MACK CALI REALTY CORP
Form 10-Q
August 02, 2007

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended June 30, 2007

or

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

For the transition period from to

Commission File Number: 1-13274

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 o

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer or a non-accelerated filer. See definition of accelerated filer and large accelerated filer in Rule 12b-2 of the Exchange Act. (Check One):

Large accelerated filer x Accelerated filer o Non-accelerated filer o

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). YES o NO x

As of July 27, 2007, there were 67,927,213 shares of the registrant s Common Stock, par value $0.01 per share, outstanding.

MACK-CALI REALTY CORPORATION

FORM 10-Q

INDEX

Part I	**Financial Information**	
	Item 1.	*Financial Statements (unaudited):*
		Consolidated Balance Sheets as of June 30, 2007 and December 31, 2006
		Consolidated Statements of Operations for the three and six month periods ended June 30, 2007 and 2006
		Consolidated Statement of Changes in Stockholders Equity for the six months ended June 30, 2007
		Consolidated Statements of Cash Flows for the six months ended June 30, 2007 and 2006
		Notes to Consolidated Financial Statements
	Item 2.	Management s Discussion and Analysis of Financial Condition and Results of Operations
	Item 3.	Quantitative and Qualitative Disclosures About Market Risk
	Item 4.	Controls and Procedures
Part II	**Other Information**	
	Item 1.	Legal Proceedings
	Item 1A.	Risk Factors
	Item 2.	Unregistered Sales of Equity Securities and Use of Proceeds
	Item 3.	Defaults Upon Senior Securities
	Item 4.	Submission of Matters to a Vote of Security Holders
	Item 5.	Other Information
	Item 6.	Exhibits
Signatures		
Exhibit Index		

MACK-CALI REALTY CORPORATION

Part I Financial Information

Item 1. Financial Statements

The accompanying unaudited consolidated balance sheets, statements of operations, of changes in stockholders 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, 2006.

The results of operations for the three and six month periods ended June 30, 2007 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) (unaudited)*

	June 30, 2007	December 31, 2006
ASSETS		
Rental property		
Land and leasehold interests	$ 722,777	$ 659,169
Buildings and improvements	3,736,777	3,549,699
Tenant improvements	365,469	356,495
Furniture, fixtures and equipment	8,496	8,224
	4,833,519	4,573,587
Less accumulated depreciation and amortization	(833,492)	(796,793)
	4,000,027	3,776,794
Rental property held for sale, net	5,826	
Net investment in rental property	4,005,853	3,776,794
Cash and cash equivalents	18,903	101,223
Investments in unconsolidated joint ventures	181,059	160,301
Unbilled rents receivable, net	106,215	100,847
Deferred charges and other assets, net	261,965	240,637
Restricted cash	16,795	15,448
Accounts receivable, net of allowance for doubtful accounts of $2,715 and $1,260	29,432	27,639
Total assets	$ 4,620,222	$ 4,422,889
LIABILITIES AND STOCKHOLDERS EQUITY		
Senior unsecured notes	$ 1,632,014	$ 1,631,482
Revolving credit facility	115,000	145,000
Mortgages, loans payable and other obligations	336,534	383,477
Dividends and distributions payable	53,689	50,591
Accounts payable, accrued expenses and other liabilities	146,689	122,134
Rents received in advance and security deposits	51,116	45,972
Accrued interest payable	33,832	34,106
Total liabilities	2,368,874	2,412,762
Minority interests:		
Operating Partnership	475,226	480,103
Consolidated joint ventures	1,555	2,117
Total minority interests	476,781	482,220
Commitments and contingencies		
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, 67,923,941 and 62,925,191 shares outstanding	679	629
Additional paid-in capital	1,971,901	1,708,053
Dividends in excess of net earnings	(223,013)	(205,775)
Total stockholders equity	1,774,567	1,527,907
Total liabilities and stockholders equity	$ 4,620,222	$ 4,422,889

