

Notes to Consolidated Financial Statements – Continued

CharterMac & Subsidiaries

the years ended December 31, 2003, 2002 and 2001, respectively, relating to these option grants.

During the quarter ended September 30, 2002, we issued 40,000 options at a strike price of \$17.56. These options vest equally, in thirds, in September 2003, 2004 and 2005 and expire in 10 years. These options were antidilutive for the year ended December 31, 2003, so were not taken into account in the calculation of diluted shares. At December 31, 2003, these options had a fair value of \$62,500 based on the Black-Scholes pricing model, using the following assumptions: dividend yield of 6.7%, estimated volatility of 20%, swap rate of 4.175% and expected lives of 8.7 years. We recorded compensation cost of \$35,705 and \$3,222 for the years ended December 31, 2003 and 2002, relating to these options, respectively.

As part of the Related acquisition, we issued 1,000,000 options to Stephen M. Ross, at a strike price of \$17.78, which

vest over five years and expire in 10 years. At December 31, 2003, these options had a fair value of \$3,460,000.

Also, in conjunction with the Related acquisition, we issued 778,420 restricted common shares to various individuals who are either employees of Related or TRCLP. A small portion of these shares, 52,863, vested immediately. The balance of 725,557 vest over periods ranging from three months to four years.

We have recorded deferred compensation of approximately \$19.4 million equal to the number of shares for the share awards at \$19.33, not yet vested, included in the equity section of our consolidated balance sheet. The deferred compensation is being amortized as compensation expense on a straight line basis over the respective vesting periods. Distributions paid related to these non-vested shares are being recorded directly to equity. We recorded compensation expense of \$1,021,842 related to the 52,863 which vested immediately.