

MACK CALI REALTY CORP

Form 10-Q

April 29, 2010

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UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended March 31, 2010

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 1-13274  
Number:

Mack-Cali Realty Corporation  
(Exact name of registrant as specified in its charter)

Maryland 22-3305147  
(State or other jurisdiction of incorporation or organization) (I.R.S. Employer Identification No.)

343 Thornall Street, Edison, New Jersey 08837-2206  
(Address of principal executive offices) (Zip Code)

(732) 590-1000  
(Registrant's telephone number, including area code)

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

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

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files). Yes \_\_\_ No \_\_\_ (the Registrant is not yet required to submit Interactive Data)

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 a 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 April 26, 2010, there were 79,291,317 shares of the registrant's Common Stock, par  
value \$0.01 per share, outstanding.

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MACK-CALI REALTY CORPORATION

FORM 10-Q

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MACK-CALI REALTY CORPORATION

Part I – Financial Information

Item 1. Financial Statements

The accompanying unaudited consolidated balance sheets, statements of operations, of changes in equity, and of cash flows and related notes thereto, have been prepared in accordance with generally accepted accounting principles (“GAAP”) for interim financial information and in conjunction with the rules and regulations of the Securities and Exchange Commission (“SEC”). Accordingly, they do not include all of the disclosures required by GAAP for complete financial statements. The financial statements reflect all adjustments consisting only of normal, recurring adjustments, which are, in the opinion of management, necessary for a fair presentation for the interim periods.

The aforementioned financial statements should be read in conjunction with the notes to the aforementioned financial statements and Management’s Discussion and Analysis of Financial Condition and Results of Operations and the financial statements and notes thereto included in Mack-Cali Realty Corporation’s Annual Report on Form 10-K for the fiscal year ended December 31, 2009.

The results of operations for the three month period ended March 31, 2010 are not necessarily indicative of the results to be expected for the entire fiscal year or any other period.

MACK-CALI REALTY CORPORATION AND SUBSIDIARIES  
CONSOLIDATED BALANCE SHEETS (in thousands, except per share amounts)

	March 31, 2010	December 31, 2009
<b>ASSETS</b>		
Rental property		
Land and leasehold interests	\$772,403	\$771,794
Buildings and improvements	3,952,119	3,948,509
Tenant improvements	442,133	456,547
Furniture, fixtures and equipment	9,349	9,358
	5,176,004	5,186,208
Less – accumulated depreciation and amortization	(1,170,810)	(1,153,223)
Net investment in rental property	4,005,194	4,032,985
Cash and cash equivalents	274,066	291,059
Investments in unconsolidated joint ventures	35,510	35,680
Unbilled rents receivable, net	121,633	119,469
Deferred charges and other assets, net	214,002	213,674
Restricted cash	21,854	20,681
Accounts receivable, net of allowance for doubtful accounts of \$2,434 and \$2,036	12,046	8,089
<b>Total assets</b>	<b>\$4,684,305</b>	<b>\$4,721,637</b>
<b>LIABILITIES AND EQUITY</b>		
Senior unsecured notes	\$1,582,695	\$1,582,434
Mortgages, loans payable and other obligations	754,235	755,003
Dividends and distributions payable	42,121	42,109
Accounts payable, accrued expenses and other liabilities	111,355	106,878
Rents received in advance and security deposits	51,681	54,693
Accrued interest payable	22,512	37,330
<b>Total liabilities</b>	<b>2,564,599</b>	<b>2,578,447</b>
Commitments and contingencies		
<b>Equity:</b>		
Mack-Cali Realty Corporation stockholders' equity:		
Preferred stock, \$0.01 par value, 5,000,000 shares authorized, 10,000 and 10,000 shares outstanding, at liquidation preference	25,000	25,000
Common stock, \$0.01 par value, 190,000,000 shares authorized, 79,184,996 and 78,969,752 shares outstanding	791	789
Additional paid-in capital	2,281,115	2,275,716
Dividends in excess of net earnings	(491,216 )	(470,047 )
<b>Total Mack-Cali Realty Corporation stockholders' equity</b>	<b>1,815,690</b>	<b>1,831,458</b>
<b>Noncontrolling interests in subsidiaries:</b>		
Operating Partnership	300,882	308,703
Consolidated joint ventures	3,134	3,029
<b>Total noncontrolling interests in subsidiaries</b>	<b>304,016</b>	<b>311,732</b>

Total equity	2,119,706	2,143,190
Total liabilities and equity	\$4,684,305	\$4,721,637

The accompanying notes are an integral part of these consolidated financial statements.



## MACK-CALI REALTY CORPORATION AND SUBSIDIARIES

## CONSOLIDATED STATEMENTS OF OPERATIONS (in thousands, except per share amounts)

	Three Months Ended March 31,	
	2010	2009
<b>REVENUES</b>		
Base rents	\$ 153,785	\$ 149,326
Escalations and recoveries from tenants	26,353	27,949
Construction services	10,862	3,911
Real estate services	1,976	2,526
Other income	2,917	2,954
Total revenues	195,893	186,666
<b>EXPENSES</b>		
Real estate taxes	22,337	23,471
Utilities	20,012	20,877
Operating services	28,993	27,942
Direct construction costs	10,293	3,714
General and administrative	8,414	10,082
Depreciation and amortization	48,597	48,272
Total expenses	138,646	134,358
Operating income	57,247	52,308
<b>OTHER (EXPENSE) INCOME</b>		
Interest expense	(39,369 )	(32,794 )
Interest and other investment income	21	197
Equity in earnings (loss) of unconsolidated joint ventures	(522 )	(5,114 )
Total other (expense) income	(39,870 )	(37,711 )
Income from continuing operations	17,377	14,597
Net income	17,377	14,597
Noncontrolling interest in consolidated joint ventures	87	632
Noncontrolling interest in Operating Partnership	(2,455 )	(2,628 )
Preferred stock dividends	(500 )	(500 )
Net income available to common shareholders	\$ 14,509	\$ 12,101
<b>Basic earnings per common share:</b>		
Income from continuing operations	\$ 0.18	\$ 0.18
Net income available to common shareholders	\$ 0.18	\$ 0.18
<b>Diluted earnings per common share:</b>		
Income from continuing operations	\$ 0.18	\$ 0.18
Net income available to common shareholders	\$ 0.18	\$ 0.18
Basic weighted average shares outstanding	78,973	66,484
Diluted weighted average shares outstanding	92,450	80,921

The accompanying notes are an integral part of these consolidated financial statements.



MACK-CALI REALTY CORPORATION AND SUBSIDIARIES  
CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (in thousands)

	Preferred Stock	Common Stock	Additional Paid-In Capital	Dividends in Excess of Net Earnings	Noncontrolling Interests in Subsidiaries	Total Equity		
	Shares	Amount Shares Par Value	Shares Value	Capital	Net Earnings	Equity		
Balance at January 1, 2010	10	\$25,000	78,970	\$789	\$2,275,716	\$(470,047)	\$311,732	\$2,143,190
Net income	--	--	--	--	--	15,009	2,368	17,377
Preferred stock dividends	--	--	--	--	--	(500)	--	(500)
Common stock dividends	--	--	--	--	--	(35,678)	--	(35,678)
Common unit distributions	--	--	--	--	--	--	(5,942)	(5,942)
Increase in noncontrolling interests	--	--	--	--	--	--	192	192
Redemption of common units for common stock	--	--	190	2	4,343	--	(4,345)	--
Shares issued under Dividend Reinvestment and Stock Purchase Plan	--	--	1	--	40	--	--	40
Stock options exercised	--	--	11	--	311	--	--	311
Stock Compensation	--	--	13	--	716	--	--	716
Rebalancing of ownership percent between parent and subsidiaries	--	--	--	--	(11)	--	11	--
Balance at March 31, 2010	10	\$25,000	79,185	\$791	\$2,281,115	\$(491,216)	\$304,016	\$2,119,706

The accompanying notes are an integral part of these consolidated financial statements.