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) (unaudited)*

	Three Months Ended June 30,		Six Months Ended June 30,	
	2007	**2006**	**2007**	**2006**
REVENUES				
Base rents	$ 142,482	$ 133,333	$ 282,039	$ 260,839
Escalations and recoveries from tenants	25,766	23,272	51,986	44,243
Construction services	23,469	13,049	45,810	13,049
Real estate services	4,959	7,734	7,700	8,363
Other income	3,854	5,401	6,252	8,184
Total revenues	200,530	182,789	393,787	334,678
EXPENSES				
Real estate taxes	23,852	21,162	47,322	41,932
Utilities	15,329	13,214	32,874	27,670
Operating services	27,348	25,880	51,974	46,036
Direct construction costs	22,634	12,579	43,545	12,579
General and administrative	12,870	11,846	23,940	20,621
Depreciation and amortization	43,823	39,476	85,274	75,955
Total expenses	145,856	124,157	284,929	224,793
Operating income	54,674	58,632	108,858	109,885
OTHER (EXPENSE) INCOME				
Interest expense	(31,333)	(33,034)	(62,269)	(64,109)
Interest and other investment income	1,571	399	3,188	1,845
Equity in earnings (loss) of unconsolidated joint ventures	(1,696)	(846)	(3,927)	(599)
Minority interest in consolidated joint ventures	214	30	441	30
Gain on sale of investment in marketable securities				15,060
Total other (expense) income	(31,244)	(33,451)	(62,567)	(47,773)
Income from continuing operations before Minority interest in Operating Partnership	23,430	25,181	46,291	62,112
Minority interest in Operating Partnership	(4,197)	(4,950)	(8,418)	(11,790)
Income from continuing operations	19,233	20,231	37,873	50,322
Discontinued operations (net of minority interest):				
Income from discontinued operations	598	2,982	1,037	5,988
Realized gains (losses) and unrealized losses on disposition of rental property, net	31,747	3,921	31,747	3,921
Total discontinued operations, net	32,345	6,903	32,784	9,909
Net income	51,578	27,134	70,657	60,231
Preferred stock dividends	(500)	(500)	(1,000)	(1,000)
Net income available to common shareholders	$ 51,078	$ 26,634	$ 69,657	$ 59,231
Basic earnings per common share:				
Income from continuing operations	$ 0.28	$ 0.32	$ 0.55	$ 0.79
Discontinued operations	$ 0.47	$ 0.11	$ 0.49	0.16
Net income available to common shareholders	$ 0.75	$ 0.43	$ 1.04	$ 0.95
Diluted earnings per common share:				
Income from continuing operations	$ 0.28	$ 0.32	$ 0.55	$ 0.79
Discontinued operations	$ 0.47	$ 0.11	$ 0.49	0.16
Net income available to common shareholders	$ 0.75	$ 0.43	$ 1.04	$ 0.95
Dividends declared per common share	$ 0.64	$ 0.63	$ 1.28	$ 1.26
Basic weighted average shares outstanding	67,799	62,182	66,753	62,085

Diluted weighted average shares outstanding	83,193	78,067	82,220	77,359

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

5

MACK-CALI REALTY CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF CHANGES IN STOCKHOLDERS EQUITY ***(in thousands) (unaudited)***

	Preferred Stock		Common Stock		Additional Paid-In	Dividends in Excess of	Total Stockholders
	Shares	Amount	Shares	Par Value	Capital	Net Earnings	Equity
Balance at January 1, 2007	10	$ 25,000	62,925	$ 629	$ 1,708,053	$ (205,775)	$ 1,527,907
Net income						70,657	70,657
Preferred stock dividends						(1,000)	(1,000)
Common stock dividends						(86,895)	(86,895)
Common Stock offering			4,650	47	251,685		251,732
Redemption of common units for common stock			207	2	6,440		6,442
Shares issued under Dividend Reinvestment and Stock Purchase Plan			3		146		146
Stock options exercised			126	1	3,613		3,614
Stock options expense					66		66
Directors Deferred compensation plan					159		159
Issuance of restricted stock			13				
Amortization of stock compensation					1,739		1,739
Balance at June 30, 2007	10	$ 25,000	67,924	$ 679	$ 1,971,901	$ (223,013)	$ 1,774,567

