

Management's Discussion and Analysis of Financial Condition and Results of Operations

Mack-Cali Realty Corporation and Subsidiaries

The following discussion should be read in conjunction with the Consolidated Financial Statements of Mack-Cali Realty Corporation and the notes thereto. Certain defined terms used herein have the meaning ascribed to them in the Consolidated Financial Statements.

The following comparisons for the year ended December 31, 2000 ("2000"), as compared to the year ended December 31, 1999 ("1999"), and for 1999, as compared to the year ended December 31, 1998 ("1998"), make reference to the following: (i) the effect of the "Same-Store Properties," which represents all in-service properties owned by the Company at December 31, 1998, excluding Dispositions as defined below (for the 2000 versus 1999

comparison) and which represents all in-service properties owned by the Company at December 31, 1997, excluding Dispositions as defined below (for the 1999 versus 1998 comparison), (ii) the effect of the "Acquired Properties," which represents all properties acquired or placed in service by the Company from January 1, 1999 through December 31, 2000 (for the 2000 versus 1999 comparison) and which represents all properties acquired or placed in service by the Company from January 1, 1998 through December 31, 1999 (for the 1999 versus 1998 comparison) and (iii) the effect of the "Dispositions," which represents results for each period for those rental properties sold by the Company during the respective periods.

Year Ended December 31, 2000 Compared to Year Ended December 31, 1999

Dollars in thousands	Year Ended		Dollar Change	Percent Change
	December 31, 2000	1999		
Revenue from rental operations:				
Base rents	\$491,193	\$469,853	\$21,340	4.5%
Escalations and recoveries from tenants	58,488	62,182	(3,694)	(5.9)
Parking and other	15,325	15,915	(590)	(3.7)
Sub-total	565,006	547,950	17,056	3.1
Equity in earnings of unconsolidated joint ventures	8,055	2,593	5,462	210.6
Interest income	3,092	941	2,151	228.6
Total revenues	576,153	551,484	24,669	4.5
Property expenses:				
Real estate taxes	59,400	57,382	2,018	3.5
Utilities	42,035	41,580	455	1.1
Operating services	70,711	69,689	1,022	1.5
Sub-total	172,146	168,651	3,495	2.1
General and administrative	23,276	25,480	(2,204)	(8.6)
Depreciation and amortization	92,088	87,209	4,879	5.6
Interest expense	105,394	102,960	2,434	2.4
Non-recurring charges	37,139	16,458	20,681	125.7
Total expenses	430,043	400,758	29,285	7.3
Income before gain on sales of rental property and minority interests	146,110	150,726	(4,616)	(3.1)
Gain on sales of rental property	85,353	1,957	83,396	4,261.4
Income before minority interests	231,463	152,683	78,780	51.6
Minority interests:				
Operating partnership	41,053	32,865	8,188	24.9
Partially-owned properties	5,072	79	4,993	6,320.3
Net income	\$185,338	\$119,739	\$65,599	54.8%

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The following is a summary of the changes in revenue from rental operations and property expenses divided into Same-Store Properties, Acquired Properties and Dispositions:

	Total Company		Same-Store Properties		Acquired Properties		Dispositions	
	Dollar Change	Percent Change	Dollar Change	Percent Change	Dollar Change	Percent Change	Dollar Change	Percent Change
Dollars in thousands								
Revenue from rental operations:								
Base rents	\$21,340	4.5%	\$16,615	3.5%	\$21,429	4.6%	\$(16,704)	(3.6)%
Escalations and recoveries from tenants	(3,694)	(5.9)	(577)	(0.9)	1,602	2.6	(4,719)	(7.6)
Parking and other	(590)	(3.7)	(111)	(0.7)	150	0.9	(629)	(3.9)
Total	\$17,056	3.1%	\$15,927	2.9%	\$23,181	4.2%	\$(22,052)	(4.0)%
Property expenses:								
Real estate taxes	\$ 2,018	3.5%	\$ 1,267	2.2%	\$ 2,287	4.0%	\$ (1,536)	(2.7)%
Utilities	455	1.1	752	1.8	1,501	3.6	(1,798)	(4.3)
Operating services	1,022	1.5	664	1.0	3,359	4.8	(3,001)	(4.3)
Total	\$ 3,495	2.1%	\$ 2,683	1.6%	\$ 7,147	4.2%	\$ (6,335)	(3.7)%
Other Data:								
Number of Consolidated Properties	255		237		18		7	
Square feet (in thousands)	26,667		24,886		1,781		1,949	

