MACK CALI REALTY CORP
Form 10-Q
October 25, 2012

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 September 30, 2012

or

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

For the transition period from to

Commission File Number: 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 ___

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

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

Large accelerated filer x 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 X

As of October 23, 2012, there were 87,437,247 shares of the registrant's Common Stock, par value $0.01 per share, outstanding.

MACK-CALI REALTY CORPORATION

FORM 10-Q

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 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, 2011.

The results of operations for the three and nine month periods ended September 30, 2012 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)

ASSETS		September 30, 2012		December 31, 2011
Rental property				
Land and leasehold interests	$	765,742	$	773,026
Buildings and improvements		3,995,933		4,001,943
Tenant improvements		483,955		500,336
Furniture, fixtures and equipment		2,994		4,465
		5,248,624		5,279,770
Less – accumulated depreciation and amortization		(1,455,420)		(1,409,163)
		3,793,204		3,870,607
Rental property held for sale, net		18,404		-
Net investment in rental property		3,811,608		3,870,607
Cash and cash equivalents		21,543		20,496
Investments in unconsolidated joint ventures		65,559		32,015
Unbilled rents receivable, net		136,689		134,301
Deferred charges and other assets, net		206,434		210,470
Restricted cash		19,717		20,716
Accounts receivable, net of allowance for doubtful accounts of $2,948 and $2,697		8,023		7,154
Total assets	$	4,269,573	$	4,295,759
LIABILITIES AND EQUITY				
Senior unsecured notes	$	1,198,314	$	1,119,267
Revolving credit facility		67,000		55,500
Mortgages, loans payable and other obligations		704,940		739,448
Dividends and distributions payable		45,000		44,999
Accounts payable, accrued expenses and other liabilities		106,377		100,480
Rents received in advance and security deposits		50,546		53,019
Accrued interest payable		19,168		29,046
Total liabilities		2,191,345		2,141,759
Commitments and contingencies				
Equity:				
Mack-Cali Realty Corporation stockholders' equity:				
Common stock, $0.01 par value, 190,000,000 shares authorized, 87,821,885 and 87,799,479 shares outstanding		878		878
Additional paid-in capital		2,538,729		2,536,184
Dividends in excess of net earnings		(715,903)		(647,498)
Total Mack-Cali Realty Corporation stockholders' equity		1,823,704		1,889,564

Noncontrolling interests in subsidiaries:		
Operating Partnership	252,869	262,499
Consolidated joint ventures	1,655	1,937
Total noncontrolling interests in subsidiaries	254,524	264,436
Total equity	2,078,228	2,154,000
Total liabilities and equity	$ 4,269,573	$ 4,295,759

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 September 30,		Nine Months Ended September 30,	
REVENUES	2012	2011	2012	2011
Base rents	$ 146,424	$ 148,268	$ 443,709	$ 443,971
Escalations and recoveries from tenants	21,925	21,323	62,862	72,251
Construction services	1,169	2,359	9,235	8,984
Real estate services	1,285	1,353	3,606	3,737
Other income	2,409	2,134	15,242	9,875
Total revenues	173,212	175,437	534,654	538,818
EXPENSES				
Real estate taxes	22,258	14,261	70,061	63,189
Utilities	17,859	19,845	48,405	56,244
Operating services	27,643	27,604	82,092	86,217
Direct construction costs	979	2,290	8,594	8,656
General and administrative	12,638	8,675	35,343	26,507
Depreciation and amortization	47,829	48,082	143,642	143,635
Total expenses	129,206	120,757	388,137	384,448
Operating income	44,006	54,680	146,517	154,370
OTHER (EXPENSE) INCOME				
Interest expense	(30,510)	(31,041)	(92,784)	(92,849)
Interest and other investment income	7	9	27	29
Equity in earnings (loss) of unconsolidated joint ventures	2,418	539	4,751	1,174
Loss from early extinguishment of debt	-	-	(4,415)	-
Total other (expense) income	(28,085)	(30,493)	(92,421)	(91,646)
Income from continuing operations	15,921	24,187	54,096	62,724
Discontinued operations:				
Income (loss) from discontinued operations	243	(104)	368	225
Realized gains (losses) and unrealized losses on disposition of rental property, net	12	-	2,390	-
Total discontinued operations, net	255	(104)	2,758	225
Net income	16,176	24,083	56,854	62,949
Noncontrolling interest in consolidated joint ventures	85	96	256	308
Noncontrolling interest in Operating Partnership	(1,949)	(3,028)	(6,624)	(8,001)
Noncontrolling interest in discontinued operations	(31)	13	(337)	(30)
Preferred stock dividends	-	(664)	-	(1,664)
Net income available to common shareholders	$ 14,281	$ 20,500	$ 50,149	$ 53,562

Basic earnings per common share:								
Income from continuing operations	$	0.16	$	0.24	$	0.54	$	0.63
Discontinued operations		-		-		0.03		-
Net income available to common shareholders	$	0.16	$	0.24	$	0.57	$	0.63
Diluted earnings per common share:								
Income from continuing operations	$	0.16	$	0.24	$	0.54	$	0.62
Discontinued operations		-		-		0.03		-
Net income available to common shareholders	$	0.16	$	0.24	$	0.57	$	0.62
Basic weighted average shares outstanding		87,826		87,019		87,814		85,649
Diluted weighted average shares outstanding		100,075		99,917		100,071		98,631

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

5

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

	Common Stock		Additional Paid-In	Dividends in Excess of Net	Noncontrolling Interests	Total
	Shares	Par Value	Capital	Earnings	in Subsidiaries	Equity
Balance at January 1, 2012	87,800	$ 878	$ 2,536,184	$ (647,498)	$ 264,436	$ 2,154,000
Net income	-	-	-	50,149	6,705	56,854
Common stock dividends	-	-	-	(118,554)	-	(118,554)
Common unit distributions	-	-	-	-	(16,444)	(16,444)
Decrease in noncontrolling interest	-	-	-	-	(26)	(26)
Redemption of common units for common stock	20	-	429	-	(429)	-
Shares issued under Dividend Reinvestment and Stock Purchase Plan	7	-	186	-	-	186
Cancellation of shares	(5)	-	(126)	-	-	(126)
Stock compensation	-	-	2,338	-	-	2,338
Rebalancing of ownership percentage between parent and subsidiaries	-	-	(282)	-	282	-
Balance at September 30, 2012	87,822	$ 878	$ 2,538,729	$ (715,903)	$ 254,524	$ 2,078,228

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)

	Nine Months Ended September 30,	
CASH FLOWS FROM OPERATING ACTIVITIES	2012	2011
Net income	$ 56,854	$ 62,949
Adjustments to reconcile net income to net cash provided by Operating activities:		
Depreciation and amortization, including related intangible assets	143,605	143,202
Depreciation and amortization on discontinued operations	441	1,279
Amortization of stock compensation	2,338	2,393
Amortization of deferred financing costs and debt discount	1,945	1,752
Write off of unamortized discount on senior unsecured notes	370	-
Equity in earnings of unconsolidated joint venture, net	(4,751)	(1,174)
Distributions of cumulative earnings from unconsolidated joint ventures	2,680	2,482
Realized gains and unrealized losses on disposition of rental property, net	(2,390)	-
Changes in operating assets and liabilities:		
Increase in unbilled rents receivable, net	(2,438)	(4,927)
Increase in deferred charges and other assets, net	(22,521)	(31,238)
(Increase) decrease in accounts receivable, net	(909)	3,779
Increase in accounts payable, accrued expenses and other liabilities	8,056	5,928
Decrease in rents received in advance and security deposits	(2,472)	(5,653)
Decrease in accrued interest payable	(7,733)	(10,163)
Net cash provided by operating activities	$ 173,075	$ 170,609
CASH FLOWS FROM INVESTING ACTIVITIES		
Rental property additions and improvements	$ (59,105)	$ (52,259)
Development of rental property	(16,301)	(12,971)
Proceeds from the sale of rental property	4,023	-
Investment in unconsolidated joint ventures	(32,477)	(334)
Distributions in excess of cumulative earnings from unconsolidated joint ventures	1,028	1,280
Decrease (increase) in restricted cash	906	(2,321)
Net cash used in investing activities	$ (101,926)	$ (66,605)
CASH FLOW FROM FINANCING ACTIVITIES		
Borrowings from revolving credit facility	$ 420,026	$ 219,000
Repayment of revolving credit facility	(408,526)	(420,000)
Proceeds from senior unsecured notes	299,403	-
Repayment of senior unsecured notes	(221,019)	-

Proceeds from offering of common stock	-	227,374
Repayment of mortgages, loans payable and other obligations	(22,424)	(6,382)
Payment of financing costs	(2,635)	(14)
Proceeds from stock options exercised	-	3,048
Payment of dividends and distributions	(134,927)	(133,027)
Net cash used in financing activities	$ (70,102)	$ (110,001)
Net increase (decrease) in cash and cash equivalents	$ 1,047	$ (5,997)
Cash and cash equivalents, beginning of period	20,496	21,851
Cash and cash equivalents, end of period	$ 21,543	$ 15,854

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

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 September 30, 2012, the Company owned or had interests in 276 properties plus developable land (collectively, the "Properties"). The Properties aggregate approximately 32.2 million square feet, which are comprised of 264 buildings, primarily office and office/flex buildings totaling approximately 31.8 million square feet (which include eight buildings, primarily office buildings aggregating approximately 1.2 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.