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) (unaudited)***

	Six Months Ended June 30, 2007	2006
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	$ 70,657	$ 60,231
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	85,274	75,955
Depreciation and amortization on discontinued operations	424	6,319
Stock options expense	66	176
Amortization of stock compensation	1,739	1,438
Amortization of deferred financing costs and debt discount	1,421	1,446
Distribution of cumulative earnings from joint ventures	1,000	
Equity in (earnings) losses of unconsolidated joint ventures, net	3,927	599
Gain on sale of marketable securities available for sale		(15,060)
Realized (gain) losses and unrealized losses on disposition of rental property (net of minority interest)	(31,747)	(3,921)
Minority interest in Operating Partnership	8,418	11,790
Minority interest in consolidated joint ventures	(441)	30
Minority interest in income from discontinued operations	236	1,443
Changes in operating assets and liabilities:		
Increase in unbilled rents receivable, net	(5,921)	(11,460)
Increase in deferred charges and other assets, net	(18,316)	(36,897)
Increase in accounts receivable, net	(1,793)	(19,888)
Increase in accounts payable, accrued expenses and other liabilities	3,473	36,421
Increase in rents received in advance and security deposits	5,144	2,913
(Decrease) increase in accrued interest payable	(274)	8,412
Net cash provided by operating activities	$ 123,287	$ 119,947
CASH FLOWS FROM INVESTING ACTIVITIES		
Additions to rental property and related intangibles	$ (327,864)	$ (150,189)
Repayments of notes receivable	81	77
Investment in unconsolidated joint ventures	(20,141)	(134,183)
Purchase of marketable securities available for sale		(11,912)
Proceeds from sale of rental property	45,755	18,912
Proceeds from sale of marketable securities available for sale		78,609
Increase in restricted cash	(1,347)	(7,120)
Net cash used in investing activities	$ (303,516)	$ (205,806)
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from senior unsecured notes		$ 199,914
Borrowings from revolving credit facility	$ 269,000	530,250
Repayment of revolving credit facility	(299,000)	(440,250)
Repayment of mortgages, loans payable and other obligations	(21,781)	(152,521)
Payment of financing costs	(1,414)	(385)
Proceeds from offering of Common Stock	251,732	
Proceeds from stock options exercised	3,614	5,773
Payment of dividends and distributions	(104,242)	(96,902)
Net cash provided by financing activities	$ 97,909	$ 45,879
Net decrease in cash and cash equivalents	$ (82,320)	$ (39,980)
Cash and cash equivalents, beginning of period	101,223	60,397

Cash and cash equivalents, end of period	$	18,903	$	20,417

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

7

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 June 30, 2007, the Company owned or had interests in 302 properties plus developable land (collectively, the Properties). The Properties aggregate approximately 34.8 million square feet, which are comprised of 291 buildings, primarily office and office/flex buildings, totaling approximately 34.4 million square feet (which include 44 buildings, primarily office buildings, aggregating 5.4 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, a hotel (which is owned by an unconsolidated joint venture in which the Company has an investment interest) and two parcels of land leased to others. The Properties are located in seven 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.

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. 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 and development in-progress of $117,594,000 and $116,151,000 (including land of $65,853,000 and $63,136,000) as of June 30, 2007 and December 31, 2006, 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, 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 relative fair values. 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 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. Management does not believe that the value of any of the Company s rental properties is impaired.

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. See Note 6: Discontinued Operations.

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 for which Financial Accounting Standards Board (FASB) Interpretation No. 46 (revised December 2003), Consolidation of Variable Interest Entities (FIN 46) does not apply under the equity method of accounting as the Company exercises significant influence, but does not control these entities. These investments are recorded initially at cost, as Investments in Unconsolidated Joint Ventures, and subsequently adjusted for equity in earnings and cash contributions and distributions.

FIN 46 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, FIN 46 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 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. Management does not believe that the value of any of the Company s investments in unconsolidated joint ventures is impaired. See Note 4: 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 stockholders equity until realized. A decline in the market value of any 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.

Deferred

Financing Costs Costs incurred in obtaining financing are capitalized and amortized on a straight-line basis, which approximates the effective interest method, over the term of the related indebtedness. Amortization of such costs is included in interest expense and was $713,000 and $725,000 for the three months ended June 30, 2007 and 2006, respectively, and $1,421,000 and $1,446,000 for the six months ended June 30, 2007 and 2006, 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 $927,000 and $817,000 for the three months ended June 30, 2007 and 2006, respectively, and $2,064,000 and $1,666,000 for the six months ended June 30, 2007 and 2006, 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 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

11

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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 13: 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 and clients to determine if accounts receivable balances are impaired based on factors affecting the collectibility 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 provisions of FASB Interpretation No. 48 (FIN 48), Accounting for Uncertainty in Income Taxes, an interpretation of FASB Statement No. 109 (FAS No. 109) on January 1, 2007. As a result of the implementation of FIN 48, 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.

