholders, between November 23, 2009 and December 23, 2009. In addition, any stockholder who wishes to submit a nomination for director to the Board must deliver written notice of the nomination within the time period set forth in the previous sentence and comply with the information requirements in the bylaws relating to stockholder nominations. These requirements are separate from and in addition to (a) the SEC requirements referenced above for inclusion of a stockholder proposal in our proxy statement, and (b) the requirements set forth below for having our Nominating and Corporate Governance Committee consider a person, who has been recommended by certain stockholders, for nomination as a director. If notice of any such proposal is not submitted in writing and received by us at the address appearing on the first page of this proxy statement by December 23, 2009, then such proposal shall be deemed untimely for purposes of Rule 14a-4 promulgated under the Exchange Act and, therefore, the persons appointed by our Board of Directors as its proxies will have the right to exercise discretionary voting authority with respect to such proposal.

**PROCEDURES FOR NOMINATING OR
RECOMMENDING FOR NOMINATION
CANDIDATES FOR DIRECTOR**

Any stockholder may submit a nomination for director by following the procedures outlined in Section 2-8 of our bylaws. In addition, the Nominating and Corporate Governance Committee has adopted a policy permitting stockholders to recommend candidates for director under certain circumstances. The Nominating and Corporate Governance Committee will only consider nominating a candidate for director who is

recommended by a stockholder who has been a continuous record owner of at least 1% of our common stock for at least one year prior to submission of the candidate's name and who provides a written statement that the holder intends to continue ownership of the shares through the annual meeting of stockholders. Notice must be given to the Nominating and Corporate Governance Committee with respect to a stockholder nominee no more than 150 days and no less than 120 days prior to the anniversary date of this proxy statement. In order to be considered for nomination as a candidate for election as a director at the 2010 Annual Meeting of Stockholders, a candidate recommended by a stockholder shall, at a minimum, possess a background that includes a solid education, extensive business experience and the requisite reputation, character, integrity, skills, judgment and temperament, which, in the view of the Nominating and Corporate Governance Committee have prepared him or her for dealing with the multi-faceted financial, business and other issues that confront a board of directors of a corporation with our size, complexity, reputation and success.

HOUSEHOLDING INFORMATION

The SEC permits companies and intermediaries (such as brokers and banks) to satisfy delivery requirements for proxy statements and annual reports with respect to two or more stockholders sharing the same address by delivering a single proxy statement and annual report to those stockholders. This process, which is commonly referred to as "householding," is intended to reduce the volume of duplicate information stockholders receive and also reduce expenses for companies. While we do not utilize householding, some intermediaries may be "householding" our proxy materials and annual report. Once you have received notice from your broker or another intermediary that they will be householding materials to your address, householding will continue until you are notified otherwise or until you revoke your consent. If you hold your shares through an intermediary that sent a single proxy statement and annual report to multiple stockholders in your household, we will promptly deliver a separate copy of each of these documents to you if you send a written request to us at our address appearing on the first page of this proxy statement to the attention of the Director of Investor

Relations or by calling (215) 938-8000. If you hold your shares through an intermediary that is utilizing householding and you want to receive separate copies of our annual report and proxy statement in the future, or if you are receiving multiple copies of our proxy materials and annual report and wish to receive only one, you should contact your bank, broker or other nominee record holder.

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SOLICITATION OF PROXIES

The enclosed form of proxy is being solicited by our Board of Directors. We will bear the cost of the solicitation of proxies for the Meeting, including the cost of preparing, assembling and mailing proxy materials, the handling and tabulation of proxies received, and charges of brokerage houses and other institutions, nominees and fiduciaries in forwarding such materials to beneficial owners. In addition to the mailing of the proxy materials, such solicitation may be made in person or by telephone, telegraph or teletype by our directors, officers or regular employees, or by a professional proxy solicitation organization engaged by us.

ANNUAL REPORT ON FORM 10-K

We make available free of charge on our website, www.tollbrothers.com, our annual report on Form 10-K as filed with the SEC. We will provide without charge to each person whose proxy is being solicited by this proxy statement, on the written request of any such person, a copy of our Annual Report on Form 10-K as filed with the SEC for our most recent fiscal year. Such written requests should be directed to Director of Investor Relations, at our address appearing on the first page of this proxy statement.

By Order of the Board of Directors

Michael I. Snyder
Secretary

Horsham, Pennsylvania
February 6, 2009

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If you are a stockholder of record, meaning you hold your shares directly with the Company, and you plan to attend the Meeting, please mark the appropriate box on this proxy card, or send written notice of your intention to attend to: Toll Brothers, Inc., 250 Gibraltar Road, Horsham, PA 19044, Attention: Michael I. Snyder, Secretary, by March 4, 2009. If you are a beneficial owner, meaning your shares are held for you by a bank, broker or other intermediary, and you plan to attend the Meeting, please send written notice of your intention to attend to: Toll Brothers, Inc., 250 Gibraltar Road, Horsham, PA 19044, Attention: Michael I. Snyder, Secretary, by March 4, 2009. Please include with such notice: (1) your name, complete mailing address and phone number, (2) if you are not a natural person and will be naming a representative to attend on your behalf, the name, complete mailing address and phone number of that individual, and (3) evidence of your ownership (such as the relevant portion of your bank or brokerage firm account statement or a letter from the bank, broker or other intermediary confirming your ownership). If you do not provide the requested information to the Company by March 4, 2009, please be prepared to show it at the entrance to the Meeting in order to gain admission. Failure to provide such information either in advance or at the Meeting may result in non-admission to the Meeting.