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. Capitalized development and construction salaries and related costs approximated $765,000, and $969,000 for the three months ended September 30, 2012 and 2011, respectively, and $2,738,000 and $2,849,000 for the nine months ended September 30, 2012 and 2011, respectively. Included in total rental property is construction, tenant improvement and development in-progress of $46,794,000 and $37,069,000 as of September 30, 2012 and December 31, 2011, 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, primarily based on a percentage of the relative square footage of each portion, 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.

9

On a periodic basis, management assesses whether there are any indicators that the value of the Company's rental properties held for use may be impaired. In addition to identifying any specific circumstances which may affect a property or properties, management considers other criteria for determining which properties may require assessment for potential impairment. The criteria considered by management include reviewing low leased percentages, significant near-term lease expirations, recently acquired properties, current and historical operating and/or cash flow losses, near-term mortgage debt maturities or other factors that might impact the Company's intent and ability to hold the property. 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. These assumptions are generally based on management's experience in its local real estate markets and the effects of current market conditions. The assumptions 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, and actual losses or impairment may be realized in the future.

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 disposed of are presented in discontinued operations for all periods presented. See Note 7: 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 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.

10

On January 1, 2010, the Company adopted the updated provisions of ASC 810, which amends FIN 46(R) to require ongoing reassessments of whether an enterprise is the primary beneficiary of a variable interest entity. Additionally, ASC 810 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. ASC 810 amends certain guidance in Interpretation 46(R) for determining whether an entity is a variable interest entity. Also, ASC 810 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 4: 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, and actual losses or impairment may be realized in the future. 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.
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 $673,000 and $584,000 for the three months ended September 30, 2012 and 2011, respectively, and $1,945,000 and $1,752,000 for the nine months ended September 30, 2012 and 2011, respectively. If a financing obligation is extinguished early, any unamortized deferred financing costs are written off and included in gains (loss) on early extinguishment of debt. Such unamortized costs which were written off amounted to zero for the three months ended September 30, 2012 and 2011 and $370,000 and zero for the nine months ended September 30, 2012 and 2011, 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 $1,156,000 and $1,099,000 for the three months ended September 30, 2012 and 2011, respectively, and $3,312,000 and $3,135,000 for the nine months ended September 30, 2012 and 2011, respectively.

11

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 cumulative 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 terms of the lease for above-market leases and the remaining initial terms plus the terms 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 terms 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 14: 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.

Pursuant to the amended provisions related to uncertain tax provisions of ASC 740, Income Taxes, 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 September 30, 2012, the tax years that remain subject to examination by the major tax jurisdictions under the statute of limitations are generally from the year 2007 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 September 30, 2012 represents dividends payable to common shareholders (87,822,569 shares) and distributions payable to noncontrolling interest common unitholders of the Operating Partnership (12,177,122 common units) for all such holders of record as of October 3, 2012 with respect to the third quarter 2012. The third quarter 2012 common stock dividends and common unit distributions of $0.45 per common share and unit were approved by the Board of Directors on September 12, 2012. The common stock dividends and common unit distributions payable were paid on October 12, 2012.

The dividends and distributions payable at December 31, 2011 represents dividends payable to common shareholders (87,800,047 shares) and distributions payable to noncontrolling interest common unitholders of the Operating Partnership (12,197,122 common units) for all such holders of record as of January 5, 2012 with respect to the fourth quarter 2011. The fourth quarter 2011 common stock dividends and common unit distributions of $0.45 per common share and unit were approved by the Board of Directors on December 6, 2011. The common stock dividends and common unit distributions payable were paid on January 13, 2012.

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 $579,000 and $690,000 for the three months ended September 30, 2012 and 2011, respectively, and $1,971,000 and $2,070,000 for the nine months ended September 30, 2012 and 2011, 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. RECENT TRANSACTIONS

Roseland Transaction

On October 23, 2012, the Company acquired the real estate development and management businesses (the "Roseland Business") of Roseland Partners, L.L.C. ("Roseland Partners"), a premier multi-family residential community developer and manager based in Short Hills, New Jersey, and the Roseland Partners' interests, principally in the form of unconsolidated joint venture interests, in various entities which, directly or indirectly, own or have rights with respect to various residential and/or commercial properties or vacant land (collectively, the "Roseland Assets"), pursuant to a membership interest and asset purchase agreement dated as of October 8, 2012 ("Roseland Agreement") with Roseland Partners and, for the limited purposes stated in the Roseland Agreement, the following principals of the Roseland Partners ("Roseland Principals"): Marshall B. Tycher, Bradford R. Klatt and Carl Goldberg (the "Roseland Transaction").

The Roseland Assets consist primarily of interests in: six operating multi-family properties totaling 1,769 apartments, one condo-residential property totaling four units and four commercial properties totaling approximately 212,000 square feet; 13 in-process development projects, which include nine multi-family properties totaling 2,149 apartments, two garages totaling 1,591 parking spaces and two retail properties totaling approximately 35,400 square feet; and interests or options in land parcels which may support approximately 5,980 apartments, approximately 736,000 square feet of commercial space, and a 321-key hotel. The locations of the properties extend from New Jersey to Massachusetts. The majority of the properties are located in New Jersey, in particular, at its flagship development at Port Imperial in Weehawken and West New York, in addition to the Jersey City Waterfront and other urban in-fill and transit-oriented locations.

The Roseland Assets and Roseland Business were acquired by the Company for aggregate consideration of up to approximately $134.6 million, subject to adjustment, consisting of:

- approximately $115 million in cash (the "Roseland Cash Amount");
- approximately $4.0 million of assumed debt; and
- up to an additional $15.6 million in cash (in the aggregate) that may be paid to Roseland Partners pursuant to certain earn-outs, which are based upon the achievement of certain operational milestones of the Roseland Assets and Roseland Business, including the completion of certain properties under construction, finalization of project financing and commencement of construction on certain properties, and achievement of other goals, during the three years following the closing date (the "Earn-Out Period").

The Roseland Cash Amount and related closing costs were financed by the Company primarily through borrowings under its unsecured revolving credit facility and available cash. The purchase price is subject to a working capital adjustment and further adjustment upon the failure to achieve a certain level of fee revenue, during the 33-month period following the closing date, from certain management agreements, development services agreements and consulting agreements acquired as part of the Roseland Assets and Roseland Business. Also, at the closing, approximately $34 million in cash from the Roseland Cash Amount was deposited in escrow to secure certain of the indemnification obligations of Roseland Partners and the Roseland Principals under the terms of the Roseland Agreement.

During the Earn-Out Period, each of the Roseland Principals will serve as co-presidents of Roseland Management Services, L.P., a newly formed wholly owned subsidiary of the Company ("Roseland Management"), pursuant to employment agreements executed at closing. Mitchell E. Hersh, President and Chief Executive Officer of the Company, also is assuming the role of Chairman and Chief Executive of Roseland Management.

The Roseland Agreement contains customary representations and warranties, covenants and indemnification obligations of the parties thereto as set forth therein. For the three and nine months ended September 30, 2012, included in general and administrative expense was approximately $3.8 million and $6.3 million, respectively, for transaction costs related to the Roseland Transaction.

Property Sales
On July 25, 2012, the Company sold its 47,700 square foot office property located at 95 Chestnut Ridge Road in Montvale, New Jersey for net sales proceeds of approximately $4.0 million (with approximately no gain from the sale). The Company had recognized a valuation allowance of $0.5 million on this property at March 31, 2012.