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 June 30, 2007 represents dividends payable to preferred shareholders (10,000 shares) and common shareholders (67,925,301 shares), and distributions payable to minority interest common unitholders of the Operating Partnership (15,250,592 common units) for all such holders of record as of July 5, 2007 with respect to the second quarter 2007. The second quarter 2007 preferred stock dividends of $50.00 per share, common stock dividends and common unit distributions of $0.64 per common share and unit were approved by the Board of Directors on June 13, 2007. The preferred stock dividends, common stock dividends and common unit distributions payable were paid on July 16, 2007.

The dividends and distributions payable at December 31, 2006 represents dividends payable to preferred shareholders (10,000 shares) and common shareholders (62,925,271 shares), and distributions payable to minority interest common unitholders of the Operating Partnership (15,342,283 common units) for all such holders of record as of January 4, 2007 with respect to the fourth quarter 2006. The fourth quarter 2006 preferred stock dividends of $50.00 per share, common stock dividends and common unit distributions of $0.64 per common share and unit were approved by the Board of Directors on December 5, 2006. The common stock dividends and common unit distributions payable were paid on January 12, 2007. The preferred stock dividends payable were paid on January 16, 2007.

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 Accounting Principles Board Opinion No. 25, Accounting for Stock Issued to Employees, and related Interpretations (APB No. 25). Under APB No. 25, 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 FASB No. 123, and in 2006, the Company adopted the provisions of FASB No. 123(R), 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 and stock options expense of $907,000 and $884,000 for the three months ended June 30, 2007 and 2006, respectively, and $1,804,000 and $1,614,000 for the six months ended June 30, 2007 and 2006, 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. For the six months ended June 30, 2007 and 2006, respectively, other comprehensive income was 0 and $790,000.

Reclassifications Certain reclassifications have been made to prior period amounts in order to conform with current period presentation.

3. REAL ESTATE TRANSACTIONS

Property Acquisitions

The Company acquired the following office properties during the six months ended June 30, 2007: *(dollars in thousands)*

Acquisition Date	Property/Address	Location	# of Bldgs.	Rentable Square Feet	Acquisition Cost
05/08/07	AAA Properties (a)	Hamilton Township, New Jersey	2	69,232	$ 9,048
06/11/07	125 Broad Street (b) (c)	New York, New York	1	524,476	274,091
Total Property Acquisitions:			3	593,708	$ 283,139

(a) Included in this transaction was the acquisition of two parcels of developable land aggregating approximately 13 acres.

(b) Acquisition represented two units of office condominium interests, which collectively comprise floors 2 through 16, or 39.6 percent, of the 40-story, 1.2 million square-foot building.

(c) Transaction was funded primarily through borrowing on the Company s revolving credit facility.

Properties Commencing Initial Operations

The following property commenced initial operations during the six months ended June 30, 2007: *(dollars in thousands)*

Date	Property/Address	Location	# of Bldgs.	Rentable Square Feet	Investment by Company (a)
05/08/07	700 Horizon Drive	Hamilton Township, New Jersey	1	120,000	$ 16,699
Total Properties Commencing Initial Operations:			1	120,000	$ 16,699

(a) Development costs were funded primarily through draws on the Company s revolving credit facility. Amounts are as of June 30, 2007.

Land Acquisition

In February 2007, the Company exercised its option to acquire approximately 43 acres of land sites within its Capital Office Park complex in Greenbelt, Maryland, which is able to accommodate the development of up to 600,000 square feet of office space, for $13 million. The option was acquired as part of the acquisition of the office complex in February 2006. On May 25, 2007, the Company completed the purchase of the land for approximately $13 million, which consisted of 114,911 common operating partnership units valued at $5.2 million, and the remainder in cash.

Property Sales

The Company sold the following office properties during the six months ended June 30, 2007: *(dollars in thousands)*

Sale Date	Property/Address	Location	# of Bldgs.	Rentable Square Feet	Net Sales Proceeds	Net Book Value	Realized Gain
05/10/07	1000 Bridgeport	Shelton, Connecticut	1	133,000	$ 16,411	$ 13,782	$ 2,629
06/11/07	500 W. Putnam	Greenwich, Connecticut	1	121,250	54,344	18,113	36,231
Total Office Property Sales:			2	254,250	$ 70,755	$ 31,895	$ 38,860

14

Gale Earn-Out

The agreement to acquire the Gale Company (Gale Agreement), which was completed as part of the Gale/Green transactions on May 9, 2006, contained earn-out provisions (Earn-Out) providing for the payment of contingent purchase consideration of up to $18 million in cash based upon the achievement of Gross Income and NOI (as such terms were defined in the Gale Agreement) targets and other events for the three years following the closing date.