Base rents for the Same-Store Properties increased \$16.6 million, or 3.5 percent, for 2000 as compared to 1999, due primarily to rental rate increases in 2000. Escalations and recoveries from tenants for the Same-Store Properties decreased \$0.6 million, or 0.9 percent, for 2000 over 1999, due to the recovery of a decreased amount of total property expenses. Parking and other income for the Same-Store Properties decreased \$0.1 million, or 0.7 percent, due primarily to fewer lease termination fees in 2000.

Real estate taxes on the Same-Store Properties increased \$1.3 million, or 2.2 percent, for 2000 as compared to 1999, due primarily to property tax rate increases in certain municipalities in 2000. Utilities for the Same-Store Properties increased \$0.8 million, or 1.8 percent, for 2000 as compared to 1999, due primarily to increased rates. Operating services for the Same-Store Properties increased \$0.7 million, or 1.0 percent, due primarily to an increase in maintenance costs in 2000.

Equity in earnings of unconsolidated joint ventures increased \$5.5 million, or 210.6 percent, for 2000 as compared to 1999. This is due primarily to properties developed by joint ventures being placed in service in 2000 and higher occupancies (see Note 4 to the Financial Statements).

Interest income increased \$2.2 million, or 228.6 percent, for 2000 as compared to 1999. This increase was due primarily to the effect of net proceeds from certain property sales being invested in cash and cash equivalents for the period of time prior to which such proceeds were reinvested, as well as income from mortgages receivable in 2000.

General and administrative decreased by \$2.2 million, or 8.6 percent, for 2000 as compared to 1999. This decrease is due primarily to decreased payroll and related costs in 2000.

Depreciation and amortization increased by \$4.9 million, or 5.6 percent, for 2000 over 1999. Of this increase, \$5.4 million, or 6.2 percent, is attributable to the Same-Store Properties, and \$3.8 million, or 4.4 percent, is due to the Acquired Properties, partially offset by a decrease of \$4.3 million, or 5.0 percent, due to the Dispositions.

Interest expense increased \$2.4 million, or 2.4 percent, for 2000 as compared to 1999. This increase is due primarily to the replacement in March 1999 of short-term credit facility borrowings with long-term fixed rate unsecured notes and increase in LIBOR in 2000 over 1999.

Non-recurring charges of \$37.1 million were incurred in 2000 as a result of costs associated with the termination of the Prentiss merger agreement (see Note 3 to the Financial Statements) in September 2000 and costs associated with the resignations of Brant Cali and John R. Cali (see Note 14 to the Financial Statements) in June 2000. Non-recurring charges of \$16.5 million were incurred in 1999 as a result of the resignation of Thomas A. Rizk (see Note 14 to the Financial Statements).

Income before gain on sales of rental property and minority interests decreased to \$146.1 million in 2000 from \$150.7 million in 1999. The decrease of approximately \$4.6 million is due to the factors discussed above.

Net income increased by \$65.6 million, from \$119.7 million in 1999 to \$185.3 million in 2000. This increase was a result of a gain on sales of rental property of \$85.4 million in 2000. This was partially offset by a decrease in income before gain on sales of rental

property and minority interests of \$4.6 million in 2000 as compared to 1999, a gain on sales of rental property of \$2.0 million in 1999, and an increase in minority interests of \$13.2 million in 2000.