4. 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, material misrepresentations, and 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 September 30, 2012 of $64.3 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 September 30, 2012 of $5.1 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 $5.1 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 had a $20.3 million loan with a commercial bank collateralized by the office property, which bore interest at a rate of the London Interbank Offered Rate ("LIBOR") plus 125 basis points and was scheduled to mature in May 2011. In May 2011, the venture paid the lender $1.7 million and refinanced the remainder of the loan. The new loan, with a balance of $17.5 million at September 30, 2012, bears interest at a rate of LIBOR plus 300 basis points and matures on May 17, 2016. LIBOR was 0.21 percent at September 30, 2012. The loan includes contingent guarantees for a portion of the principal by the Company based on certain conditions. On September 22, 2011, the interest rate on 75 percent of the loan was fixed at 3.99375 percent effective from October 17, 2011 through maturity.

The Company performs management, leasing, and other services for the property owned by the joint venture and recognized $25,000 and $24,000 in fees for such services in the three months ended September 30, 2012 and 2011, respectively, and $75,000 and $72,000 for the nine months ended September 30, 2012 and 2011, 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, 2009, 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 points 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 was scheduled to terminate 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. On November 5, 2010, the Portfolio Entities that owned the remaining four unconsolidated Portfolio Properties provided estimates of the properties' fair market values to Gramercy, pursuant to the Gramercy Agreement.

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 not subject to the Gramercy Agreement, as its 100-percent ownership and rights regarding these entities were unchanged in the transaction. The OPLP does not consolidate the Portfolio Entities subject to the Gramercy Agreement, 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.

On December 17, 2010, the venture repaid the $26.8 million allocated loan amount of one of the unconsolidated Portfolio Properties which was subject to the Gramercy Agreement, One Grande Commons, a 198,376 square foot office property, located in Bridgewater, New Jersey. Concurrent with the repayment, the venture placed $11 million mortgage financing on the property obtained from a bank. As a result of the repayment of the existing mortgage loan, the venture, which is consolidated by the Company, obtained a controlling interest and is consolidating the office property.

The Company performed management, leasing, and construction services for properties which had been owned by the unconsolidated joint ventures and recognized $117,000 and $108,000 in income for such services in the three months ended September 30, 2012 and 2011, respectively, and $354,000 and $382,000 in income for the nine months ended September 30, 2012 and 2011, respectively.

On October 18, 2012, the Portfolio Entities transferred the deeds of the four remaining Portfolio Properties to Gramercy in satisfaction of their obligations.

12 VREELAND ASSOCIATES, L.L.C.

On September 8, 2006, the Company entered into a joint venture to form M-C Vreeland, LLC ("M-C Vreeland"), for the sole purpose of acquiring 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 Participation Rights (see Note 16: Noncontrolling Interests in Subsidiaries – Participation Rights).

The office property at 12 Vreeland is a 139,750 square foot office building. The property had a fully-amortizing mortgage loan, the balance of which was fully satisfied at maturity on July 1, 2012.

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

In October 2006, the Company entered into a joint venture with affiliates of Vornado Realty LP ("Vornado") and JP Morgan Chase Bank ("JPM") to acquire and redevelop the Filenes property located in the Downtown Crossing district of Boston, Massachusetts (the "Filenes Property"). The venture was organized 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, aggregating 1.2 million square feet. The Company, through subsidiaries, separately holds approximately a 15 percent indirect ownership interest in each of the units. The project is subject to governmental approvals.

The venture acquired the Filenes Property on January 29, 2007, for approximately $100 million.

Distributions will generally be in proportion to its members' respective ownership interests and, depending upon the development unit, promotes will be available to specified partners after the achievement of certain internal rates of return ranging from 10 to 15 percent.

The joint venture has suspended its plans for the development of the Filenes Property. The venture recorded an impairment charge of approximately $69.5 million on its development project in 2008.

On May 15, 2012, the Company and JPM granted Vornado an option to purchase their interest for $45 million, subject to certain conditions, through May 16, 2013.

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") for the sole purpose of acquiring an 8.33 percent indirect interest in One Jefferson Road LLC ("One Jefferson"), which developed and placed in service a 100,010 square foot office property at One Jefferson Road, Parsippany, New Jersey, ("the Jefferson Property"). The property has been fully leased to a single tenant starting in 2010 through August 2025.

The operating agreement of M-C Jefferson provides, among other things, for the Participation Rights (see Note 16: Noncontrolling Interests in Subsidiaries – Participation Rights). The operating agreements of Gale Jefferson, L.L.C. ("Gale Jefferson"), which is owned 33.33 percent by M-C Jefferson and 66.67 percent by the Hampshire Generational

Fund, L.L.C. (“Hampshire”) 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 had a loan in the amount of $21 million, bearing interest at a rate of LIBOR plus 160 basis points, which was repaid on October 24, 2011. On October 24, 2011, One Jefferson obtained a new loan in the amount of $20.2 million, which bears interest at a rate of one-month LIBOR plus 160 basis points and matures on October 24, 2013.

The Company performs management, leasing, and other services for Gale Jefferson and recognized $48,000 and $39,000 in income for such services in the three months ended September 30, 2012 and 2011, respectively, and $144,000 and $118,000 in income for the nine months ended September 30, 2012 and 2011, respectively.

STAMFORD SM LLC

On February 17, 2012, the Company entered into a joint venture to form Stamford SM L.L.C. ("Stamford SM") which acquired a senior mezzanine loan (the "Mezz Loan") position in the capital stack of a 1.7 million square foot class A portfolio in Stamford, Connecticut for $40 million. The Mezz Loan has a face value of $50 million and is secured by the equity interests in a premier seven-building portfolio containing 1.67 million square feet of class A office space and 106 residential rental units totaling 70,500 square feet, all located in the Stamford Central Business District. The interest-only Mezz Loan has a carrying value of $41.6 million as of September 30, 2012. The Mezz Loan is subject to an agreement, which provides subject to certain conditions, that principal proceeds above $47 million are paid to another party. The Mezz Loan bears interest at LIBOR plus 325 basis points and matures in August 2013 with a one-year extension option, subject to certain conditions.

The operating agreement of Stamford SM provides, among other things, distributions of net available cash in accordance with its members' respective ownership percentages. The Company owns an 80 percent interest in the venture. The Company and the 20 percent member share equally in decision-making on all major decisions involving the operations of the joint venture.

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 September 30, 2012 and December 31, 2011: (dollars in thousands)

	September 30, 2012								
	Plaza VIII & IX Associates	Harborside South Pier	Red Bank Corporate Plaza	Gramercy Agreement	12 Vreeland	Boston-Downtown Crossing	Gale Jefferson	Stamford SM LLC	Cor
Assets:									
Rental property, net	$ 7,875	$ 56,265	$ 22,353	$ 38,267	$ 14,046	-	-	-	$ 1
Loan receivable	-	-	-	-	-	-	-	$ 41,610	
Other assets	1,478	14,623	3,301	5,680	1,356	$ 46,198	$ 2,673	227	
Total assets	$ 9,353	$ 70,888	$ 25,654	$ 43,947	$ 15,402	$ 46,198	$ 2,673	$ 41,837	$ 2
Liabilities and partners'/members' capital (deficit):									
Mortgages, loans payable and other obligations	-	$ 69,405	$ 17,542	$ 50,978	-	-	-	-	$ 1
Other liabilities	$ 530	5,814	309	935	$ 725	-	-	-	
Partners'/members' capital (deficit)	8,823	(4,331)	7,803	(7,966)	14,677	$ 46,198	$ 2,673	$ 41,837	1
Total liabilities and partners'/members' capital (deficit)	$ 9,353	$ 70,888	$ 25,654	$ 43,947	$ 15,402	$ 46,198	$ 2,673	$ 41,837	$ 2
Company's investments in unconsolidated joint ventures, net	$ 4,334	$ (960)	$ 3,804	-	$ 10,837	$ 13,006	$ 1,068	$ 33,470	$

	December 31, 2011								
	Plaza VIII & IX Associates	Harborside South Pier	Red Bank Corporate Plaza	Gramercy Agreement	12 Vreeland	Boston-Downtown Crossing	Gale Jefferson	Stamford SM LLC	Cor
Assets:									
Rental property, net	$ 8,335	$ 59,733	$ 22,903	$ 39,276	$ 13,122	-	-	-	$ 1
Other assets	933	12,840	2,909	5,669	521	$ 46,121	$ 2,927	-	
Total assets	$ 9,268	$ 72,573	$ 25,812	$ 44,945	$ 13,643	$ 46,121	$ 2,927	-	$ 2
Liabilities and partners'/members' capital (deficit):									