On May 23, 2007, the Company entered into an amendment (the Amendment) to the Gale Agreement. The Amendment eliminated the Earn-Out and substituted an aggregate of $14 million in payments by the Company consisting of the following:

(1) $8 million, which was paid on May 31, 2007;

(2) $3 million on May 9, 2008; and

(3) $3 million on May 9, 2009.

Subsequent Event

On May 25, 2007, the Company entered into an agreement to sell its two office buildings in Egg Harbor Township, New Jersey, for approximately $12.5 million. The buildings, which total 80,344 square feet, were subsequently sold on July 13, 2007.

4. INVESTMENTS IN UNCONSOLIDATED JOINT VENTURES

The debt of the Company s unconsolidated joint ventures aggregating $591.7 million as of June 30, 2007 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.

MEADOWLANDS XANADU

On November 25, 2003, the Company and affiliates of The Mills Corporation (Mills) entered into a joint venture agreement (Meadowlands Xanadu Venture Agreement) to form Meadowlands Mills/Mack-Cali Limited Partnership (Meadowlands Venture) for the purpose of developing a $1.3 billion family entertainment, recreation and retail complex with an office and hotel component to be built at the Meadowlands sports complex in East Rutherford, New Jersey (Meadowlands Xanadu). The First Amendment to the Meadowlands Xanadu Venture Agreement was entered into as of June 30, 2005. Meadowlands Xanadu s approximately 4.76 million-square-foot complex is expected to feature a family entertainment, recreation and retail destination comprising five themed zones: sports; entertainment; children s education; fashion; and food and home, in addition to four office buildings, aggregating approximately 1.8 million square feet, and a 520-room hotel.

The Company and Mills owned a 20 percent and 80 percent interest, respectively, in the Meadowlands Venture. The Meadowlands Xanadu Venture Agreement required the Company to make an equity contribution up to a maximum of $32.5 million, which it fulfilled in April 2005.

Mills was to develop, lease and operate the entertainment phase of the Meadowlands Xanadu project (ERC). Upon the Company s exercise of its rights under the Meadowlands Xanadu Venture Agreement to develop the office and hotel phases, the Meadowlands Venture was to convey ownership of the component ventures to the Company and Mills or its affiliate, and the Company or its affiliate was to own an 80 percent interest and Mills or its affiliate was to own a 20 percent interest in such component ventures.

On August 21, 2006, Mills announced that it had signed a non-binding letter of intent with Colony Capital Acquisitions, LLC (Colony) and Kan Am USA Management XXII Limited Partnership (Kan Am) under which Colony would arrange for construction financing for Meadowlands Xanadu and make a significant equity infusion into the Meadowlands Venture, and Mills would not have any financial obligations post closing (Colony Transaction). Kan Am had been a partner with Mills in the Meadowlands Venture since the formation of the venture.

On November 22, 2006, the Company entered into and consummated a Redemption Agreement (the Redemption Agreement) with the Meadowlands Venture, Meadowlands Developer Holding Corp., a limited partner in the

Meadowlands Venture, and the Meadowlands Limited Partnership (f/k/a Meadowlands/Mills Limited Partnership, and hereafter MLP), a general partner and a limited partner in the Meadowlands Venture. Immediately prior to entering into the Redemption Agreement, the investors in MLP undertook a restructuring of MLP whereby Colony became an indirect owner of MLP.

In connection with the Colony Transaction and pursuant to the Redemption Agreement, the Meadowlands Venture redeemed (the Redemption) the Company s entire interest in the Meadowlands Venture and its right to participate in the development of the ERC component in exchange for (i) $22.5 million in cash and (ii) a non-economic partner interest in each of the office and hotel components of Meadowlands Xanadu. In connection with the Redemption, the Operating Partnership also received a non-interest bearing promissory note for an additional $2.5 million, which note is payable in full by MLP only at such time as the Operating Partnership exercises one of its options to develop the first of the office and hotel components of Meadowlands Xanadu. The Company s remaining investment of approximately $11.9 million is included in deferred charges and other assets, net, as of December 31, 2006 and June 30, 2007.