Year Ended December 31, 1999 Compared to Year Ended December 31, 1998

Dollars in thousands	Year Ended December 31,		Dollar	Percent
	1999	1998	Change	Change
Revenue from rental operations:				
Base rents	\$469,853	\$427,528	\$42,325	9.9%
Escalations and recoveries from tenants	62,182	51,981	10,201	19.6
Parking and other	15,915	10,712	5,203	48.6
Sub-total	547,950	490,221	57,729	11.8
Equity in earnings of unconsolidated joint ventures	2,593	1,055	1,538	145.8
Interest income	941	2,423	(1,482)	(61.2)
Total revenues	551,484	493,699	57,785	11.7
Property expenses:				
Real estate taxes	57,382	48,297	9,085	18.8
Utilities	41,580	38,440	3,140	8.2
Operating services	69,689	63,711	5,978	9.4
Sub-total	168,651	150,448	18,203	12.1
General and administrative	25,480	24,828	652	2.6
Depreciation and amortization	87,209	78,916	8,293	10.5
Interest expense	102,960	88,043	14,917	16.9
Non-recurring charges	16,458	—	16,458	—
Total expenses	400,758	342,235	58,523	17.1
Income before gain on sales of rental property, minority interests and extraordinary item	150,726	151,464	(738)	(0.5)
Gain on sales of rental property	1,957	—	1,957	—
Income before minority interests and extraordinary item	152,683	151,464	1,219	0.8
Minority interests:				
Operating partnership	32,865	32,513	352	1.1
Partially-owned properties	79	—	79	—
Income before extraordinary item	119,739	118,951	788	0.7
Extraordinary item—loss on early retirement of debt (net of minority interest's share of \$297 in 1998)	—	(2,373)	2,373	(100.0)
Net income	\$119,739	\$116,578	\$ 3,161	2.7%

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The following is a summary of changes in revenue from rental operations and property expenses divided into Same-Store Properties, Acquired Properties and Dispositions:

	Total Company		Same-Store Properties		Acquired Properties		Dispositions	
	Dollar Change	Percent Change	Dollar Change	Percent Change	Dollar Change	Percent Change	Dollar Change	Percent Change
Dollars in thousands								
Revenue from rental operations:								
Base rents	\$42,325	9.9%	\$10,007	2.4%	\$32,519	7.6%	\$(201)	(0.1)%
Escalations and recoveries from tenants	10,201	19.6	4,800	9.2	5,404	10.4	(3)	0.0
Parking and other	5,203	48.6	2,585	24.1	2,601	24.3	17	0.2
Total	\$57,729	11.8%	\$17,392	3.6%	\$40,524	8.3%	\$(187)	(0.1)%
Property expenses:								
Real estate taxes	\$ 9,085	18.8%	\$ 3,300	6.8%	\$ 5,817	12.1%	\$ (32)	(0.1)%
Utilities	3,140	8.2	400	1.0	2,738	7.2	2	0.0
Operating services	5,978	9.4	(165)	(0.3)	6,210	9.8	(67)	(0.1)
Total	\$18,203	12.1%	\$ 3,535	2.4%	\$14,765	9.8%	\$ (97)	(0.1)%
Other Data:								
Number of Consolidated Properties	253		187		66		2	
Square feet (in thousands)	27,383		21,775		5,608		190	

Base rents for the Same-Store Properties increased \$10.0 million, or 2.4 percent, for 1999 as compared to 1998, due primarily to rental rate increases in 1999. Escalations and recoveries from tenants for the Same-Store Properties increased \$4.8 million, or 9.2 percent, for 1999 over 1998, due to the recovery of an increased amount of total property expenses, as well as additional settle-up billings in 1999. Parking and other income for the Same-Store Properties increased \$2.6 million, or 24.1 percent, due primarily to increased lease termination fees in 1999.

Real estate taxes on the Same-Store Properties increased \$3.3 million, or 6.8 percent, for 1999 as compared to 1998, due primarily to property tax rate increases in certain municipalities in 1999. Utilities for the Company increased \$3.1 million, or 8.2 percent, for 1999 as compared to 1998, due substantially to the Acquired Properties. Operating services for the Same-Store Properties decreased \$0.2 million, or 0.3 percent, due primarily to a reduction in maintenance costs incurred.

Equity in earnings of unconsolidated joint ventures increased \$1.5 million in 1999 as compared to 1998. This is due primarily to additional joint venture investments made by the Company (see Note 4 to the Financial Statements).