Mortgages, loans payable and other obligations	-	$ 70,690	$ 18,100	$ 50,978	$ 1,207	-	-	-	$ 1
Other liabilities	$ 531	4,982	117	1,086	168	-	-	-	
Partners'/members' capital (deficit)	8,737	(3,099)	7,595	(7,119)	12,268	$ 46,121	$ 2,927	-	
Total liabilities and partners'/members' capital (deficit)	$ 9,268	$ 72,573	$ 25,812	$ 44,945	$ 13,643	$ 46,121	$ 2,927	-	$ 2
Company's investments in unconsolidated joint ventures, net	$ 4,291	$ (343)	$ 3,676	-	$ 10,233	$ 13,005	$ 1,153	-	$

20

SUMMARIES OF UNCONSOLIDATED JOINT VENTURES

The following is a summary of the results of operations of the unconsolidated joint ventures for the period in which the Company had investment interests during the three months ended September 30, 2012 and 2011: (dollars in thousands)

Three Months Ended September 30, 2012

	Plaza VIII & IX Associates	Harborside South Pier	Red Bank Corporate Plaza	Gramercy Agreement	12 Vreeland	Boston-Downtown Crossing	Gale Jefferson	Stamford SM LLC	Combined Total
Total revenues	$ 259	$ 12,214	$ 851	$ 1,742	$ 1,012	-	$ 68	$ 1,165	$ 17,311
Operating and other	(62)	(7,600)	(247)	(942)	(291)	$ (21)	-	(6)	(9,169)
Depreciation and amortization	(154)	(1,366)	(228)	(596)	(153)	-	-	-	(2,497)
Interest expense	-	(1,089)	(188)	(389)	(9)	-	-	-	(1,675)
Net income	$ 43	$ 2,159	$ 188	$ (185)	$ 559	$ (21)	$ 68	$ 1,159	$ 3,970
Company's equity in earnings (loss) of unconsolidated joint ventures	$ 21	$ 1,080	$ 94	-	$ 279	$ (6)	$ 23	$ 927	$ 2,418

Three Months Ended September 30, 2011

	Plaza VIII & IX Associates	Harborside South Pier	Red Bank Corporate Plaza	Gramercy Agreement	12 Vreeland	Boston-Downtown Crossing	Gale Jefferson	Stamford SM LLC	Combined Total
Total revenues	$ 272	$ 9,558	$ 832	$ 1,340	$ 663	-	$ 75	-	$ 12,740
Operating and other	(58)	(6,296)	(231)	(968)	(93)	$ (362)	-	-	(8,008)
Depreciation and amortization	(154)	(1,415)	(226)	(449)	(261)	-	-	-	(2,505)
	-	(1,112)	(167)	(384)	(41)	-	-	-	(1,704)

Interest expense									
Net income	$ 60	$ 735	$ 208	$ (461)	$ 268	$ (362)	$ 75	-	$ 523
Company's equity in earnings (loss) of unconsolidated joint ventures	$ 31	$ 361	$ 104	-	$ 134	$ (115)	$ 24	-	$ 539

SUMMARIES OF UNCONSOLIDATED JOINT VENTURES

The following is a summary of the results of operations of the unconsolidated joint ventures for the period in which the Company had investment interests during the nine months ended September 30, 2012 and 2011: (dollars in thousands)

	Nine Months Ended September 30, 2012								
	Plaza VIII & IX Associates	Harborside South Pier	Red Bank Corporate Plaza	Gramercy Agreement	12 Vreeland	Boston-Downtown Crossing	Gale Jefferson	Stamford SM LLC	Combined Total
Total revenues	$ 723	$ 31,281	$ 2,497	$ 4,640	$ 2,258	-	$ 197	$ 2,773	$ 44,369
Operating and other	(177)	(20,045)	(663)	(2,822)	(579)	$ (1,110)	-	(32)	(25,428)
Depreciation and amortization	(460)	(4,179)	(684)	(1,502)	(460)	-	-	-	(7,285)
Interest expense	-	(3,289)	(553)	(1,163)	(12)	-	-	-	(5,017)
Net income	$ 86	$ 3,768	$ 597	$ (847)	$ 1,207	$ (1,110)	$ 197	$ 2,741	$ 6,639
Company's equity in earnings (loss) of unconsolidated joint ventures	$ 43	$ 1,884	$ 298	-	$ 603	$ (333)	$ 63	$ 2,193	$ 4,751

	Nine Months Ended September 30, 2011								
	Plaza VIII & IX Associates	Harborside South Pier	Red Bank Corporate Plaza	Gramercy Agreement	12 Vreeland	Boston-Downtown Crossing	Gale Jefferson	Stamford SM LLC	Combined Total
Total revenues	$ 721	$ 28,008	$ 2,424	$ 4,674	$ 1,653	-	$ 217	-	$ 37,697
Operating and other	(160)	(18,860)	(601)	(2,860)	(145)	$ (1,113)	-	-	(23,739)
Depreciation and amortization	(460)	(4,254)	(677)	(1,781)	(892)	-	-	-	(8,064)
Interest expense	-	(3,357)	(376)	(1,167)	(129)	-	-	-	(5,029)
Net income	$ 101	$ 1,537	$ 770	$ (1,134)	$ 487	$ (1,113)	$ 217	-	$ 865
Company's equity in earnings (loss) of unconsolidated joint ventures	$ 51	$ 768	$ 385	-	$ 243	$ (340)	$ 67	-	$ 1,174

5. DEFERRED CHARGES AND OTHER ASSETS

(dollars in thousands)	September 30, 2012	December 31, 2011
Deferred leasing costs	$ 260,193	$ 261,106
Deferred financing costs	18,629	16,158
	278,822	277,264
Accumulated amortization	(124,708)	(123,597)
Deferred charges, net	154,114	153,667
In-place lease values, related intangible and other assets, net	18,884	28,055
Prepaid expenses and other assets, net	33,436	28,748
Total deferred charges and other assets, net	$ 206,434	$ 210,470

6. RESTRICTED CASH

Restricted cash includes security deposits for certain of the Company's properties, and escrow and reserve funds for debt service, real estate taxes, property insurance, capital improvements, tenant improvements, and leasing costs established pursuant to certain mortgage financing arrangements, and is comprised of the following: (dollars in thousands)

	September 30, 2012	December 31, 2011
Security deposits	$ 6,960	$ 7,198
Escrow and other reserve funds	12,757	13,518
Total restricted cash	$ 19,717	$ 20,716

7. DISCONTINUED OPERATIONS

The Company's office property located at 2200 Renaissance Boulevard in King of Prussia, Pennsylvania, aggregating 174,124 square feet, was collateral for a $16.2 million mortgage loan scheduled to mature on December 1, 2012. The Company had recorded an impairment charge on the property of $9.5 million at December 31, 2010. On March 28, 2012, the Company transferred the deed for 2200 Renaissance Boulevard to the lender in satisfaction of its obligations. As a result, the Company recorded a gain on the disposal of the office property of approximately $4.5

million.

At March 31, 2012, the Company identified as held for sale its 47,700 square foot office building located at 95 Chestnut Ridge Road in Montvale, New Jersey. The Company determined that the carrying amount of this property was not expected to be recovered from estimated net sales proceeds and, accordingly, recognized a valuation allowance of $0.5 million at March 31, 2012. On July 25, 2012, the Company sold the building for approximately $4.0 million (with approximately no gain from the sale).

At March 31, 2012, the Company identified as held for sale three office buildings totaling 222,258 square feet in Moorestown, New Jersey. The Company determined that the aggregate carrying amount of these properties was not expected to be recovered from estimated net sales proceeds and, accordingly, recognized a valuation allowance of $1.6 million at June 30, 2012. The three properties held for sale at September 30, 2012 carried an aggregate book value of $18.4 million, net of accumulated depreciation of $8.2 million, and a valuation allowance of $1.6 million. The fair values of these properties are categorized as a level 3 basis, and the Company has used purchase prices from prospective buyers (net of estimated selling costs) in determining the values.

The Company has presented all of the above properties as discontinued operations in its statements of operations for all periods presented.

The following table summarizes income from discontinued operations and the related realized gains (losses) and unrealized losses on disposition of rental property, net, for the three and nine month periods ended September 30, 2012 and 2011: (dollars in thousands)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2012	2011	2012	2011
Total revenues	$ 961	$ 1,718	$ 3,427	$ 5,774
Operating and other expenses	(705)	(959)	(2,190)	(2,929)
Depreciation and amortization	(13)	(416)	(441)	(1,279)
Interest expense (net of interest income)	-	(447)	(428)	(1,341)
Income from discontinued operations before gains (losses) and unrealized losses on disposition of rental property	243	(104)	368	225
Realized gains (losses) and unrealized losses on disposition of rental property, net	12	-	2,390	-
Total discontinued operations, net	$ 255	$ (104)	$ 2,758	$ 225

8. SENIOR UNSECURED NOTES

On April 19, 2012, the Company completed the sale of $300 million face amount of 4.50 percent senior unsecured notes due April 18, 2022 with interest payable semi-annually in arrears. The net proceeds from the issuance of $296.8 million, after underwriting discount and offering expenses, were used primarily to repay outstanding borrowings under the Company's unsecured revolving credit facility.