MACK-CALI REALTY CORPORATION AND SUBSIDIARIES  
CONSOLIDATED STATEMENTS OF CASH FLOWS (in thousands)

	Three Months Ended March 31,	
	2010	2009
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Net income	\$ 17,377	\$ 14,597
Adjustments to reconcile net income to net cash provided by Operating activities:		
Depreciation and amortization, including related intangible assets	48,251	46,737
Amortization of stock compensation	716	517
Amortization of deferred financing costs and debt discount	715	707
Equity in (earnings) loss of unconsolidated joint venture, net	522	5,114
Distributions of cumulative earnings from unconsolidated joint ventures	48	1,000
Changes in operating assets and liabilities:		
Increase in unbilled rents receivable, net	(2,136 )	(992 )
Increase in deferred charges and other assets, net	(8,554 )	(3,192 )
(Increase) decrease in accounts receivable, net	(3,956 )	12,009
Increase (decrease) in accounts payable, accrued expenses and other liabilities	5,887	(9,395 )
Decrease in rents received in advance and security deposits	(3,012 )	(1,436 )
Decrease in accrued interest payable	(14,818 )	(13,637 )
Net cash provided by operating activities	\$ 41,040	\$ 52,029
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Additions to rental property and related intangibles	\$(11,862 )	\$(15,791 )
Repayment of notes receivable	--	44
Investment in unconsolidated joint ventures	(393 )	(1,580 )
Increase in restricted cash	(1,173 )	(199 )
Net cash used in investing activities	\$(13,428 )	\$(17,526 )
<b>CASH FLOW FROM FINANCING ACTIVITIES</b>		
Borrowings from revolving credit facility	--	\$ 265,000
Repayment of revolving credit facility and money market loans	--	(98,000 )
Repayments of senior unsecured notes	--	(199,724 )
Proceeds from mortgages and loans payable	--	64,500
Repayment of mortgages, loans payable and other obligations	\$(1,956 )	(3,378 )
Payment of financing costs	(851 )	(375 )
Proceeds from stock options exercised	311	--
Payment of dividends and distributions	(42,109 )	(52,249 )
Net cash used in financing activities	\$(44,605 )	\$(24,226 )
Net (decrease) increase in cash and cash equivalents	\$(16,993 )	\$ 10,277
Cash and cash equivalents, beginning of period	291,059	21,621

Cash and cash equivalents, end of period	\$274,066	\$31,898
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The accompanying notes are an integral part of these consolidated financial statements.

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MACK-CALI REALTY CORPORATION AND SUBSIDIARIES  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (unaudited)

1. ORGANIZATION AND BASIS OF PRESENTATION

ORGANIZATION

Mack-Cali Realty Corporation, a Maryland corporation, together with its subsidiaries (collectively, the “Company”), is a fully-integrated, self-administered, self-managed real estate investment trust (“REIT”) providing leasing, management, acquisition, development, construction and tenant-related services for its properties and third parties. As of March 31, 2010, the Company owned or had interests in 288 properties plus developable land (collectively, the “Properties”). The Properties aggregate approximately 33.1 million square feet, which are comprised of 276 buildings, primarily office and office/flex buildings totaling approximately 32.7 million square feet (which include 19 buildings, primarily office buildings aggregating approximately 2.1 million square feet owned by unconsolidated joint ventures in which the Company has investment interests), six industrial/warehouse buildings totaling approximately 387,400 square feet, two retail properties totaling approximately 17,300 square feet, one hotel (which is owned by an unconsolidated joint venture in which the Company has an investment interest) and three parcels of land leased to others. The Properties are located in five states, primarily in the Northeast, plus the District of Columbia.

BASIS OF PRESENTATION

The accompanying consolidated financial statements include all accounts of the Company, its majority-owned and/or controlled subsidiaries, which consist principally of Mack-Cali Realty, L.P. (the “Operating Partnership”), and variable interest entities for which the Company has determined itself to be the primary beneficiary, if any. See Note 2: Significant Accounting Policies – Investments in Unconsolidated Joint Ventures for the Company’s treatment of unconsolidated joint venture interests. Intercompany accounts and transactions have been eliminated.

The preparation of financial statements in conformity with generally accepted accounting principles (“GAAP”) requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. Certain reclassifications have been made to prior period amounts in order to conform with current period presentation.

On July 1, 2009, the Financial Accounting Standards Board (“FASB”) issued the FASB Accounting Standards Codification and the Hierarchy of Generally Accepted Accounting Principles, also known as FASB Accounting Standards Codification (“ASC”) 105-10, General Accepted Accounting Principles, (“ASC 105-10”). ASC 105-10 establishes the FASB Accounting Standards Codification (“Codification”) as the single source of authoritative U.S. GAAP recognized by the FASB to be applied by nongovernmental entities. Rules and interpretive releases of the Securities and Exchange Commission (“SEC”) under authority of federal securities laws are also sources of authoritative GAAP for SEC registrants. The Codification supersedes all existing non-SEC accounting and reporting standards. All other nongrandfathered, non-SEC accounting literature not included in the Codification will become nonauthoritative. Following the Codification, the FASB will not issue new standards in the form of Statements, FASB Staff Positions or Emerging Issues Task Force Abstracts. Instead, it will issue Accounting Standards Updates, which will serve to update the Codification, provide background information about the guidance and provide the basis for conclusions on the changes to the Codification. GAAP was not intended to be changed as a result of the FASB’s Codification project, but it will change the way the guidance is organized and presented. The Company has implemented the Codification by providing references to the Codification topics, as appropriate.



## 2. SIGNIFICANT ACCOUNTING POLICIES

### Rental

Property Rental properties are stated at cost less accumulated depreciation and amortization. Costs directly related to the acquisition, development and construction of rental properties are capitalized. Pursuant to the Company's adoption of ASC 805, Business Combinations, effective January 1, 2009, acquisition-related costs are expensed as incurred. Capitalized development and construction costs include pre-construction costs essential to the development of the property, development and construction costs, interest, property taxes, insurance, salaries and other project costs incurred during the period of development. Included in total rental property is construction, tenant improvement and development in-progress of \$49,284,000 and \$107,226,000 as of March 31, 2010 and December 31, 2009, respectively. Ordinary repairs and maintenance are expensed as incurred; major replacements and betterments, which improve or extend the life of the asset, are capitalized and depreciated over their estimated useful lives. Fully-depreciated assets are removed from the accounts.