Interest income decreased \$1.5 million, or 61.2 percent, for 1999 as compared to 1998. This decrease was due primarily to repayment by a borrower of a mortgage note receivable in 1998.

General and administrative increased by \$0.7 million, or 2.6 percent, for 1999 as compared to 1998. This increase is due primarily to increased payroll and related costs in 1999.

Depreciation and amortization increased by \$8.3 million, or 10.5 percent, for 1999 over 1998. Of this increase, \$4.8 million, or 6.1 percent, is attributable to the Acquired Properties and \$3.5 million, or 4.4 percent, is due to the Same-Store Properties.

Interest expense increased \$14.9 million, or 16.9 percent, for 1999 as compared to 1998. This increase is due primarily to the replacement in 1999 of short-term credit facility borrowings with long-term fixed rate unsecured debt and net additional drawings from the Company's revolving credit facilities generally as a result of Company acquisitions in 1998. These increases were partially offset by the reduction in spread over LIBOR due to the Unsecured Facility signed in April 1998 and the achievement by the Company of investment grade credit ratings in November 1998.

Non-recurring charges of \$16.5 million were incurred in 1999, as a result of the resignation of Thomas A. Rizk (see Note 14 to the Financial Statements).

Income before gain on sales of rental property, minority interests and extraordinary item decreased to \$150.7 million in 1999 from \$151.5 million in 1998. The decrease of approximately \$0.8 million is due to the factors discussed above.

Net income increased by \$3.1 million, from \$116.6 million in 1998 to \$119.7 million in 1999. This increase was a result of an extraordinary item of \$2.4 million (net of minority interest) due to early retirement of debt in 1998, and a gain on sales of rental property of \$1.9 million in 1999. These were partially offset by a decrease in income before gain on sales of rental property, minority interests and extraordinary item of \$0.8 million in 2000 as compared to 1999 and an increase in minority interests of \$0.4 million.

Liquidity and Capital Resources

STATEMENT OF CASH FLOWS

During the year ended December 31, 2000, the Company generated \$180.5 million in cash flows from operating activities, and together with \$723.0 million in borrowings from the Company's senior unsecured notes and revolving credit facilities, \$292.9 million in proceeds from sales of rental property, \$13.3 million in distributions received from unconsolidated joint ventures, \$2.5 million in proceeds from stock options exercised and \$0.5 million from restricted cash, used an aggregate of approximately \$1.2 billion to acquire properties and land parcels and pay for other tenant and building improvements totaling \$268.2 million, repay outstanding borrowings on its revolving credit facilities and other mortgage debt of \$585.0 million, pay quarterly dividends and distributions of \$172.1 million, invest \$17.6 million in unconsolidated joint ventures, distribute \$88.7 million to minority interest in partially-owned properties, issue mortgage note receivables of \$14.7 million, pay financing costs of \$6.4 million, repurchase 2,026,300 shares of its outstanding common stock for \$55.5 million and increase the Company's cash and cash equivalents by \$4.5 million.

CAPITALIZATION

The Company has a focused strategy geared to attractive opportunities in high-barrier-to-entry markets, primarily predicated on the Company's strong presence in the Northeast region and, to a lesser extent, certain markets in California. The Company plans to sell substantially all of its properties located in the Southwestern and Western regions, using such proceeds to invest in property acquisitions and development projects in its core Northeast markets, as well as to repay debt and fund stock repurchases.

During 2000, the Company sold three of its office properties located in the Southwest and Western regions for aggregate net proceeds of approximately \$57.8 million (see Note 3—"2000 Transactions—Property Sales" to the Financial Statements.) Currently, the Company is actively seeking to sell 10 office properties located in San Antonio and Houston, Texas.