Concurrent with the execution of the Redemption Agreement, the Company also entered into the Mack-Cali Rights, Obligations and Option Agreement (the Rights Agreement) by and among the Meadowlands Venture, MLP, Meadowlands Mack-Cali GP, L.L.C., Mack-Cali, Baseball Meadowlands Limited Partnership, A-B Office Meadowlands Mack-Cali Limited Partnership, C-D Office Meadowlands Limited Partnership, Hotel Meadowlands Mack-Cali Limited Partnership and ERC Meadowlands Mills/Mack-Cali Limited Partnership. Pursuant to the Rights Agreement, the Operating Partnership retained certain rights and obligations it held under the Meadowlands Xanadu Venture Agreement with respect to the development of the office and hotel components of Meadowlands Xanadu, including an option to develop any of the office or hotel components of Meadowlands Xanadu (each, a Take Down Option). Upon the exercise of an initial Take Down Option, the Operating Partnership will receive economic interests in each of the office or hotel component partnerships as both a general partner and a limited partner in the applicable office or hotel component, and following receipt of $2.5 million in full payment of the note from MLP, the Operating Partnership s ownership interest in each of the office or hotel component partnerships will be reduced from 80 percent (as provided in the Meadowlands Xanadu Venture Agreement) to 75 percent.

G&G MARTCO (Convention Plaza)

The Company held a 50 percent interest in G&G Martco, which owns Convention Plaza, a 305,618 square foot office building, located in San Francisco, California. On November 6, 2006, the Company sold substantially all of its interest in the venture to an affiliate of its joint venture partner for approximately $16.3 million, realizing a gain on the sale of approximately $10.8 million. The Company performed management and leasing services for the property owned by the joint venture through the date of sale and recognized $37,000 and $83,000 in fees for such services in the three and six months ended June 30, 2006.

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). The venture was formed to acquire 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. Among other things, the partnership agreement provides for a preferred return on the Company s invested capital in the venture, in addition to the Company s proportionate share of the venture s profit, as defined in the agreement. The venture owns undeveloped land currently used as a parking facility.

RAMLAND REALTY ASSOCIATES L.L.C. (One Ramland Road)

On August 20, 1998, the Company entered into a joint venture with S.B. New York Realty Corp. to form Ramland Realty Associates L.L.C. The venture was formed to own, manage and operate One Ramland Road, a 232,000 square foot office/flex building and adjacent developable land, located in Orangeburg, New York. In August 1999, the joint venture completed redevelopment of the property and placed the office/flex building in service. The Company holds a 50 percent interest in the joint venture. The venture has a mortgage loan with a $14.9 million balance at June 30, 2007 secured by its office/flex property. The mortgage bears interest at a rate of LIBOR plus 175 basis points and was scheduled to mature in January 2007, with one two-year extension option, subject to certain conditions. In November 2006, the venture exercised its option to extend the term of the loan until January 2009.

The Company performs management, leasing and other services for the property owned by the joint venture and recognized $16,000 and $31,000 in fees for such services in the three months ended June 30, 2007 and 2006, respectively, and $32,000 and $47,000 for the six months ended June 30, 2007 and 2006, respectively.

SOUTH PIER AT HARBORSIDE HOTEL DEVELOPMENT

On November 17, 1999, the Company entered into a joint venture with Hyatt Corporation (Hyatt) to develop a 350-room hotel on the South Pier at Harborside Financial Center, Jersey City, New Jersey, which was completed and commenced initial operations in July 2002. The Company owns a 50 percent interest in the venture.

On October 12, 2006, the venture obtained a $70.0 million mortgage loan (with a balance as of June 30, 2007 of $69.5 million) collateralized by the hotel property using the proceeds principally to retire $38.9 million of floating-rate debt and to make distributions to partners. 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 June 30, 2007 of $7.3 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 $7.3 million letter of credit in support of this loan, $3.6 million of which is indemnified by Hyatt.

RED BANK CORPORATE PLAZA L.L.C./RED BANK CORPORATE PLAZA II, L.L.C.