The Company considers a construction project as substantially completed and held available for occupancy upon the completion of tenant improvements, but no later than one year from cessation of major construction activity (as distinguished from activities such as routine maintenance and cleanup). If portions of a rental project are substantially completed and occupied by tenants, or held available for occupancy, and other portions have not yet reached that stage, the substantially completed portions are accounted for as a separate project. The Company allocates costs incurred between the portions under construction and the portions substantially completed and held available for occupancy, and capitalizes only those costs associated with the portion under construction.

Properties are depreciated using the straight-line method over the estimated useful lives of the assets. The estimated useful lives are as follows:

Leasehold interests	Remaining lease term
Buildings and improvements	5 to 40 years
Tenant improvements	The shorter of the term of the related lease or useful life
Furniture, fixtures and equipment	5 to 10 years

Upon acquisition of rental property, the Company estimates the fair value of acquired tangible assets, consisting of land, building and improvements, and identified intangible assets and liabilities assumed, generally consisting of the fair value of (i) above and below market leases, (ii) in-place leases and (iii) tenant relationships. The Company allocates the purchase price to the assets acquired and liabilities assumed based on their fair values. The Company records goodwill or a gain on bargain purchase (if any) if the net assets acquired/liabilities assumed exceed the purchase consideration of a transaction. In estimating the fair value of the tangible and intangible assets acquired, the Company considers information obtained about each property as a result of its due diligence and marketing and leasing activities, and utilizes various valuation methods, such as estimated cash flow projections utilizing appropriate discount and capitalization rates, estimates of replacement costs net of depreciation, and available market information. The fair value of the tangible assets of an acquired property considers the value of the property as if it were vacant.

Above-market and below-market lease values for acquired properties are initially recorded based on the present value, (using a discount rate which reflects the risks associated with the leases acquired) of the difference between (i) the contractual amounts to be paid pursuant to each in-place lease and (ii) management's estimate of fair market lease rates



for each corresponding in-place lease, measured over a period equal to the remaining term of the lease for above-market leases and the initial term plus the term of any below-market fixed rate renewal options for below-market leases. The capitalized above-market lease values are amortized as a reduction of base rental revenue over the remaining term of the respective leases, and the capitalized below-market lease values are amortized as an increase to base rental revenue over the remaining initial terms plus the terms of any below-market fixed rate renewal options of the respective leases.

Other intangible assets acquired include amounts for in-place lease values and tenant relationship values, which are based on management's evaluation of the specific characteristics of each tenant's lease and the Company's overall relationship with the respective tenant. Factors to be considered by management in its analysis of in-place lease values include an estimate of carrying costs during hypothetical expected lease-up periods considering current market conditions, and costs to execute similar leases. In estimating carrying costs, management includes real estate taxes, insurance and other operating expenses and estimates of lost rentals at market rates during the expected lease-up periods, depending on local market conditions. In estimating costs to execute similar leases, management considers leasing commissions, legal and other related expenses. Characteristics considered by management in valuing tenant relationships include the nature and extent of the Company's existing business relationships with the tenant, growth prospects for developing new business with the tenant, the tenant's credit quality and expectations of lease renewals. The value of in-place leases are amortized to expense over the remaining initial terms of the respective leases. The value of tenant relationship intangibles are amortized to expense over the anticipated life of the relationships.

On a periodic basis, management assesses whether there are any indicators that the value of the Company's real estate properties held for use may be impaired. A property's value is impaired only if management's estimate of the aggregate future cash flows (undiscounted and without interest charges) to be generated by the property is less than the carrying value of the property. To the extent impairment has occurred, the loss shall be measured as the excess of the carrying amount of the property over the fair value of the property. The Company's estimates of aggregate future cash flows expected to be generated by each property are based on a number of assumptions that are subject to economic and market uncertainties including, among others, demand for space, competition for tenants, changes in market rental rates, and costs to operate each property. As these factors are difficult to predict and are subject to future events that may alter management's assumptions, the future cash flows estimated by management in its impairment analyses may not be achieved.

Rental Property  
Held for Sale and  
Discontinued

Operations When assets are identified by management as held for sale, the Company discontinues depreciating the assets and estimates the sales price, net of selling costs, of such assets. If, in management's opinion, the estimated net sales price of the assets which have been identified as held for sale is less than the net book value of the assets, a valuation allowance is established. Properties identified as held for sale and/or sold are presented in discontinued operations for all periods presented.

If circumstances arise that previously were considered unlikely and, as a result, the Company decides not to sell a property previously classified as held for sale, the property is reclassified as held and used. A property that is reclassified is measured and recorded individually at the lower of (a) its carrying amount before the property was classified as held for sale, adjusted for any depreciation (amortization) expense that would have been recognized had the property been continuously classified as held and used, or (b) the fair value at the date of the subsequent decision not to sell.

Investments in  
Unconsolidated

Joint Ventures The Company accounts for its investments in unconsolidated joint ventures under the equity method of accounting. The Company applies the equity method by initially recording these investments at cost, as Investments in Unconsolidated Joint Ventures, subsequently adjusted for equity in earnings and cash contributions and distributions.



ASC 810, Consolidation, provides guidance on the identification of entities for which control is achieved through means other than voting rights (“variable interest entities” or “VIEs”) and the determination of which business enterprise, if any, should consolidate the VIE (the “primary beneficiary”). Generally, the consideration of whether an entity is a VIE applies when either (1) the equity investors (if any) lack one or more of the essential characteristics of a controlling financial interest, (2) the equity investment at risk is insufficient to finance that entity’s activities without additional subordinated financial support or (3) the equity investors have voting rights that are not proportionate to their economic interests and the activities of the entity involve or are conducted on behalf of an investor with a disproportionately small voting interest.

On January 1, 2010, the Company adopted the updated provisions of ASC 810, pursuant to FASB No. 167, which amends FIN 46(R) to require ongoing reassessments of whether an enterprise is the primary beneficiary of a variable interest entity. Additionally, FASB No. 167 amends FIN 46(R) to eliminate the quantitative approach previously required for determining the primary beneficiary of a variable interest entity, which was based on determining which enterprise absorbs the majority of the entity’s expected losses, receives a majority of the entity’s expected residual returns, or both. FASB No. 167 amends certain guidance in Interpretation 46(R) for determining whether an entity is a variable interest entity. Also, FASB No. 167 amends FIN 46(R) to require enhanced disclosures that will provide users of financial statements with more transparent information about an enterprise’s involvement in a variable interest entity. The enhanced disclosures are required for any enterprise that holds a variable interest in a variable interest entity. The adoption of this guidance did not have a material impact to these financial statements. See Note 3: Investments in Unconsolidated Joint Ventures for disclosures regarding the Company’s unconsolidated joint ventures.

On a periodic basis, management assesses whether there are any indicators that the value of the Company’s investments in unconsolidated joint ventures may be impaired. An investment is impaired only if management’s estimate of the value of the investment is less than the carrying value of the investment, and such decline in value is deemed to be other than temporary. To the extent impairment has occurred, the loss shall be measured as the excess of the carrying amount of the investment over the value of the investment. The Company’s estimates of value for each investment (particularly in commercial real estate joint ventures) are based on a number of assumptions that are subject to economic and market uncertainties including, among others, demand for space, competition for tenants, changes in market rental rates, and operating costs. As these factors are difficult to predict and are subject to future events that may alter management’s assumptions, the values estimated by management in its impairment analyses may not be realized. See Note 3: Investments in Unconsolidated Joint Ventures.