Consistent with its strategy, in the fourth quarter 2000, the Company started construction of a 980,000 square-foot office property, to be known as Plaza 5, at its Harborside Financial Center office complex in Jersey City, Hudson County, New Jersey. The total cost of the project is currently projected to be approximately \$260 million and is anticipated to be completed in third quarter 2002. Additionally, in the fourth quarter 2000, the Company, through a joint venture, started construction of a 575,000 square-foot office property, to be known as Plaza 10, on land owned by the joint venture located adjacent to the Company's Harborside complex. The total cost of this project is currently projected to be approximately \$140 million and is anticipated to be

completed in third quarter 2002. Plaza 10 is 100 percent pre-leased to Charles Schwab for a 15-year term. The lease agreement obligates the Company, among other things, to deliver space to the tenant by required timelines and offers expansion options, at the tenant's election, to additional space in any adjacent Harborside projects. Such options may obligate the Company to construct an additional building at Harborside if vacant space is not available in any of its existing Harborside properties. Should the Company be unable to or choose not to provide such expansion space, the Company could be liable to Schwab for its actual damages, in no event to exceed \$15.0 million. The Company expects to finance its funding requirements under both Plazas 5 and 10 projects through drawing on its revolving credit facilities, construction financing, or through joint venture arrangements.

On August 6, 1998, the Board of Directors of the Company authorized a Repurchase Program under which the Company was permitted to purchase up to \$100.0 million of the Company's outstanding common stock. Under the Repurchase Program, the Company purchased for constructive retirement 1,869,200 shares of its outstanding common stock for an aggregate cost of approximately \$52.6 million through September 12, 2000.

On September 13, 2000, the Board of Directors authorized an increase to the Repurchase Program under which the Company is permitted to purchase up to an additional \$150.0 million of the Company's outstanding common stock above the \$52.6 million that had previously been purchased. From that date through February 15, 2001, the Company purchased for constructive retirement 2,098,300 shares of its outstanding common stock for an aggregate cost of approximately \$57.5 million under the Repurchase Program. The Company has authorization to repurchase up to an additional \$92.5 million of its outstanding common stock which it may repurchase from time to time in open market transactions at prevailing prices or through privately negotiated transactions.

As of December 31, 2000, the Company's total indebtedness of \$1.6 billion (weighted average interest rate of 7.29 percent) was comprised of \$381.0 million of revolving credit facility borrowings and other variable rate mortgage debt (weighted average rate of 7.53 percent) and fixed rate debt of \$1.2 billion (weighted average rate of 7.25 percent).

As of December 31, 2000, the Company had outstanding borrowings of \$348.8 million under its revolving credit facilities (with aggregate borrowing capacity of \$900.0 million). The total outstanding borrowings were from the 2000 Unsecured Facility, with no outstanding borrowings under the Prudential Facility. The interest rate on outstanding borrowings under the 2000 Unsecured Facility is currently LIBOR plus 80 basis points. The Company may instead elect an interest rate representing the higher of

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the lender's prime rate or the Federal Funds rate plus 50 basis points. The 2000 Unsecured Facility also requires a 20 basis point facility fee on the current borrowing capacity payable quarterly in arrears. In the event of a change in the Company's unsecured debt rating, the interest and facility fee rate will be changed on a sliding scale. Subject to certain conditions, the Company has the ability to increase the borrowing capacity of the 2000 Unsecured Facility up to \$1.0 billion. The 2000 Unsecured Facility matures in June 2003, with an extension option of one year, which would require a payment of 25 basis points of the then borrowing capacity of the credit line upon exercise. The Company has been notified that the Prudential Facility, which carries an interest rate of 110 basis points over LIBOR and matures in June 2001, will not be renewed. The Company believes that the 2000 Unsecured Facility is sufficient to meet its revolving credit facility needs.

The terms of the 2000 Unsecured Facility include certain restrictions and covenants which limit, among other things, the payment of dividends (as discussed below), the incurrence of additional indebtedness, the incurrence of liens and the disposition of assets, 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 debt service coverage, the minimum amount of fixed charge coverage, the maximum amount of unsecured indebtedness, the minimum amount of unencumbered property debt service coverage and certain investment limitations. The dividend restriction referred to above provides that, except to enable the Company to continue to qualify as a REIT under the Code, the Company will not during any four consecutive fiscal quarters make distributions with respect to common stock or other equity interests in an aggregate amount in excess of 90 percent of funds from operations (as defined) for such period, subject to certain other adjustments.