A summary of the Company's senior unsecured notes as of September 30, 2012 and December 31, 2011 is as follows: (dollars in thousands)

	September 30, 2012	December 31, 2011	Effective Rate (1)
5.250% Senior Unsecured Notes, due January 15, 2012 (2)	-	$ 99,988	5.457%
6.150% Senior Unsecured Notes, due December 15, 2012 (3)	-	94,438	6.894%
5.820% Senior Unsecured Notes, due March 15, 2013 (4)	-	25,972	6.448%
	$ 99,980	99,958	4.742%

4.600% Senior Unsecured Notes, due June 15, 2013			
5.125% Senior Unsecured Notes, due February 15, 2014	200,330	200,509	5.110%
5.125% Senior Unsecured Notes, due January 15, 2015	149,786	149,717	5.297%
5.800% Senior Unsecured Notes, due January 15, 2016	200,256	200,313	5.806%
7.750% Senior Unsecured Notes, due August 15, 2019	248,532	248,372	8.017%
4.500% Senior Unsecured Notes, due April 18, 2022	299,430	-	4.612%
Total Senior Unsecured Notes	$ 1,198,314	$ 1,119,267	

(1) Includes the cost of terminated treasury lock agreements (if any), offering and other transaction costs and the discount/premium on the notes, as applicable.

(2) These notes were paid at maturity, primarily from borrowing on the Company's unsecured revolving credit facility.

(3) On May 25, 2012, the Company redeemed $94.9 million principal amount of its 6.15 percent senior unsecured notes due December 15, 2012 (the "2002 Notes"). The redemption price, including a make-whole premium, was 103.19 percent of the principal amount of the 2002 Notes, plus accrued and unpaid interest up to the redemption date. The Company funded the redemption price, including accrued and unpaid interest, of approximately $100.5 million from borrowing on its unsecured revolving credit facility, as well as cash on hand. In connection with the redemption, the Company recorded approximately $3.3 million as a loss from early extinguishment of debt (including the write-off of unamortized deferred financing costs).

(4) On May 25, 2012, the Company redeemed $26.1 million principal amount of its 5.82 percent senior unsecured notes due March 15, 2013 (the "2003 Notes"). The redemption price, including a make-whole premium, was 103.87 percent of the principal amount of the 2003 Notes, plus accrued and unpaid interest up to the redemption date. The Company funded the redemption price, including accrued and unpaid interest, of approximately $27.4 million from borrowing on its unsecured revolving credit facility, as well as cash on hand. In connection with the redemption, the Company recorded approximately $1.1 million as a loss from early extinguishment of debt (including the write-off of unamortized deferred financing costs).

9. UNSECURED REVOLVING CREDIT FACILITY

On October 21, 2011, the Company amended and restated its unsecured revolving credit facility with a group of 20 lenders. The $600 million facility is expandable to $1 billion and matures in October 2015. It has a one year extension option with the payment of a 20 basis point fee. The interest rate on outstanding borrowings (not electing the Company's competitive bid feature) and the facility fee on the current borrowing capacity payable quarterly in arrears are based upon the Operating Partnership's unsecured debt ratings, as follows:

Operating Partnership's Unsecured Debt Ratings: Higher of S&P or Moody's	Interest Rate – Applicable Basis Points Above LIBOR	Facility Fee Basis Points
No ratings or less than BBB-/Baa3	185.0	45.0
BBB- or Baa3	150.0	35.0
BBB or Baa2(current)	125.0	25.0
BBB+or Baa1	107.5	20.0
A-or A3 or higher	100.0	17.5

The facility has a competitive bid feature, which allows the Company to solicit bids from lenders under the facility to borrow up to $300 million at interest rates less than those above.

The terms of the unsecured facility include certain restrictions and covenants which limit, among other things the incurrence of additional indebtedness, the incurrence of liens and the disposition of real estate properties (to the extent that: (i) such property dispositions cause the Company to default on any of the financial ratios of the facility described below, or (ii) the property dispositions are completed while the Company is under an event of default under the facility, unless, under certain circumstances, such disposition is being carried out to cure such default), and which require compliance with financial ratios relating to the maximum leverage ratio, the maximum amount of secured indebtedness, the minimum amount of tangible net worth, the minimum amount of fixed charge coverage, the maximum amount of unsecured indebtedness, the minimum amount of unencumbered property interest coverage and certain investment limitations. If an event of default has occurred and is continuing, the Company will not make any excess distributions except to enable the Company to continue to qualify as a REIT under the Code.

The lending group for the credit facility consists of: JPMorgan Chase Bank, N.A., as administrative agent; Bank of America, N.A., as syndication agent; Deutsche Bank Trust Company Americas; US Bank National Association and Wells Fargo Bank, N.A., as documentation agents; Capital One, N.A.; Citicorp North America, Inc.; Comerica Bank; PNC Bank, National Association; SunTrust Bank; The Bank of New York Mellon; The Bank of Tokyo-Mitsubishi UFJ, LTD., as managing agents; and Compass Bank; Branch Banking and Trust Company; TD Bank, N.A.; Citizens Bank of Pennsylvania; Chang Hwa Commercial Bank, LTD., New York Branch; Mega International Commercial Bank Co., LTD., New York Branch; First Commercial Bank, New York Branch; and Hua Nan Commercial Bank, LTD., New York Agency, as participants.

As of September 30, 2012 and December 31, 2011, the Company had outstanding borrowings of $67 million and $56 million, respectively, under its unsecured revolving credit facility.

Through October 20, 2011, the Company had a $775 million unsecured revolving credit facility. The interest rate on outstanding borrowings was LIBOR plus 55 basis points.

24

MONEY MARKET LOAN

The Company has an agreement with JPMorgan Chase Bank to participate in a noncommitted money market loan program ("Money Market Loan"). The Money Market Loan is an unsecured borrowing of up to $75 million arranged by JPMorgan Chase Bank with maturities of 30 days or less. The rate of interest on the Money Market Loan borrowing is set at the time of each borrowing. As of September 30, 2012 and December 31, 2011, the Company had no outstanding borrowings under the Money Market Loan.

10. MORTGAGES, LOANS PAYABLE AND OTHER OBLIGATIONS

The Company has mortgages, loans payable and other obligations which primarily consist of various loans collateralized by certain of the Company's rental properties. As of September 30, 2012, 30 of the Company's properties, with a total book value of approximately $879.8 million are encumbered by the Company's mortgages and loans payable. Payments on mortgages, loans payable and other obligations are generally due in monthly installments of principal and interest, or interest only.

A summary of the Company's mortgages, loans payable and other obligations as of September 30, 2012 and December 31, 2011 is as follows: (dollars in thousands)

Property Name	Lender	Effective Rate (a)	September 30, 2012	December 31, 2011	Maturity
2200 Renaissance Boulevard (b)	Wachovia CMBS	5.888%	-	$ 16,171	-
Soundview Plaza (c)	Morgan Stanley Mortgage Capital	6.015%	-	15,531	-
One Grande Commons (d)	Capital One Bank	LIBOR+2.00%	$ 11,000	11,000	12/31/12
9200 Edmonston Road	Principal Commercial Funding L.L.C.	5.534%	4,349	4,479	05/01/13
6305 Ivy Lane	John Hancock Life Insurance Co.	5.525%	6,064	6,245	01/01/14
395 West Passaic	State Farm Life Insurance Co.	6.004%	10,396	10,781	05/01/14
6301 Ivy Lane	John Hancock Life Insurance Co.	5.520%	5,739	5,899	07/01/14
35 Waterview Boulevard	Wachovia CMBS	6.348%	18,826	19,051	08/11/14
6 Becker, 85 Livingston, 75 Livingston & 20 Waterview	Wachovia CMBS	10.220%	62,867	62,127	08/11/14
4 Sylvan	Wachovia CMBS	10.190%	14,473	14,438	08/11/14
10 Independence	Wachovia CMBS	12.440%	16,161	15,908	08/11/14
4 Becker	Wachovia CMBS	9.550%	38,148	37,769	05/11/16
5 Becker	Wachovia CMBS	12.830%	12,391	12,056	05/11/16
210 Clay	Wachovia CMBS	13.420%	12,162	11,844	05/11/16
51 Imclone	Wachovia CMBS	8.390%	3,880	3,886	05/11/16
Various (e)	Prudential Insurance	6.332%	149,715	150,000	01/15/17
23 Main Street	JPMorgan CMBS	5.587%	30,586	31,002	09/01/18

Harborside Plaza 5	The Northwestern Mutual Life Insurance Co. & New York Life Insurance Co.	6.842%	229,281	231,603	11/01/18
100 Walnut Avenue	Guardian Life Insurance Co.	7.311%	19,080	19,241	02/01/19
One River Center (f)	Guardian Life Insurance Co.	7.311%	43,710	44,079	02/01/19
581 Main Street (g)	Valley National Bank	6.935% (h)	16,112	16,338	07/01/34
Total mortgages, loans payable and other obligations			$ 704,940	$ 739,448	

(a) Reflects effective rate of debt, including deferred financing costs, comprised of the cost of terminated treasury lock agreements (if any), debt initiation costs, mark-to-market adjustment of acquired debt and other transaction costs, as applicable.