#### Cash and Cash

Equivalents All highly liquid investments with a maturity of three months or less when purchased are considered to be cash equivalents.

#### Marketable

Securities The Company classifies its marketable securities among three categories: held-to-maturity, trading and available-for-sale. Unrealized holding gains and losses relating to available-for-sale securities are excluded from earnings and reported as other comprehensive income (loss) in equity until realized. A decline in the market value of any held-to-maturity marketable security below cost that is deemed to be other than temporary results in a reduction in the carrying amount to fair value. Any impairment would be charged to earnings and a new cost basis for the security established.

The fair value of the marketable securities is determined using level I inputs under ASC 820, Fair Value Measurements and Disclosures. Level I inputs represent quoted prices available in an active market for identical investments as of the reporting date.



Deferred

**Financing Costs** Costs incurred in obtaining financing are capitalized and amortized over the term of the related indebtedness. Amortization of such costs is included in interest expense and was \$715,000 and \$707,000 for the three months ended March 31, 2010 and 2009, respectively.

Deferred

**Leasing Costs** Costs incurred in connection with leases are capitalized and amortized on a straight-line basis over the terms of the related leases and included in depreciation and amortization. Unamortized deferred leasing costs are charged to amortization expense upon early termination of the lease. Certain employees of the Company are compensated for providing leasing services to the Properties. The portion of such compensation, which is capitalized and amortized, approximated \$955,000 and \$860,000 for the three months ended March 31, 2010 and 2009, respectively.

Derivative

**Instruments** The Company measures derivative instruments, including certain derivative instruments embedded in other contracts, at fair value and records them as an asset or liability, depending on the Company's rights or obligations under the applicable derivative contract. For derivatives designated and qualifying as fair value hedges, the changes in the fair value of both the derivative instrument and the hedged item are recorded in earnings. For derivatives designated as cash flow hedges, the effective portions of the derivative are reported in other comprehensive income ("OCI") and are subsequently reclassified into earnings when the hedged item affects earnings. Changes in fair value of derivative instruments not designated as hedging and ineffective portions of hedges are recognized in earnings in the affected period.

Revenue

**Recognition** Base rental revenue is recognized on a straight-line basis over the terms of the respective leases. Unbilled rents receivable represents the amount by which straight-line rental revenue exceeds rents currently billed in accordance with the lease agreements. Above-market and below-market lease values for acquired properties are initially recorded based on the present value (using a discount rate which reflects the risks associated with the leases acquired) of the difference between (i) the contractual amounts to be paid pursuant to each in-place lease and (ii) management's estimate of fair market lease rates for each corresponding in-place lease, measured over a period equal to the remaining term of the lease for above-market leases and the initial term plus the term of any below-market fixed-rate renewal options for below-market leases. The capitalized above-market lease values for acquired properties are amortized as a reduction of base rental revenue over the remaining term of the respective leases, and the capitalized below-market lease values are amortized as an increase to base rental revenue over the remaining initial terms plus the terms of any below-market fixed-rate renewal options of the respective leases. Escalations and recoveries from tenants are received from tenants for certain costs as provided in the lease agreements. These costs generally include real estate taxes, utilities, insurance, common area maintenance and other recoverable costs. See Note 11: Tenant Leases. Construction services revenue includes fees earned and reimbursements received by the Company for providing construction management and general contractor services to clients. Construction services revenue is recognized on the percentage of completion method. Using this method, profits are recorded on the basis of estimates of the overall profit and percentage of completion of individual contracts. A portion of the estimated profits is accrued based upon estimates of the percentage of completion of the construction contract. This revenue recognition method involves inherent risks relating to profit and cost estimates. Real estate services revenue includes property management, facilities management, leasing commission fees and other services, and payroll and related costs reimbursed from clients. Other income includes income from parking spaces leased to tenants, income from tenants for additional services arranged for by the

Company and income from tenants for early lease terminations.

Allowance for

**Doubtful Accounts** Management periodically performs a detailed review of amounts due from tenants to determine if accounts receivable balances are impaired based on factors affecting the collectability of those balances. Management's estimate of the allowance for doubtful accounts requires management to exercise significant judgment about the timing, frequency and severity of collection losses, which affects the allowance and net income.

Income and

**Other Taxes** The Company has elected to be taxed as a REIT under Sections 856 through 860 of the Internal Revenue Code of 1986, as amended (the "Code"). As a REIT, the Company generally will not be subject to corporate federal income tax (including alternative minimum tax) on net income that it currently distributes to its shareholders, provided that the Company satisfies certain organizational and operational requirements including the requirement to distribute at least 90 percent of its REIT taxable income to its shareholders. The Company has elected to treat certain of its corporate subsidiaries as taxable REIT subsidiaries (each a "TRS"). In general, a TRS of the Company may perform additional services for tenants of the Company and generally may engage in any real estate or non-real estate related business (except for the operation or management of health care facilities or lodging facilities or the providing to any person, under a franchise, license or otherwise, rights to any brand name under which any lodging facility or health care facility is operated). A TRS is subject to corporate federal income tax. If the Company fails to qualify as a REIT in any taxable year, the Company will be subject to federal income tax (including any applicable alternative minimum tax) on its taxable income at regular corporate tax rates. The Company is subject to certain state and local taxes.

The Company adopted the amended provisions related to uncertain tax provisions of ASC 740, Income Taxes, on January 1, 2007. As a result of the implementation of the guidance, the Company recognized no material adjustments regarding its tax accounting treatment. The Company expects to recognize interest and penalties related to uncertain tax positions, if any, as income tax expense, which is included in general and administrative expense.

In the normal course of business, the Company or one of its subsidiaries is subject to examination by federal, state and local jurisdictions in which it operates, where applicable. As of March 31, 2010, the tax years that remain subject to examination by the major tax jurisdictions under the statute of limitations are generally from the year 2005 forward.

Earnings

**Per Share** The Company presents both basic and diluted earnings per share ("EPS"). Basic EPS excludes dilution and is computed by dividing net income available to common shareholders by the weighted average number of shares outstanding for the period. Diluted EPS reflects the potential dilution that could occur if securities or other contracts to issue common stock were exercised or converted into common stock, where such exercise or conversion would result in a lower EPS amount.

Dividends and  
Distributions

**Payable** The dividends and distributions payable at March 31, 2010 represents dividends payable to preferred shareholders (10,000 shares) and common shareholders (79,285,190 shares), and distributions payable to noncontrolling interest common unitholders of the Operating Partnership (13,205,106 common units) for all such holders of record as of April 6, 2010 with respect to the first quarter 2010. The first quarter 2010 preferred stock dividends of \$50.00 per share, common stock dividends and common unit distributions of \$0.45 per common share and unit were approved by the Board of Directors on March 10, 2010. The common stock dividends and common unit distributions payable were paid on April 12, 2010. The preferred stock dividends payable were paid on April 15, 2010.





