Segment Information

SFAS No. 131, "Disclosures About Segments of an Enterprise and Related Information", requires enterprises to report certain financial and descriptive information about their reportable operating segments, and certain enterprise-wide disclosures regarding products and services, geographic areas and major customers.

We have three reportable business segments: portfolio investing, mortgage banking and fund management. Portfolio investing includes our activities related to investing in revenue bonds. Mortgage banking includes our activities, carried out through PWF involving origination mortgages on behalf of third parties. Fund management involves our activities related to providing management services to real estate investment programs sponsored by Related.

New Pronouncements

In April 2002, the FASB issued SFAS No. 145 "Rescission of FASB Statements No. 4, 44 and 64, Amendment of FASB Statement No. 13 and Technical Corrections". SFAS No. 145, among other things, rescinds SFAS No. 4, "Reporting Gains and Losses from Extinguishment of Debt", and accordingly, the reporting of gains or losses from the early extinguishments of debt as extraordinary items will only be required if they meet the specific criteria of extraordinary items included in Accounting Principles Board Opinion No. 30, "Reporting the Results of Operations". The revision of SFAS No. 4 became effective January 2003. The implementation of SFAS No. 145 did not have a material impact on our consolidated financial statements.

In July 2002, the FASB issued SFAS No. 146 "Accounting for Costs Associated with Exit or Disposal Activities". SFAS No. 146 replaces current accounting literature and requires the recognition of costs associated with exit or disposal activities when they are incurred rather than at the date of a commitment to an exit or disposal plan. SFAS No. 146 became effective January 1, 2003. The implementation of SFAS No. 146 did not have a material impact on our consolidated financial statements.

In November 2002, the FASB issued FIN 45. FIN 45 elaborates on the disclosures to be made by a guarantor in its financial statements about its obligations under certain guarantees that it has issued. It also clarifies that a guarantor is required to recognize, at the inception of a guarantee, a liability for the fair value of the obligation undertaken in issuing the guarantee. This Interpretation does not prescribe a specific approach for subsequently measuring the guarantor's recognized liability over the term of the related guarantee. The initial recognition and initial measurement provisions of this FIN 45 are applicable on a prospective basis to guarantees issued or modified after December 31, 2002. We entered into one credit enhancement transaction and two yield guarantee transactions prior to December 31, 2002. The fee for the credit enhancement transaction is received monthly and recognized as income when due. The fees for the yield guarantee transactions, received in advance, were deferred and amortized over the guarantee periods. During 2003, we entered into four more yield guarantee transactions. We believe the fees received for these guarantees approximates the fair value of the obligations undertaken in issuing the guarantees and have recorded liabilities included in deferred income equal to the fair values of the obligations.

In December 2002, the FASB issued SFAS No. 148 "Accounting for Stock-Based Compensation-Transition and Disclosure," an amendment of FASB statement No. 123. This statement amends SFAS No. 123, "Accounting for Stock-Based Compensation" to provide alternative methods of transition for a voluntary change to the fair value based method of accounting for stock-based employer compensation. Because we account for our share options using the fair value method, implementation of this statement did not have an impact on our consolidated financial statements. We have adopted the provisions of SFAS No. 123 for its share options issued to employees. Accordingly, compensation cost is accrued based on the estimated fair value of the options issued, and amortized over the vesting period. Because vesting of the options is contingent upon the recipient continuing to provide services to us until the vesting date, we estimate the fair value of the employee options at each period-end up to the vesting date, and adjust expensed amounts accordingly. The fair value of each option grant is estimated using the Black-Scholes option-pricing model. In connection with the purchase of Related, we issued 778,420 common shares to employees, of which 52,863 vested immediately. The balance of 725,557 vests over two, three or four years depending on the number of shares granted to each employee. We recognized compensation expense for the vested shares at the market price for the shares on the grant date and deferred compensation expense for the non-vested shares also at the market price on the grant date.

In January 2003, the FASB issued Interpretation No. 46, "Consolidation of Variable Interest Entities" ("FIN 46"). In December 2003, the FASB issued FIN 46R, which revises FIN 46, codifying certain FASB Staff positions and extending the implementation date. FIN 46, as revised by FIN 46R, clarifies the application of existing accounting pronouncements to certain entities in which equity investors do not have the characteristics of a controlling financial interest or do not have sufficient equity at risk for the entity to finance its activities without additional subordinated financial support from other parties. Prior to the issuance of FIN 46R, we had not applied FIN 46 to any entities; accordingly, the provision of FIN 46R are effective for us beginning March 31, 2004.

FIN 46R is a complex standard that requires significant analysis and judgment. We are still in the process of evaluating its impact on our financial statements, particularly as it applies to the investment fund sponsorship business we acquired by purchasing Related in November of 2003. In that acquisition, and in