On March 23, 2006, the Company entered into a joint venture with The PRC Group (PRC) to form Red Bank Corporate Plaza L.L.C. The venture was formed to develop Red Bank Corporate Plaza, a 92,878 square foot office building located in Red Bank, New Jersey, which has been fully pre-leased to Hovnanian Enterprises, Inc. for a 10-year term. The Company holds a 50 percent interest in the venture. PRC contributed the vacant land for the development of the office building as its initial capital in the venture. The Company funded the costs of development up to the value of the land contributed by PRC of $3.5 million as its initial capital.

On October 20, 2006, the venture entered into a $22.0 million construction loan with a commercial bank collateralized by the land and development project. The loan (with a balance as of June 30, 2007 of $16.7 million), carries an interest rate of LIBOR plus 130 basis points and matures in April 2008. The loan currently has three one-year extension options subject to certain conditions, each of which requires payment of a fee.

On July 20, 2006, the Company entered into a second joint venture agreement with PRC to form Red Bank Corporate Plaza II L.L.C. The venture was formed to hold land on which it plans to develop Red Bank Corporate Plaza II, an 18,561 square foot office building located in Red Bank, New Jersey. The Company holds a 50 percent interest in the venture. The terms of the venture are similar to Red Bank Corporate Plaza L.L.C. PRC contributed the vacant land as its initial capital in the venture.

MACK-GREEN-GALE LLC

On May 9, 2006, as part of the Gale/Green transactions completed in May 2006, the Company entered into a joint venture, Mack-Green-Gale LLC (Mack-Green), with SL Green, pursuant to which Mack-Green holds a 96 percent interest in and acts as general partner of Gale SLG NJ Operating Partnership, L.P. (the OP LP). 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. The OP LP owns 100 percent of entities which own 25 office properties (the OP LP Properties) which aggregate 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), as well as a minor, non-controlling interest in four office properties aggregating 419,000 square feet located in Naperville, Illinois, which was subsequently sold.

As defined in the Mack-Green operating agreement, the Company shares 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 OP LP.

The Mack-Green operating agreement generally provides 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 OP LP 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 OP LP 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 OP LP Properties are encumbered by mortgage loans with an aggregate outstanding principal balance of $361.4 million at June 30, 2007. $189.0 million of the mortgage loans bear interest at a weighted average fixed interest rate of 6.32 percent per annum and mature at various times through May 2016. $172.4 million of the mortgage loans bear interest at a floating rate ranging from LIBOR plus 185 basis points to LIBOR plus 400 basis points per annum and mature at various times through January 2009. Included in the floating rate mortgage loans are $90.3 million provided by an affiliate of SL Green.

On August 9, 2006, $69.7 million of mortgage loans were refinanced. The new loan has a maximum principal amount of $90.0 million with $78.9 million drawn at June 30, 2007. The loan provides the ability to draw funds for qualified leasing and capital improvement costs. The loan bears interest at a rate of LIBOR plus 185 basis points and matures on August 8, 2008 with a two-year extension option.

The Company performs management, leasing, and construction services for the properties owned by the joint venture and recognized $636,000 and $800,000 in income (net of $267,000 and $427,000 in direct costs) for such services in the three months ended June 30, 2007, and 2006, respectively, and $1.2 million and $800,000 in income (net of $796,300 and $427,000 in direct costs) for such services in the six months ended June 30, 2007 and 2006, 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). 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 $52.8 million at June 30, 2007. The loan bears interest at a rate of LIBOR plus 275 basis points and matures on January 9, 2009, with an extension option through January 9, 2011.

The Company performs management, leasing, and construction services for PFV and recognized $173,000 and $226,000 in income (net of $509,000 and $404,000 in direct costs) for such services in the three months ended

June 30, 2007 and 2006, respectively, and $384,500 and $226,000 in income (net of $1.2 million and $404,000 in direct costs) for such services in the six months ended June 30, 2007 and 2006, 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 are shared by the partners in proportion to their respective interests until the investment yields an 11 percent IRR, then sharing will shift to 40/60, and when the IRR reaches 15 percent, then sharing will shift to 50/50.

The Route 93 Participant is a joint venture between the Company and a Gale affiliate. Profits and losses are shared by the partners under this venture in proportion to their respective interests (83.3/16.7) until the investment yields an 11 percent IRR, then sharing will shift to 50/50.