The dividends and distributions payable at December 31, 2009 represents dividends payable to preferred shareholders (10,000 shares) and common shareholders (78,969,858 shares), and distributions payable to noncontrolling interest common unitholders of the Operating Partnership (13,495,036 common units) for all such holders of record as of January 6, 2010 with respect to the fourth quarter 2009. The fourth quarter 2009 preferred stock dividends of \$50.00 per share, common stock dividends and common unit distributions of \$0.45 per common share and unit were approved by the Board of Directors on December 8, 2009. The common stock dividends, common unit distributions and preferred stock dividends payable were paid on January 15, 2010.

#### Costs Incurred

##### For Stock

Issuances Costs incurred in connection with the Company's stock issuances are reflected as a reduction of additional paid-in capital.

##### Stock

Compensation The Company accounts for stock options and restricted stock awards granted prior to 2002 using the intrinsic value method prescribed in the previously existing accounting guidance on accounting for stock issued to employees. Under this guidance, compensation cost for stock options is measured as the excess, if any, of the quoted market price of the Company's stock at the date of grant over the exercise price of the option granted. Compensation cost for stock options is recognized ratably over the vesting period. The Company's policy is to grant options with an exercise price equal to the quoted closing market price of the Company's stock on the business day preceding the grant date. Accordingly, no compensation cost has been recognized under the Company's stock option plans for the granting of stock options made prior to 2002. Restricted stock awards granted prior to 2002 are valued at the vesting dates of such awards with compensation cost for such awards recognized ratably over the vesting period.

In 2002, the Company adopted the provisions of ASC 718, Compensation-Stock Compensation. In 2006, the Company adopted the amended guidance, which did not have a material effect on the Company's financial position and results of operations. These provisions require that the estimated fair value of restricted stock ("Restricted Stock Awards") and stock options at the grant date be amortized ratably into expense over the appropriate vesting period. The Company recorded restricted stock expense of \$616,000, and \$517,000 for the three months ended March 31, 2010 and 2009, respectively.

##### Other

##### Comprehensive

Income Other comprehensive income (loss) includes items that are recorded in equity, such as unrealized holding gains or losses on marketable securities available for sale.

### 3. INVESTMENTS IN UNCONSOLIDATED JOINT VENTURES

The debt of the Company's unconsolidated joint ventures generally is non-recourse to the Company, except for customary exceptions pertaining to such matters as intentional misuse of funds, environmental conditions and material misrepresentations, and except as otherwise indicated below.

#### PLAZA VIII AND IX ASSOCIATES, L.L.C.

Plaza VIII and IX Associates, L.L.C. is a joint venture between the Company and Columbia Development Company, L.L.C. ("Columbia"), which owns land for future development, located on the Hudson River waterfront in Jersey City,

New Jersey, adjacent to the Company's Harborside Financial Center office complex. The Company and Columbia each hold a 50 percent interest in the venture. The venture owns undeveloped land currently used as a parking facility.

#### SOUTH PIER AT HARBORSIDE – HOTEL

The Company has a joint venture with Hyatt Corporation (“Hyatt”) which owns a 350-room hotel on the South Pier at Harborside Financial Center, Jersey City, New Jersey. The Company owns a 50 percent interest in the venture.

The venture has a mortgage loan with a balance as of March 31, 2010 of \$67.0 million collateralized by the hotel property. The loan carries an interest rate of 6.15 percent and matures in November 2016. The venture has a loan with a balance as of March 31, 2010 of \$6.3 million with the City of Jersey City, provided by the U.S. Department of Housing and Urban Development. The loan currently bears interest at fixed rates ranging from 6.09 percent to 6.62 percent and matures in August 2020. The Company has posted a \$6.3 million letter of credit in support of this loan, half of which is indemnified by Hyatt.

#### RED BANK CORPORATE PLAZA

The Company has a joint venture with The PRC Group, which owns Red Bank Corporate Plaza, a 92,878 square foot office building located in Red Bank, New Jersey. The property is fully leased to Hovnanian Enterprises, Inc. through September 30, 2017. The Company holds a 50 percent interest in the venture.

The venture has a \$22.0 million loan with a commercial bank collateralized by the office property. The loan (with a balance as of March 31, 2010 of \$20.7 million), carries an interest rate of LIBOR plus 125 basis points and matures in April 2011. On January 26, 2010, the venture sold a vacant land parcel it had owned for approximately \$1.7 million.

The Company performs management, leasing and other services for the property owned by the joint venture and recognized \$24,000 and \$23,000 in fees for such services during the three months ended March 31, 2010 and 2009, respectively.

#### MACK-GREEN-GALE LLC/GRAMERCY AGREEMENT

On May 9, 2006, the Company entered into a joint venture, Mack-Green-Gale LLC and subsidiaries (“Mack-Green”), with SL Green, pursuant to which Mack-Green held an approximate 96 percent interest in and acted as general partner of Gale SLG NJ Operating Partnership, L.P. (the “OPLP”). The Company’s acquisition cost for its interest in Mack-Green was approximately \$125 million, which was funded primarily through borrowing under the Company’s revolving credit facility. At the time, the OPLP owned 100 percent of entities (“Property Entities”) which owned 25 office properties (the “OPLP Properties”) which aggregated 3.5 million square feet (consisting of 17 office properties aggregating 2.3 million square feet located in New Jersey and eight properties aggregating 1.2 million square feet located in Troy, Michigan). In December 2007, the OPLP sold its eight properties located in Troy, Michigan for \$83.5 million. The venture recognized a loss of approximately \$22.3 million from the sale.

As defined in the Mack-Green operating agreement, the Company shared decision-making equally with SL Green regarding: (i) all major decisions involving the operations of Mack-Green; and (ii) overall general partner responsibilities in operating the OPLP.

The Mack-Green operating agreement generally provided for profits and losses to be allocated as follows:

- (i) 99 percent of Mack-Green’s share of the profits and losses from 10 specific OPLP Properties allocable to the Company and one percent allocable to SL Green;
- (ii) one percent of Mack-Green’s share of the profits and losses from eight specific OPLP Properties and its minor interest in four office properties allocable to the Company and 99 percent allocable to SL Green; and
- (iii) 50 percent of all other profits and losses allocable to the Company and 50 percent allocable to SL Green.

Substantially all of the OPLP Properties were encumbered by mortgage loans with an aggregate outstanding principal balance of \$276.3 million at March 31, 2009. \$185.0 million of the mortgage loans bore interest at a weighted average fixed interest rate of 6.26 percent per annum and matured at various times through May 2016.

Six of the OPLP Properties (the “Portfolio Properties”) were encumbered by \$90.3 million of mortgage loans which bore interest at a floating rate of LIBOR plus 275 basis points per annum and were scheduled to mature in May 2009. The floating rate mortgage loans were provided to the six entities which owned the Portfolio Properties (collectively, the “Portfolio Entities”) by Gramercy, which was a related party of SL Green. Based on the venture’s anticipated holding period pertaining to the Portfolio Properties, the venture believed that the carrying amounts of these properties may not have been recoverable at December 31, 2008. Accordingly, as the venture determined that its carrying value of these properties exceeded the estimated fair value, it recorded an impairment charge of approximately \$32.3 million as of December 31, 2008.