(b) On March 28, 2012, the Company transferred the deed for 2200 Renaissance Boulevard to the lender in satisfaction of its obligations. See Note 7: Discontinued Operations.

(c) On September 4, 2012, the Company repaid this mortgage loan at par, using borrowings under the Company's unsecured revolving credit facility.

(d) The mortgage loan has two one-year extension options, subject to certain conditions and the payment of a fee.

(e) Mortgage is collateralized by seven properties. The Operating Partnership has agreed, subject to certain conditions, to guarantee repayment of a portion of the loan.

(f) Mortgage is collateralized by the three properties comprising One River Center.

(g) The Operating Partnership has agreed, subject to certain conditions, to guarantee repayment of a portion of the loan.

(h) The coupon interest rate will be reset at the end of year 10 (2019) and year 20 (2029) at 225 basis points over the 10-year treasury yield 45 days prior to the reset dates with a minimum rate of 6.875 percent.

CASH PAID FOR INTEREST AND INTEREST CAPITALIZED
Cash paid for interest for the nine months ended September 30, 2012 and 2011 was $98,191,000 and $99,089,000, respectively. Interest capitalized by the Company for the nine months ended September 30, 2012 and 2011 was $1,427,000 and $875,400, respectively.

SUMMARY OF INDEBTEDNESS
As of September 30, 2012, the Company's total indebtedness of $1,970,254,000 (weighted average interest rate of 6.19 percent) was comprised of $78,000,000 of revolving credit facility borrowings and other variable rate mortgage debt (weighted average rate of 1.59 percent) and fixed rate debt and other obligations of $1,892,254,000 (weighted average rate of 6.38 percent).

As of December 31, 2011, the Company's total indebtedness of $1,914,215,000 (weighted average interest rate of 6.46 percent) was comprised of $66,500,000 of revolving credit facility borrowings and other variable rate mortgage debt (weighted average rate of 1.77 percent) and fixed rate debt and other obligations of $1,847,715,000 (weighted average rate of 6.63 percent).

11. EMPLOYEE BENEFIT 401(k) PLANS

Employees of the Company, who meet certain minimum age and service requirements, are eligible to participate in the Mack-Cali Realty Corporation 401(k) Savings/Retirement Plan (the "401(k) Plan"). Eligible employees may elect to defer from one percent up to 60 percent of their annual compensation on a pre-tax basis to the 401(k) Plan, subject to certain limitations imposed by federal law. The amounts contributed by employees are immediately vested and non-forfeitable. The Company may make discretionary matching or profit sharing contributions to the 401(k) Plan on behalf of eligible participants in any plan year. Participants are always 100 percent vested in their pre-tax contributions and will begin vesting in any matching or profit sharing contributions made on their behalf after two years of service with the Company at a rate of 20 percent per year, becoming 100 percent vested after a total of six years of service with the Company. All contributions are allocated as a percentage of compensation of the eligible participants for the Plan year. The assets of the 401(k) Plan are held in trust and a separate account is established for each participant. A participant may receive a distribution of his or her vested account balance in the 401(k) Plan in a single sum or in installment payments upon his or her termination of service with the Company. The Company did not make any contributions nor recognize any expense for the 401(k) Plan for each of the nine months ended September 30, 2012 and 2011, respectively.

12. DISCLOSURE OF FAIR VALUE OF FINANCIAL INSTRUMENTS

The following disclosure of estimated fair value was determined by management using available market information and appropriate valuation methodologies. However, considerable judgment is necessary to interpret market data and develop estimated fair value. Accordingly, the estimates presented herein are not necessarily indicative of the amounts the Company could realize on disposition of the financial instruments at September 30, 2012 and December 31, 2011. The use of different market assumptions and/or estimation methodologies may have a material effect on the estimated fair value amounts.

Cash equivalents, receivables, accounts payable, and accrued expenses and other liabilities are carried at amounts which reasonably approximate their fair values as of September 30, 2012 and December 31, 2011.

The fair value of the Company’s long-term debt, consisting of senior unsecured notes, an unsecured revolving credit facility and mortgages, loans payable and other obligations aggregated approximately $2.2 billion and $2.1 billion as compared to the book value of approximately $2.0 billion and $1.9 billion as of September 30, 2012 and December 31, 2011, respectively. The fair value of the Company’s long-term debt is categorized as a level 3 basis (as provided by ASC 820, Fair Value Measurements and Disclosures). The fair value is estimated using a discounted cash flow analysis valuation on the borrowing rates currently available to the Company for loans with similar terms and maturities. The fair value of the mortgage debt and the unsecured notes was determined by discounting the future contractual interest and principal payments by a market rate.

Disclosure about fair value of financial instruments is based on pertinent information available to management as of September 30, 2012 and December 31, 2011. Although management is not aware of any factors that would significantly affect the fair value amounts, such amounts have not been comprehensively revalued for purposes of these financial statements since September 30, 2012 and current estimates of fair value may differ significantly from the amounts presented herein.

13. COMMITMENTS AND CONTINGENCIES

TAX ABATEMENT AGREEMENTS

Pursuant to agreements with the City of Jersey City, New Jersey, the Company is required to make payments in lieu of property taxes ("PILOT") on certain of its properties located in Jersey City, as follows:

The Harborside Plaza 4-A agreement, as amended, which commenced in 2002, is for a term of 20 years. The PILOT is equal to two percent of Total Project Costs, as defined. Total Project Costs are $49.5 million. The PILOT totaled $247,000 and $247,000 for the three months ended September 30, 2012 and 2011, respectively, and $742,000 and $742,000 for the nine months ended September 30, 2012 and 2011, respectively.

The Harborside Plaza 5 agreement, as amended, which commenced in 2002, is for a term of 20 years. The PILOT is equal to two percent of Total Project Costs, as defined. Total Project Costs are $170.9 million. The PILOT totaled $854,000 and $854,000 for the three months ended September 30, 2012 and 2011, respectively, and $2.6 million and $2.6 million for the nine months ended September 30, 2012 and 2011, respectively.

At the conclusion of the above-referenced PILOT agreements, it is expected that the properties will be assessed by the municipality and be subject to real estate taxes at the then prevailing rates.

LITIGATION

The Company is a defendant in litigation arising in the normal course of its business activities. Management does not believe that the ultimate resolution of these matters will have a materially adverse effect upon the Company's financial condition taken as whole.

GROUND LEASE AGREEMENTS

Future minimum rental payments under the terms of all non-cancelable ground leases under which the Company is the lessee, as of September 30, 2012, are as follows: (dollars in thousands)

Year		Amount
October 1 through December 31, 2012	$	92
2013		351
2014		367
2015		371
2016		371
2017 through 2084		16,318
Total	$	17,870

Ground lease expense incurred by the Company during the three months ended September 30, 2012 and 2011 amounted to $102,000 and $102,000, respectively, and $305,000 and $305,000 for the nine months ended September

30, 2012 and 2011, respectively.