The Route 93 Ventures have mortgage loans with an amount not to exceed $58.6 million, with a $41.3 million balance at June 30, 2007 collateralized by its office properties. The loan provides the venture the ability to draw additional monies for qualified leasing and capital improvement costs. The loan bears interest at a rate of LIBOR plus 220 basis points and matures on July 11, 2008, with three one-year extension options.

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 has been fully pre-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, an 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 JP Morgan (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.

100 Kimball has a construction loan in an amount not to exceed $29 million, with a balance at June 30, 2007 of $18.6 million. The loan bears interest at a rate of LIBOR plus 195 basis points and matures on December 8, 2008 with a one-year extension option.

The Company performs construction and development services for the property owned by 100 Kimball for which it recognized $815,000 and $146,000 in income (net of $1.4 million and $3.3 million in direct costs) in the three months ended June 30, 2007, and 2006, respectively, and $828,000 and $146,000 in income (net of $2.1 million and $3.3 million in direct costs) in the six months ended June 30, 2007 and 2006, respectively.

55 CORPORATE PARTNERS, LLC

On June 9, 2006, the Company entered into a joint venture with a Gale Affiliate to form 55 Corporate Partners, LLC (55 Corporate). 55 Corporate was formed for the sole purpose of acquiring from a Gale Affiliate a 50 percent interest in SLG 55 Corporate Drive II, LLC (SLG 55), an entity indirectly holding a condominium interest in a vacant land parcel located in Bridgewater, New Jersey, which can accommodate development of an approximately 200,000 square foot office building. Sanofi-Aventis, which occupies neighboring buildings, has an option to cause the venture to construct the building, which it would lease on a long-term basis. Sanofi-Aventis is required to pay a penalty of $7 million, subject to certain conditions, in the event it fails to exercise the option by November 2007. The remaining 50 percent in SLG 55 is owned by SLG Gale 55 Corporate LLC, an affiliate of SL Green Realty Corp (SLG Gale 55).

The operating agreement of 55 Corporate provides, among other things, for the Gale Participation Rights (of which Mr. Yeager has a direct 26 percent interest). If Mr. Gale receives any commission payments with respect to a Sanofi lease on the development property, Mr. Gale has agreed to pay to Mr. Yeager 26 percent of such payments.

The operating agreement of SLG 55 provides, among other things, for the distribution of the available net cash flow to each of 55 Corporate and SLG Gale 55 in proportion to their respective membership interests in SLG 55 (50 percent each).

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 that is fully leased to a single tenant through June 15, 2012. The property is subject to a mortgage loan, which matures on July 1, 2012, in the initial amount of $18.1 million bearing interest at 6.9 percent per annum. As of June 30, 2007 the outstanding balance on the mortgage note was $9.3 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-FILENES

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.

As a result of the foregoing transactions, as of January 29, 2007, (i) the Filenes Property 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. Thus, the Company holds approximately a 15 percent indirect ownership interest in the Vornado JV 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.

The joint venture s current plans for the development of the Filenes Property include approximately 1.2 million square feet consisting of office, retail, condominium apartments, hotel and a garage. The project is subject to governmental approvals.

NKFGMS OWNERS, LLC

On December 28, 2006, the Company contributed its facilities management business, which was acquired on May 9, 2006 as part of the Gale/Green transactions, to a newly-formed joint venture called NKFGMS Owners, LLC. With the contribution, the Company received $600,000 in cash and a 40 percent interest in the joint venture. The Company and a joint venture partner agreed to loan up to $3 million in total to the venture from time to time until December 28, 2009, which shall be funded by each of the Company and the joint venture partner on a pro-rata basis in an amount not to exceed $1.5 million, respectively. The joint venture operating agreement provides for, among other things, profits and losses generally to be allocated in proportion to each member s interest. In connection with the Contribution, the Company recognized a loss of approximately $1.5 million.

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 June 30, 2007 and December 31, 2006: *(dollars in thousands)*

	June 30, 2007												
	Plaza VIII & IX Associates	**Ramland Realty**	**Harborside South Pier**	**Red Bank Corporate Plaza**	**Mack-Green-Gale**	**Princeton Forrestal Village**	**Route 93 Portfolio**	**Gale Kimball**	**55 Corporate**	**12 Vreeland**	**Boston-Filenes**	**NKFGMS Owners LLC**	**Combined Total**
Assets:													
Rental property, net	$ 11,095	$ 11,844	$ 66,640	$ 21,599									