On April 29, 2009, the Company acquired the remaining interests in Mack-Green from SL Green. As a result, the Company owns 100 percent of Mack-Green. Additionally, on April 29, the mortgage loans with Gramercy on the Portfolio Properties (the "Gramercy Agreement") were modified to provide for, among other things, interest to accrue at the current rate of LIBOR plus 275 basis point per annum, with the interest pay rate capped at 3.15 percent per annum. Under the Gramercy Agreement, the payment of debt service is subordinate to the payment of operating expenses. Interest at the pay rate is payable only out of funds generated by the Portfolio Properties and only to the extent that the Portfolio Properties' operating expenses have been paid, with any accrued unpaid interest above the pay rate serving to increase the balance of the amounts due at the termination of the agreement. Any excess funds after payment of debt service generally will be escrowed and available for future capital and leasing costs, as well as to cover future cash flow shortfalls, as appropriate. The Gramercy Agreement terminates on May 9, 2011. Approximately six months in advance of the end of the term of the Gramercy Agreement, the Portfolio Entities are to provide estimates of each property's fair market value ("FMV"). Gramercy has the right to accept or reject the FMV. If Gramercy rejects the FMV, Gramercy must market the property for sale in cooperation with the Portfolio Entities and must approve the ultimate sale. However, Gramercy has no obligation to market a Portfolio Property if the FMV is less than the allocated amount due, including accrued, unpaid interest. If any Portfolio Property is not sold, the Portfolio Entities have agreed to give a deed in lieu of foreclosure, unless the FMV was equal to or greater than the allocated amount due for such Portfolio Property, in which case they can elect to have that Portfolio Property released by paying the FMV. If Gramercy accepts the FMV, the Portfolio Property will be released from the Gramercy Agreement upon payment of the FMV. Under the direction of Gramercy, the Company continues to perform management, leasing, and construction services for the Portfolio Properties at market terms. The Portfolio Entities have a participation interest which provides for sharing 50 percent of any amount realized in excess of the allocated amounts due for each Portfolio Property.

As the Company acquired SL Green's interests in Mack-Green, the Company owns 100 percent of Mack-Green and is consolidating Mack-Green as of the closing date. Mack-Green, in turn, has been and will continue consolidating the OPLP as Mack-Green's approximate 96 percent, general partner ownership interest in the OPLP remained unchanged as of the closing date. Additionally, as of the closing date, the OPLP continues to consolidate its Property Entities which own 11 office properties aggregating 1.5 million square feet as its 100-percent ownership and rights regarding these entities were unchanged in the transaction. The OPLP will not be consolidating the Portfolio Entities that own six office properties, aggregating 786,198 square feet, as the Gramercy Agreement is considered a reconsideration event under the provisions of ASC 810, Consolidation, and accordingly, the Portfolio Entities were deemed to be variable interest entities for which the OPLP was not considered the primary beneficiary based on the Gramercy Agreement as described above. As a result of the SLG Transactions, the Company has an unconsolidated joint venture interest in the Portfolio Properties.

On March 31, 2010, the venture sold one of its unconsolidated Portfolio Properties subject to the Gramercy Agreement, 1280 Wall Street West, a 121,314 square foot office property, located in Lyndhurst, New Jersey, for approximately \$13.9 million, which was primarily used to pay down mortgage loans pursuant to the Gramercy Agreement.

The Company performs management, leasing, and construction services for properties owned by the unconsolidated joint ventures and recognized \$233,000 and \$1.1 million in income (net of \$0 and \$790,000 in direct costs) for such services in the three months ended March 31, 2010 and 2009, respectively.

#### GE/GALE FUNDING LLC (PFV)

The Gale agreement signed as part of the Gale/Green transactions in May 2006 provides for the Company to acquire certain ownership interests in real estate projects (the "Non-Portfolio Properties"), subject to obtaining certain third party consents and the satisfaction of various project-related and/or other conditions. Each of the Company's acquired

interests in the Non-Portfolio Properties provide for the initial distributions of net cash flow solely to the Company, and thereafter an affiliate of Mr. Gale (“Gale Affiliate”) has participation rights (“Gale Participation Rights”) in 50 percent of the excess net cash flow remaining after the distribution to the Company of the aggregate amount equal to the sum of: (a) the Company’s capital contributions, plus (b) an internal rate of return (“IRR”) of 10 percent per annum, accruing on the date or dates of the Company’s investments.

On May 9, 2006, as part of the Gale/Green transactions, the Company acquired from a Gale Affiliate for \$1.8 million a 50 percent controlling interest in GMW Village Associates, LLC (“GMW Village”). The Company consolidates GMW Village, which includes accounts for investments in unconsolidated joint venture and noncontrolling interests in consolidated joint ventures, with any profit and loss recorded in equity in earnings (loss) and noncontrolling interests. GMW Village holds a 20 percent interest in GE/Gale Funding LLC (“GE Gale”). GE Gale owns a 100 percent interest in the entity owning Princeton Forrestal Village, a mixed-use, office/retail complex aggregating 527,015 square feet and located in Plainsboro, New Jersey (“Princeton Forrestal Village” or “PFV”).

In addition to the cash consideration paid to acquire the interest, the Company provided a Gale affiliate with the Gale Participation Rights.

The operating agreement of GE Gale, which is owned 80 percent by GEBAM, Inc., provides for, among other things, distributions of net cash flow, initially, in proportion to each member’s interest and subject to adjustment upon achievement of certain financial goals, as defined in the operating agreement.

GE Gale has a mortgage loan with a balance of \$50.7 million at March 31, 2010. The loan bears interest at a rate of LIBOR plus 275 basis points and matures on January 9, 2011.

The Company performs management, leasing, and other services for PFV and recognized \$408,000 and \$223,000 in income for such services in the three months ended March 31, 2010 and 2009, respectively.

ROUTE 93 MASTER LLC (“Route 93 Participant”)/ROUTE 93 BEDFORD MASTER LLC (with the Route 93 Participant, collectively, the “Route 93 Venture”)

On June 1, 2006, the Route 93 Venture was formed between the Route 93 Participant, a majority-owned subsidiary of the Company, having a 30 percent interest and the Commingled Pension Trust Fund (Special Situation Property) of JPMorgan Chase Bank having a 70 percent interest, for the purpose of acquiring seven office buildings, aggregating 666,697 square feet, located in the towns of Andover, Bedford and Billerica, Massachusetts. Profits and losses were shared by the partners in proportion to their respective interests until the investment yielded an 11 percent IRR, then sharing shifted to 40/60, and when the IRR reached 15 percent, then sharing shifted to 50/50. The Route 93 Participant is a joint venture between the Company and a Gale affiliate. Profits and losses were shared by the partners under this venture in proportion to their respective interests (83.3/16.7) until the investment yielded an 11 percent IRR, then sharing shifted to 50/50.

On March 31, 2009, on account of the deterioration at the time in the commercial real estate markets in the Boston area, the Company wrote off its investment in the venture and recorded an impairment charge in equity in earnings (loss) of \$4.0 million (of which \$0.6 million was attributable to noncontrolling interest in consolidated joint ventures) during the period. The Route 93 Ventures had a mortgage loan with a \$44.2 million balance at September 1, 2009 collateralized by its office properties. The loan bore interest at a rate of LIBOR plus 220 basis points and was scheduled to mature on July 11, 2009. On September 2, 2009, the venture transferred the deeds to the lender in satisfaction of its obligations.

GALE KIMBALL, L.L.C.