OTHER

The Company may not dispose of or distribute certain of its properties, currently comprised of seven properties with an aggregate net book value of approximately $129.6 million, which were originally contributed by certain unrelated common unitholders, without the express written consent of such common unitholders, as applicable, except in a manner which does not result in recognition of any built-in-gain (which may result in an income tax liability) or which reimburses the appropriate specific common unitholders for the tax consequences of the recognition of such built-in-gains (collectively, the “Property Lock-Ups”). The aforementioned restrictions do not apply in the event that the Company sells all of its properties or in connection with a sale transaction which the Company’s Board of Directors determines is reasonably necessary to satisfy a material monetary default on any unsecured debt, judgment or liability of the Company or to cure any material monetary default on any mortgage secured by a property. The Property Lock-Ups expire periodically through 2016. Upon the expiration of the Property Lock-Ups, the Company is generally required to use commercially reasonable efforts to prevent any sale, transfer or other disposition of the subject properties from resulting in the recognition of built-in gain to the specific common unitholders, which include members of the Mack Group (which includes William L. Mack, Chairman of the Company’s Board of Directors; David S. Mack, director; Earle I. Mack, a former director; and Mitchell E. Hersh, president, chief executive officer and director), the Robert Martin Group (which includes Robert F. Weinberg, a former director; and Timothy M. Jones, former president), the Cali Group (which includes John R. Cali, a former director, and John J. Cali, a former director). 127 of the Company’s properties, with an aggregate net book value of $1.7 billion, have lapsed restrictions and are subject to these conditions.

In August 2011, the Company commenced construction of a 203,000 square foot office building which is pre-leased for 15 years and three months, subject to two extension options of between five and 10 years each, to Wyndham Worldwide. Wyndham currently leases space in neighboring buildings in the Mack-Cali Business Campus in Parsippany, New Jersey. The new building is expected to be delivered to the tenant in the first quarter of 2013 at a total estimated cost, including leasing costs, of approximately $53.5 million (of which the Company has incurred $30.7 million through September 30, 2012, including $13.0 million of land costs).

In December 2011, the Company entered into a development agreement (the "Development Agreement") with Ironstate Development LLC ("Ironstate") for the development of residential towers with associated parking and ancillary retail space on land owned by the Company at its Harborside Financial Center complex in Jersey City, New Jersey (the "Harborside Residential Project"). The first phase of the project is expected to consist of a parking pedestal to support a high-rise tower of approximately 766 apartment units and estimated to cost approximately $243 million. The parties anticipate the first phase will be ready for occupancy by approximately the second quarter of 2015.

Pursuant to the Development Agreement, the Company and Ironstate shall co-develop the Harborside Residential Project with Ironstate responsible for obtaining all required development permits and approvals. Major decisions with respect to the Harborside Residential Project will require the consent of the Company and Ironstate. The Company and Ironstate will have 85 and 15 percent interests, respectively, in the Harborside Residential Project. The Company will receive capital credit of $30 per approved developable square foot for its land.

The Development Agreement is subject to obtaining required approvals and development financing as well as numerous customary undertakings, covenants, obligations and conditions. The Company has the right to reasonably determine that any phase of the Harborside Residential Project is not economically viable and may elect not to proceed, subject to certain conditions, with no further obligations to Ironstate other than reimbursement to Ironstate of all or a portion of the costs incurred by it to obtain any required approvals.

In July 2012, the Company entered into a ground lease with Wegmans Food Markets, Inc. ("Wegmans") at its undeveloped site located at Sylvan Way and Ridgedale Avenue in Hanover Township, New Jersey. Subject to receiving all necessary governmental approvals, Wegmans intends to construct a store of approximately 140,000 square feet on a finished pad to be delivered by the Company in the first quarter of 2014. The Company expects to incur costs of approximately $12.1 million for the construction of the finished pad (of which the Company has incurred $0.5 million through September 30, 2012).

14. TENANT LEASES

The Properties are leased to tenants under operating leases with various expiration dates through 2033. Substantially all of the leases provide for annual base rents plus recoveries and escalation charges based upon the tenant's proportionate share of and/or increases in real estate taxes and certain operating costs, as defined, and the pass-through of charges for electrical usage.

Future minimum rentals to be received under non-cancelable operating leases at September 30, 2012 are as follows (dollars in thousands):

Year		Amount
October 1 through December 31, 2012	$	146,372
2013		555,291
2014		489,914
2015		420,352
2016		370,374
2017 and thereafter		1,438,568
Total	$	3,420,871

15. MACK-CALI REALTY CORPORATION STOCKHOLDERS' EQUITY

To maintain its qualification as a REIT, not more than 50 percent in value of the outstanding shares of the Company may be owned, directly or indirectly, by five or fewer individuals at any time during the last half of any taxable year of the Company, other than its initial taxable year (defined to include certain entities), applying certain constructive ownership rules. To help ensure that the Company will not fail this test, the Company's Charter provides, among other things, certain restrictions on the transfer of common stock to prevent further concentration of stock ownership. Moreover, to evidence compliance with these requirements, the Company must maintain records that disclose the actual ownership of its outstanding common stock and demands written statements each year from the holders of record of designated percentages of its common stock requesting the disclosure of the beneficial owners of such common stock.

PREFERRED STOCK

The Company had 10,000 shares of eight-percent Series C cumulative redeemable perpetual preferred stock issued and outstanding ("Series C Preferred Stock") in the form of 1,000,000 depositary shares ($25 stated value per depositary share). Each depositary share represented 1/100th of a share of Series C Preferred Stock. The Series C Preferred Stock was essentially on an equivalent basis in priority with the preferred units of the Operating Partnership (See Note 16: Noncontrolling Interests in Subsidiaries). On October 28, 2011, the Company redeemed its Series C Preferred Stock, at a price of $2,500 per share, plus accrued and unpaid dividends through the date prior to the redemption date. The write off of preferred stock issuance costs of $164,000 was included in preferred stock dividends for the year ended December 31, 2011.

SHARE REPURCHASE PROGRAM

In September 2012, the Board of Directors renewed and authorized an increase to the Company's repurchase program ("Repurchase Program"). The Company has authorization to repurchase up to $150 million of its outstanding common stock under the renewed Repurchase Program, which it may repurchase from time to time in open market transactions at prevailing prices or through privately negotiated transactions. No shares were purchased under the Repurchase Program through September 30, 2012. From October 1, 2012 through October 23, 2012, the Company purchased and retired 394,625 shares of its outstanding common stock for an aggregate cost of approximately $11.0 million, with a remaining authorization under the Repurchase Program of $139.0 million.

DIVIDEND REINVESTMENT AND STOCK PURCHASE PLAN

The Company has a Dividend Reinvestment and Stock Purchase Plan (the “DRIP”) which commenced in March 1999 under which 5.5 million shares of the Company’s common stock have been reserved for future issuance. The DRIP provides for automatic reinvestment of all or a portion of a participant’s dividends from the Company’s shares of common stock. The DRIP also permits participants to make optional cash investments up to $5,000 a month without restriction and, if the Company waives this limit, for additional amounts subject to certain restrictions and other conditions set forth in the DRIP prospectus filed as part of the Company’s effective registration statement on Form S-3 filed with the Securities and Exchange Commission (“SEC”) for the 5.5 million shares of the Company’s common stock reserved for issuance under the DRIP.

STOCK OPTION PLANS

In May 2004, the Company established the 2004 Incentive Stock Plan under which a total of 2,500,000 shares have been reserved for issuance. No options have been granted through September 30, 2012 under this plan. In September 2000, the Company established the 2000 Employee Stock Option Plan (“2000 Employee Plan”) and the Amended and Restated 2000 Director Stock Option Plan (“2000 Director Plan”). In May 2002, shareholders of the Company approved amendments to both plans to increase the total shares reserved for issuance under both of the 2000 plans from 2,700,000 to 4,350,000 shares of the Company’s common stock (from 2,500,000 to 4,000,000 shares under the 2000 Employee Plan and from 200,000 to 350,000 shares under the 2000 Director Plan). In 1994, and as subsequently amended, the Company established the Mack-Cali Employee Stock Option Plan (“Employee Plan”) and the Mack-Cali Director Stock Option Plan (“Director Plan”) under which a total of 5,380,188 shares (subject to adjustment) of the Company’s common stock had been reserved for issuance (4,980,188 shares under the Employee Plan and 400,000 shares under the Director Plan). As the Employee Plan and Director Plan expired in 2004, and the 2000 Employee Plan and 2000 Director Plan expired in 2010, stock options may no longer be issued under those plans. Stock options granted under the Employee Plan in 1994 and 1995 became exercisable over a three-year period. Stock options granted under the 2000 Employee Plan and those options granted subsequent to 1995 under the Employee Plan became exercisable over a five-year period. All stock options granted under both the 2000 Director Plan and Director Plan became exercisable in one year. All options were granted at the fair market value at the dates of grant and have terms of ten years. As of September 30, 2012 and December 31, 2011, the stock options outstanding, which were all exercisable, had a weighted average remaining contractual life of approximately 0.4 and 1.1 years, respectively.