If you are a stockholder of record and plan to vote your shares at the Meeting, please bring this proxy card with you. If you are a beneficial owner and plan to vote your shares at the Meeting, please bring evidence of ownership with you, even if such evidence was provided in advance.

All attendees must present a valid photo identification to be admitted to the Meeting. Cameras (including cellular phones or PDAs, with photographic capabilities), recording devices and other electronic devices, and the use of cellular phones or PDAs will not be permitted at the Meeting. The Company will have representatives at the entrance to the Meeting and these representatives will have the authority, on the Company's behalf, to determine whether these admission procedures have been followed and whether you will be granted admission to the Meeting. For further information on the Company's admission policy and procedures for the Meeting,

please refer to the proxy materials.

PROXY

TOLL BROTHERS, INC.

**PROXY SOLICITED BY THE BOARD OF
DIRECTORS**

**Annual Meeting of Stockholders March 11,
2009**

The undersigned stockholder of Toll Brothers, Inc. (the Company), revoking all previous proxies, hereby appoints ROBERT I. TOLL and ZVI BARZILAY, and each of them individually, as the attorney and proxy of the undersigned, with full power of substitution, to vote all shares of common stock of the Company which the undersigned would be entitled to vote if personally present at the 2009 Annual Meeting of Stockholders of the Company (the Meeting) to be held at the offices of the Company, 250 Gibraltar Road, Horsham, Pennsylvania, on March 11, 2009, and at any adjournment or postponement thereof. Said proxies are authorized and directed to vote as indicated, and as described below, with respect to the matters specified on the reverse side.

This proxy is solicited on behalf of the Board of Directors. This proxy, when properly executed, will be voted in the manner directed herein by the undersigned. Unless otherwise specified, the shares will be voted **FOR the election of the four Director nominees named on the reverse side,**

FOR the ratification of the re-appointment of Ernst & Young LLP as the Company's independent registered public accounting firm for the 2009 fiscal year, AGAINST the stockholder proposal to declassify the Company's Board of Directors and

AGAINST the stockholder proposal relating to separation of the roles of CEO and Chairman of the Board. This proxy also delegates discretionary authority to vote with respect to any other business which may properly come before the Meeting or any adjournment or postponement thereof.

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The Company's proxy materials are available online
at: <http://materials.proxyvote.com/889478>.
(Continued and to be signed on the reverse side)

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**ANNUAL MEETING OF STOCKHOLDERS
OF
TOLL BROTHERS, INC.
March 11, 2009
COMMON STOCK**

Please date, sign and mail your proxy card in the envelope provided as soon as possible

**THE BOARD OF DIRECTORS
RECOMMENDS A VOTE FOR ALL
DIRECTOR NOMINEES
NAMED BELOW, FOR PROPOSAL TWO,
AND AGAINST PROPOSALS THREE AND
FOUR.**

**PLEASE SIGN, DATE AND RETURN
PROMPTLY IN THE ENCLOSED
ENVELOPE. PLEASE
MARK YOUR VOTE IN BLUE OR BLACK
INK AS SHOWN HERE ρ**

1. Election of Directors:

FOR ALL NOMINEES	WITHHOLD AUTHORITY FOR ALL NOMINEES	FOR ALL EXCEPT (see instructions below)
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**\circ \circ \circ
INSTRUCTION: To withhold authority to vote for any individual nominee(s), mark **FOR ALL EXCEPT** and fill in the circle next to the nominee you wish to withhold, as shown here ρ :**

Nominees:

- \circ Robert S. Blank
- \circ Roger S. Hillas
- \circ Stephen A. Novick
- \circ Paul E. Shapiro

2. The ratification of the re-appointment of Ernst & Young LLP as the Company's independent registered public accounting firm for the 2009 fiscal year.

FOR \circ AGAINST \circ ABSTAIN \circ

3. A stockholder proposal to declassify the Board of Directors.

FOR \circ AGAINST \circ ABSTAIN \circ

4. A stockholder proposal relating to the separation of the roles of CEO and Chairman of the Board.

FOR \circ AGAINST \circ ABSTAIN \circ

5. To transact such other business as may properly come before the Meeting or any adjournment or postponement thereof.

**THE UNDERSIGNED HEREBY
ACKNOWLEDGES RECEIPT OF THE
NOTICE OF ANNUAL MEETING, PROXY
STATEMENT AND 2008 ANNUAL REPORT
OF TOLL BROTHERS, INC.**

MARK IF YOU PLAN TO ATTEND THE
MEETING.

To change the address on your account, please
check the box at the right and indicate your new
address in the address space above. Please note that
changes to the registered name(s) on the account
may not be submitted via this method.

Signature of
Stockholder _____ Dated: _____
2009

Signature of
Stockholder _____ Dated: _____
2009

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NOTE: Please sign this Proxy exactly as your name(s) appear(s) on this proxy card. Where shares are held jointly, each holder should sign. When signing as executor, administrator, attorney, trustee or guardian, please give full title as such. If the signer is a corporation, please sign full corporate name by duly authorized officer, giving full title as such. If the signer is a partnership, please sign in partnership name by authorized person.

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