On June 15, 2006, the Company entered into a joint venture with a Gale Affiliate to form M-C Kimball, LLC (“M-C Kimball”). M-C Kimball was formed for the sole purpose of acquiring a Gale Affiliate’s 33.33 percent membership interest in Gale Kimball, L.L.C. (“Gale Kimball”), an entity holding a 25 percent interest in 100 Kimball Drive LLC (“100 Kimball”), which developed and placed in service a 175,000 square foot office property that is leased to a single tenant, located at 100 Kimball Drive, Parsippany, New Jersey (the “Kimball Property”).



The operating agreement of M-C Kimball provides, among other things, for the Gale Participation Rights (of which Mark Yeager, a former Executive Vice President of the Company, has a direct 26 percent interest).

Gale Kimball is owned 33.33 percent by M-C Kimball and 66.67 percent by the Hampshire Generational Fund, L.L.C. (“Hampshire”). The operating agreement of Gale Kimball provides, among other things, for the distribution of net cash flow, initially, in accordance with its members’ respective membership interests and, upon achievement of certain financial conditions, 50 percent to each of the Company and Hampshire.

100 Kimball is owned 25 percent by Gale Kimball and 75 percent by 100 Kimball Drive Realty Member LLC, an affiliate of JPMorgan (“JPM”). The operating agreement of 100 Kimball provides, among other things, for the distributions to be made in the following order:

- (i) first, to JPM, such that JPM is provided with an annual 12 percent compound preferred return on Preferred Equity Capital Contributions (as such term is defined in the operating agreement of 100 Kimball and largely comprised of development and construction costs);
- (ii) second, to JPM, as return of Preferred Equity Capital Contributions until complete repayment of such Preferred Equity Capital Contributions;
- (iii) third, to each of JPM and Gale Kimball in proportion to their respective membership interests until each member is provided, as a result of such distributions, with an annual twelve percent compound return on the Member’s Capital Contributions (as defined in the operating agreement of 100 Kimball, and excluding Preferred Equity Capital Contributions, if any); and
  - (iv) fourth, 50 percent to each of JPM and Gale Kimball.

On September 21, 2007, 100 Kimball obtained a \$47 million mortgage loan which bore interest at a rate of 5.95 percent and was scheduled to mature in September 2012. On December 30, 2009 the venture paid the lender \$40 million to satisfy the debt and recorded a gain of \$7.0 million (of which the Company’s share of \$579,000 is included in equity in earnings for the year ended December 31, 2009). Concurrently, 100 Kimball obtained a \$32 million mortgage loan that bears interest at a rate of LIBOR plus 400 basis points and matures on January 10, 2013 with two one-year extension options, subject to certain conditions and payment of a fee. LIBOR is defined as the greater of (i) 1.50%, and (ii) the rate of interest per annum reported as the thirty day London Interbank Offered Rate.

The Company performs management, leasing, and other services for the property owned by 100 Kimball for which it recognized \$70,500 and \$55,000 in income for the three months ended March 31, 2010 and 2009, respectively.

#### 12 VREELAND ASSOCIATES, L.L.C.

On September 8, 2006, the Company entered into a joint venture with a Gale Affiliate to form M-C Vreeland, LLC (“M-C Vreeland”). M-C Vreeland was formed for the sole purpose of acquiring a Gale Affiliate’s 50 percent membership interest in 12 Vreeland Associates, L.L.C., an entity owning an office property located at 12 Vreeland Road, Florham Park, New Jersey.

The operating agreement of M-C Vreeland provides, among other things, for the Gale Participation Rights (of which Mr. Yeager has a direct 15 percent interest).

The office property at 12 Vreeland is a 139,750 square foot office building. The property is subject to a fully-amortizing mortgage loan, which matures on July 1, 2012, and bears interest at 6.9 percent per annum. As of March 31, 2010 the outstanding balance on the mortgage note was \$4.7 million.

Under the operating agreement of 12 Vreeland Associates, L.L.C., M-C Vreeland has a 50 percent interest, with S/K Florham Park Associates, L.L.C. (the managing member) and its affiliate holding the other 50 percent.

#### BOSTON-DOWNTOWN CROSSING

On October 20, 2006, the Company formed a joint venture (the “MC/Gale JV LLC”) with Gale International/426 Washington St. LLC (“Gale/426”), which, in turn, entered into a joint venture (the “Vornado JV LLC”) with VNO 426 Washington Street JV LLC (“Vornado”), an affiliate of Vornado Realty LP, which was formed to acquire and redevelop the Filenes property located in the Downtown Crossing district of Boston, Massachusetts (the “Filenes Property”).

On January 25, 2007, (i) each of M-C/Gale JV LLC, Gale and Washington Street Realty Member LLC (“JPM”) formed a joint venture (“JPM JV LLC”), (ii) M-C/Gale JV LLC assigned its entire 50 percent ownership interest in the Vornado JV LLC to JPM JV LLC, (iii) the Limited Liability Company Agreement of Vornado JV LLC was amended to reflect, among other things, the change in the ownership structure described in subsection (ii) above, and (iv) the Limited Liability Company Agreement of MC/Gale JV LLC was amended and restated to reflect, among other things, the change in the ownership structure described in subsection (ii) above. The Vornado JV LLC acquired the Filenes Property on January 29, 2007, for approximately \$100 million.

On or about September 16, 2008, Vornado JV LLC was reorganized in contemplation of developing and converting the Filenes property into a condominium consisting of a retail unit, an office unit, a parking unit, a hotel unit and a residential unit. Pursuant to this reorganization, (i) the Company and Gale/426 formed a new joint venture (“M-C/Gale JV II LLC”) and (ii) M-C/Gale JV II LLC and Washington Street Realty Member II LLC (“JPM II”) formed a new joint venture (“JPM JV II LLC”) to invest in a new joint venture (“Vornado JV II LLC”) with Vornado RTR DC LLC, an affiliate of Vornado Realty, LP (“Vornado II”). Following this reorganization, Vornado JV LLC owns the interests in the retail unit and the office unit (the “Filenes Office/Retail Component”) and Vornado JV II LLC owns the interests in the parking unit, the hotel unit and the residential unit (“the “Filenes Hotel/Residential/Parking Component”). In connection with the foregoing, (a) the Limited Liability Company Agreement of Vornado JV LLC, as amended, was amended and restated to reflect, among other things, the change in the ownership structure described above, (b) the Limited Liability Company Agreement of JPM JV LLC was amended and restated to reflect, among other things, the change in the ownership structure described above and (c) the Limited Liability Company Agreement of M-C/Gale JV LLC was amended and restated to reflect, among other things, the change in the ownership structure described above.

As a result of the foregoing transactions, (A) (i) the Filenes Office/Retail Component is owned by Vornado JV LLC, (ii) Vornado JV LLC is owned 50 percent by each of Vornado and JPM JV LLC, (iii) JPM JV LLC is owned 30 percent by M-C/Gale JV LLC, 70 percent by JPM and managed by Gale/426, which has no ownership interest in JPM JV LLC, and (iv) M-C/Gale JV LLC is owned 99.99 percent by the Company and 0.01 percent by Gale/426 and (B) (i) the Filenes Hotel/Residential/Parking Component is owned by Vornado JV II LLC, (ii) Vornado JV II LLC is owned 50 percent by each of Vornado II and JPM JV II LLC, (iii) JPM JV II LLC is owned 30 percent by M-C/Gale JV II LLC, 70 percent by JPM II and managed by Gale/426, which has no ownership interest in JPM JV II LLC, and (iv) M-C/Gale JV II LLC is owned 99.99 percent by the Company and 0.01 percent by Gale/426. Thus, the Company holds approximately a 15 percent indirect ownership interest in each of Vornado JV LLC and Vornado JV II LLC and the Filenes Property.