Information regarding the Company's stock option plans is summarized below:

	Shares Under Options	Weighted Average Exercise Price	Aggregate Intrinsic Value $(000's)
Outstanding as January 1, 2012	183,870	$ 29.51	-
Exercised/Cancelled	-	-	
Outstanding at September 30, 2012 ($28.47 – $45.47)	183,870	$ 29.51	-
Options exercisable at September 30, 2012	183,870		
Available for grant at September 30, 2012	2,347,153		

Cash received from options exercised under all stock option plans was zero and $1,585,000 for the three months ended September 30, 2012 and 2011, respectively, and zero and $3,048,000 for the nine months ended September 30, 2012 and 2011, respectively. The total intrinsic value of options exercised during the three months ended September 30, 2012 and 2011 was zero and $140,000, respectively, and zero and $496,000 for the nine months ended September 30, 2012 and 2011, respectively. The Company has a policy of issuing new shares to satisfy stock option exercises.

The Company recognized no stock options expense for the three and nine months ended September 30, 2012 and 2011, respectively. As of September 30, 2012, the Company had $0.6 million of total unrecognized compensation cost related to unvested stock compensation granted under the Company's stock compensation plans. That cost is expected to be recognized over a weighted average period of 0.3 years.

STOCK COMPENSATION

The Company has issued stock awards ("Restricted Stock Awards") to officers, certain other employees, and nonemployee members of the Board of Directors of the Company, which allow the holders to each receive a certain amount of shares of the Company's common stock generally over a one to seven-year vesting period, of which 105,843 unvested shares were outstanding at September 30, 2012. Of the outstanding Restricted Stock Awards issued to executive officers and senior management, 40,877 are contingent upon the Company meeting certain performance goals to be set by the Executive Compensation and Option Committee of the Board of Directors of the Company each year, with the remaining based on time and service. All Restricted Stock Awards provided to the officers and certain other employees were issued under the 2004 Incentive Stock Plan, 2000 Employee Plan and the Employee Plan. Restricted Stock Awards provided to directors were issued under the 2004 Incentive Stock Plan and the 2000 Director Plan.

Information regarding the Restricted Stock Awards is summarized below:

	Shares		Weighted-Average Grant – Date Fair Value
Outstanding at January 1, 2012	187,447	$	33.82
Vested	(81,604)		34.42
Outstanding at September 30, 2012	105,843	$	33.36

On September 12, 2012, the Board of Directors of the Company approved the recommendations and ratified the determinations of the Executive Compensation and Option Committee of the Board of Directors (the "Committee") with respect to new Restricted Stock Awards totaling 319,667 shares for those executive officers in place on such date. The new Restricted Stock Awards may vest commencing January 1, 2014 and with the number of Restricted Stock Awards scheduled to be vested and earned on each vesting date on an annual basis over a five to seven year vesting schedule, with each annual vesting of each tranche of Restricted Stock Awards being subject to the attainment of annual performance goals to be set by the Committee for each year.

Also on September 12, 2012, the Board of Directors of the Company approved the recommendations and ratified the determinations of the Committee with respect to new multi-year total stockholder return ("TSR") based awards (the "TSR-Based Awards") totaling 5,160 performance shares (the "Performance Shares") for those executive officers in place on such date, each Performance Share evidencing the right to receive $1,000 in the Company's common stock upon vesting. The Performance Shares may vest commencing December 31, 2013, with the number of Performance Shares scheduled to be vested and earned on each vesting date on an annual basis over a five year vesting schedule and with each annual vesting of each tranche of Performance Shares being subject to the attainment at each fiscal year end of a minimum stock price and either an absolute TSR target or a relative TSR target (the "TSR Performance Targets") in comparison to a selection of Peer Group REITs, in each case as shall be fixed by the Committee for each year. TSR, for purposes of the TSR-Based Performance Agreements, shall be equal to the share appreciation plus any dividends (including special dividends) distributed in the relevant period.

DEFERRED RETIREMENT COMPENSATION AGREEMENTS

On September 12, 2012, the Board of Directors of the Company approved multi-year deferred retirement compensation agreements for those executive officers in place on such date (the "Deferred Retirement Compensation Agreements"). Pursuant to the Deferred Retirement Compensation Agreements, the Company will make annual contributions of stock units ("Stock Units") representing shares of the Company's common stock on January 1 of each year from 2013 through 2017 into a deferred compensation account maintained on behalf of each Messrs. Hersh, Lefkowitz and Thomas. The annual contribution for Messrs. Hersh, Lefkowitz and Thomas shall be in an amount of Stock Units equal to $500,000, $160,000 and $100,000, respectively. For 2013, the number of Stock Units will be determined using a fixed grant date price of $30.00 per share. Vesting of each annual contribution of Stock Units will occur on December 31 of each year, subject to continued employment. Upon the payment of dividends on the Company's common stock, Messrs. Hersh, Lefkowitz and Thomas shall be entitled to dividend equivalent payments in respect of both vested and unvested Stock Units payable in the form of additional Stock Units. The Stock Units shall become payable within 30 days after the earliest of any of the following triggering events: (a) the executive's death or disability; (b) the date of the executive's separation from service to the Company; and (c) the effective date of a change in control, in each case as such terms are defined in the employment agreements of Messrs. Hersh, Lefkowitz and Thomas. Upon the occurrence of a triggering event, the Stock Units shall be paid in cash based on the closing price of the Company's common stock on the date of such triggering event.

31

DEFERRED STOCK COMPENSATION PLAN FOR DIRECTORS

The Amended and Restated Deferred Compensation Plan for Directors, which commenced January 1, 1999, allows non-employee directors of the Company to elect to defer up to 100 percent of their annual retainer fee into deferred stock units. The deferred stock units are convertible into an equal number of shares of common stock upon the directors' termination of service from the Board of Directors or a change in control of the Company, as defined in the plan. Deferred stock units are credited to each director quarterly using the closing price of the Company's common stock on the applicable dividend record date for the respective quarter. Each participating director's account is also credited for an equivalent amount of deferred stock units based on the dividend rate for each quarter.

During the nine months ended September 30, 2012 and 2011, 13,057 and 10,620 deferred stock units were earned, respectively. As of September 30, 2012 and December 31, 2011, there were 110,666 and 98,009 director stock units outstanding, respectively.

EARNINGS PER SHARE

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.

The following information presents the Company's results for the three months ended September 30, 2012 and 2011 in accordance with ASC 260, Earnings Per Share: (in thousands, except per share amounts)

	Three Months Ended September 30,	
Computation of Basic EPS	2012	2011
Income from continuing operations	$ 15,921	$ 24,187
Add: Noncontrolling interest in consolidated joint ventures	85	96
Deduct: Noncontrolling interest in Operating Partnership	(1,949)	(3,028)
Deduct: Preferred stock dividends	-	(664)
Income from continuing operations available to common shareholders	14,057	20,591
Income (loss) from discontinued operations available to common shareholders	224	(91)
Net income available to common shareholders	14,281	20,500
Weighted average common shares	87,826	87,019
Basic EPS:		
Income from continuing operations available to common shareholders	$ 0.16	$ 0.24
Income (loss) from discontinued operations available to common shareholders	-	-
Net income available to common shareholders	$ 0.16	$ 0.24

	Three Months Ended September 30,	
Computation of Diluted EPS	2012	2011
Income from continuing operations available to common shareholders	$ 14,057	$ 20,591
Add: Noncontrolling interest in Operating Partnership	1,949	3,028
Income from continuing operations for diluted earnings per share	16,006	23,619
Income (loss) from discontinued operations for diluted earnings per share	255	(104)
Net income available to common shareholders	$ 16,261	$ 23,515
Weighted average common shares	100,075	99,917
Diluted EPS:		
Income from continuing operations available to common shareholders	$ 0.16	$ 0.24
Income (loss) from discontinued operations available to common shareholders	-	-
Net income available to common shareholders	$ 0.16	$ 0.24

The following information presents the Company’s results for the nine months ended September 30, 2012 and 2011 in accordance with ASC 260, Earnings Per Share: (in thousands, except per share amounts)

	Nine Months Ended September 30,	
Computation of Basic EPS	2012	2011
Income from continuing operations	$ 54,096	$ 62,724
Add: Noncontrolling interest in consolidated joint ventures	256	308
Deduct: Noncontrolling interest in Operating Partnership	(6,624)	(8,001)
Deduct: Preferred stock dividends	-	(1,664)
Income from continuing operations available to common shareholders	47,728	53,367
Income (loss) from discontinued operations available to common shareholders	2,421	195
Net income available to common shareholders	$ 50,149	$ 53,562
Weighted average common shares	87,814	85,649

Basic EPS:				
Income from continuing operations available to common shareholders	$	0.54	$	0.63
Income (loss) from discontinued operations available to common shareholders		0.03		-
Net income available to common shareholders	$	0.57		