On December 21, 2000, the Operating Partnership issued \$15.0 million of 7.835 percent senior unsecured notes due December 15, 2010 with interest payable semi-annually in arrears. The total proceeds from the issuance (net of selling commissions) of approximately \$14.9 million were used primarily to pay down outstanding borrowings under the Prudential Facility, as defined in Note 9 to the Financial Statements.

In January 2001, the Operating Partnership issued \$300.0 million face amount of 7.75 percent senior unsecured notes due February 15, 2011 with interest payable semi-annually in arrears. The total proceeds from the issuance (net of selling commissions and discount) of approximately \$296.3 million were used to pay down outstanding borrowings under the 2000 Unsecured Facility, as defined in Note 9 to the Financial Statements. The senior unsecured notes were issued at a discount of approximately \$1.7 million.

The terms of the Operating Partnership's unsecured corporate debt include certain restrictions and covenants which require compliance with financial ratios relating to the maximum amount of debt leverage, the maximum amount of secured indebtedness, the minimum amount of debt service coverage and the maximum amount of unsecured debt as a percent of unsecured assets.

The Company has three investment grade credit ratings. Standard & Poor's Rating Services ("S&P") and Fitch, Inc. ("Fitch") have each assigned their BBB rating to existing and prospective senior unsecured debt of the Operating Partnership. S&P and Fitch have also assigned their BBB- rating to prospective preferred stock offerings of the Company. Moody's Investors Service has assigned its Baa3 rating to the existing and prospective senior unsecured debt of the Operating Partnership and its Ba1 rating to prospective preferred stock offerings of the Company.

As of December 31, 2000, the Company had 229 unencumbered properties, totaling 20.4 million square feet, representing 76.5 percent of the Company's total portfolio on a square footage basis.

The Company has an effective shelf registration statement with the SEC for an aggregate amount of \$2.0 billion in equity securities of the Company. The Company and Operating Partnership also have an effective shelf registration statement with the SEC for an aggregate of \$2.0 billion in debt securities, preferred stock and preferred stock represented by depositary shares, under which the Operating Partnership has issued an aggregate of \$1.1 billion of unsecured corporate debt. The Company also has an effective registration statement with the SEC for a dividend reinvestment and stock purchase plan, which commenced in March 1999.

Historically, rental revenue has been the principal source of funds to pay operating expenses, debt service and capital expenditures, excluding non-recurring capital expenditures. Management believes that the Company will have access to the capital resources necessary to expand and develop its business. To the extent that the Company's cash flow from operating activities is insufficient to finance its non-recurring capital expenditures such as property acquisition and construction project costs and other capital expenditures, the Company expects to finance such activities through borrowings under its revolving credit facilities and other debt and equity financing.

The Company expects to meet its short-term liquidity requirements generally through its working capital, net cash provided by operating activities and from the 2000 Unsecured Facility. The Company is frequently examining potential property acquisitions and construction projects and, at any given time, one or more of such acquisitions or construction projects may be under consideration. Accordingly, the ability to fund property acquisitions and construction projects is a major part of the Company's financing requirements. The Company expects to meet its financing requirements through funds generated from operating activities, proceeds from property sales, long-term or short-term borrowings (including draws on the Company's revolving credit facilities) and the issuance of additional debt or equity securities.

Following the Operating Partnership's issuance of \$300.0 million in senior unsecured notes in January 2001, the Company's total debt had a weighted average term to maturity of approximately 5.9 years. The Company does not intend to reserve funds to retire the Company's unsecured corporate debt or its mortgages and loans payable upon maturity. Instead, the Company will seek to refinance such debt at maturity or retire such debt through the issuance of additional equity or debt securities. The Company is reviewing various refinancing options, including the issuance of additional unsecured debt, preferred stock, and/or obtaining additional mortgage debt, some or all of which may be completed during 2001. The Company anticipates that its available cash and cash equivalents and cash flows from operating activities, together with cash available from borrowings and other

sources, will be adequate to meet the Company's capital and liquidity needs both in the short and long-term. However, if these sources of funds are insufficient or unavailable, the Company's ability to make the expected distributions discussed below may be adversely affected.