Distributions are made (i) by Vornado JV LLC in proportion to its members’ respective ownership interests, (ii) by JPM JV LLC (a) initially, in proportion to its members’ respective ownership interests until JPM’s investment yields an 11 percent IRR, (b) thereafter, 60/40 to JPM and MC/Gale JV LLC, respectively, until JPM’s investment yields a 15 percent IRR and (c) thereafter, 50/50 to JPM and MC/Gale JV LLC, respectively, and (iii) by MC/Gale JV LLC (w) initially, in proportion to its members’ respective ownership interests until each member has received a 10 percent IRR on its investment, (x) thereafter, 65/35 to the Company and Gale/426, respectively, until the Company’s investment yields a 15 percent IRR, (y) if by the time the Company receives a 15 percent IRR on its investment, Gale/426 has not done so, 100 percent to Gale/426 until Gale/426’s investment yields a 15 percent IRR, and (z) thereafter, 50/50 to each of the Company and Gale/426.

Distributions are made (i) by Vornado JV II LLC in proportion to its members’ respective ownership interests, (ii) by JPM JV II LLC (a) initially, in proportion to its members’ respective ownership interests until JPM II’s investment yields an 11 percent IRR, (b) thereafter, 60/40 to JPM II and M-C/Gale JV II LLC, respectively, until JPM II’s investment yields a 15 percent IRR and (c) thereafter, 50/50 to JPM II and M-C/Gale JV II LLC, respectively, and (iii) by M-C/Gale JV II LLC (w) initially, in proportion to its members’ respective ownership interests until each member has received a 10 percent IRR on its investment, (x) thereafter, 65/35 to the Company and Gale/426, respectively, until the Company’s investment yields a 15 percent IRR, (y) if by the time the Company receives a 15 percent IRR on its investment, Gale/426 has not done so, 100 percent to Gale/426 until Gale/426’s investment yields a 15 percent IRR, and (z) thereafter, 50/50 to each of the Company and Gale/426.

The joint venture has suspended its plans for the development of the Filenes Property which was to include approximately 1.2 million square feet consisting of office, retail, condominium apartments, hotel and a parking

garage. The project is subject to governmental approvals. The venture recorded an impairment charge of approximately \$69.5 million on its development project as of December 31, 2008.

GALE JEFFERSON, L.L.C.

On August 22, 2007, the Company entered into a joint venture with a Gale Affiliate to form M-C Jefferson, L.L.C. (“M-C Jefferson”). M-C Jefferson was formed for the sole purpose of acquiring a Gale Affiliate’s 33.33 percent membership interest in Gale Jefferson, L.L.C. (“Gale Jefferson”), an entity holding a 25 percent interest in One Jefferson Road LLC (“One Jefferson”), which developed and placed in service a 100,000 square foot office property at One Jefferson Road, Parsippany, New Jersey, (“the Jefferson Property”). The property has been fully leased to a single tenant through August 2025.

The operating agreement of M-C Jefferson provides, among other things, for the Gale Participation Rights (of which Mark Yeager, a former Executive Vice President of the Company, has a direct 26 percent interest). Gale Jefferson is owned 33.33 percent by M-C Jefferson and 66.67 percent by the Hampshire Generational Fund, L.L.C. (“Hampshire”). The operating agreements of Gale Jefferson provides, among other things, for the distribution of net cash flow, first, in accordance with its member’s respective interests until each member is provided, as a result of such distributions, with an annual 12 percent compound return on the Member’s Capital Contributions, as defined in the operating agreement and secondly, 50 percent to each of the Company and Hampshire.

One Jefferson has a loan in an amount not to exceed \$21 million (with a balance of \$14.8 million at March 31, 2010), bearing interest at a rate of LIBOR plus 160 basis points and maturing on October 24, 2010 with a one-year extension option, subject to certain conditions and payment of a fee.

The Company performs management, leasing and other services for Gale Jefferson and recognized \$37,000 and \$135,000 in income (net of \$1.0 million and \$314,000 in direct costs) for such services for the three months ended March 31, 2010 and 2009, respectively.

## SUMMARIES OF UNCONSOLIDATED JOINT VENTURES

The following is a summary of the financial position of the unconsolidated joint ventures in which the Company had investment interests as of March 31, 2010 and December 31, 2009. (dollars in thousands)

	March 31, 2010									Combined Total
	Plaza VIII & IX Associates	Red Bank Harborside South Pier	Corporate Plaza	Gramercy Agreement	Princeton Forrestal Village	Gale Kimball	Vreeland	Boston- 12 Downtown Crossing	Gale Jefferson	
Assets:										
Rental property, net	\$ 9,407	\$ 65,900	\$ 23,955	\$ 68,449	\$ 38,092	--	\$ 14,962	--	--	\$ 220,765
Other assets	1,210	10,311	5,838	8,824	21,847	\$ 1,897	1,021	\$ 46,290	\$ 1,813	99,051
Total assets	\$ 10,617	\$ 76,211	\$ 29,793	\$ 77,273	\$ 59,939	\$ 1,897	\$ 15,983	\$ 46,290	\$ 1,813	\$ 319,816
Liabilities and partners'/members' capital (deficit):										
Mortgages, loans payable and other obligations	--	\$ 73,306	\$ 20,679	\$ 77,758	\$ 50,747	--	\$ 4,671	--	--	\$ 227,161
Other liabilities	\$ 533	5,277	54	2,381	3,371	--	--	--	--	11,616
Partners'/members' capital (deficit)	10,084	(2,372)	9,060	(2,866)	5,821	\$ 1,897	11,312	\$ 46,290	\$ 1,813	81,039
Total liabilities and partners'/members' capital (deficit)	\$ 10,617	\$ 76,211	\$ 29,793	\$ 77,273	\$ 59,939	\$ 1,897	\$ 15,983	\$ 46,290	\$ 1,813	\$ 319,816
Company's investment in unconsolidated joint ventures, net	\$ 4,964	\$ 92	\$ 4,264	--	\$ 1,432	\$ 1,227	\$ 9,688	\$ 13,061	\$ 782	\$ 35,510

	December 31, 2009									Combined Total
	Plaza VIII & IX Associates	Red Bank Harborside South Pier	Corporate Plaza	Gramercy Agreement	Princeton Forrestal Village	Gale Kimball	Vreeland	Boston- 12 Downtown Crossing	Gale Jefferson	
Assets:										
Rental property, net	\$ 9,560	\$ 61,836	\$ 24,884	\$ 73,037	\$ 38,722	--	\$ 15,265	--	--	\$ 223,304
Other assets	997	15,483	4,623	8,631	22,034	\$ 1,998	1,068	\$ 45,884	\$ 1,780	102,498
Total assets	\$ 10,557	\$ 77,319	\$ 29,507	\$ 81,668	\$ 60,756	\$ 1,998	\$ 16,333	\$ 45,884		