To maintain its qualification as a REIT, the Company must make annual distributions to its stockholders of at least 90 percent (fortaxable years beginning after December 31, 2000) of its REIT taxable income, determined without regard to the dividends paid deduction and by excluding net capital gains. Moreover, the Company intends to continue to make regular quarterly distributions to its stockholders which, based upon current policy, in the aggregate would equal approximately \$138.9 million on an annualized basis. However, any such distribution, whether for federal income tax purposes or otherwise, would only be paid out of available cash after meeting both operating requirements and scheduled debt service on mortgages and loans payable.

Funds from Operations

The Company considers funds from operations ("FFO"), after adjustment for straight-lining of rents and non-recurring charges, one measure of REIT performance. Funds from operations is defined as net income (loss) before minority interest of unitholders, computed in accordance with generally accepted accounting principles ("GAAP"), excluding gains (or losses) from debt restructuring, other extraordinary items, and sales of depreciable rental property, plus real estate-related depreciation and amortization. Funds from operations should not be considered as an alternative to net income as an indication of the Company's performance or to cash flows as a measure of liquidity. Funds from operations presented herein is not necessarily comparable to funds from operations presented by other real estate companies due to the fact that not all real estate companies use the same definition. However, the Company's funds from operations is comparable to the funds from operations of real estate companies that use the current definition of the National Association of Real Estate Investment Trusts ("NAREIT"), after the adjustment for straight-lining of rents and non-recurring charges.

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Funds from operations for the years ended December 31, 2000, 1999 and 1998, as calculated in accordance with NAREIT's definition as published in October 1999, after adjustment for straight-lining of rents and non-recurring charges, are summarized in the following table:

In thousands Year Ended December 31,	2000	1999	1998
Income before gain on sales of rental property, minority interests and extraordinary item	\$ 146,110	\$ 150,726	\$ 151,464
Add: Real estate-related depreciation and amortization ⁽¹⁾	94,250	89,731	79,169
Gain on sale of land	2,248	—	—
Non-recurring charges	37,139	16,458	—
Deduct: Rental income adjustment for straight-lining of rents ⁽²⁾	(12,604)	(12,596)	(13,684)
Minority interests: partially-owned properties	(5,072)	(79)	—
Funds from operations, after adjustment for straight-lining of rents and non-recurring charges	\$ 262,071	\$ 244,240	\$ 216,949
Deduct: Distributions to preferred unitholders	(15,441)	(15,476)	(16,313)
Funds from operations, after adjustment for straight-lining of rents and non-recurring charges, after distributions to preferred unitholders	\$ 246,630	\$ 228,764	\$ 200,636
Cash flows provided by operating activities	\$ 180,529	\$ 243,638	\$ 208,761
Cash flows provided by (used in) investing activities	\$ 6,189	\$(195,178)	\$(749,067)
Cash flows (used in) provided by financing activities	\$(182,210)	\$ (45,598)	\$ 543,411
Basic weighted average shares/units outstanding ⁽³⁾	66,392	66,885	63,438
Diluted weighted average shares/units outstanding ⁽³⁾	73,070	73,769	70,867

(1) Includes the Company's share from unconsolidated joint ventures of \$2,928, \$3,166 and \$817 for the years ended December 31, 2000, 1999 and 1998.

(2) Includes the Company's share from unconsolidated joint ventures of \$24, \$158 and \$109 for the years ended December 31, 2000, 1999 and 1998.

(3) See calculations for the amounts presented in the following reconciliation.

The following schedule reconciles the Company's basic weighted average shares to the basic and diluted weighted average shares/units presented above:

In thousands Year Ended December 31,	2000	1999	1998
Basic weighted average shares:	58,338	58,385	55,840
Add: Weighted average common units	8,054	8,500	7,598
Basic weighted average shares/units:	66,392	66,885	63,438
Add: Weighted average preferred units (after conversion to common units)	6,485	6,636	6,974
Stock options	188	241	411
Restricted Stock Awards	5	7	—
Stock Warrants	—	—	44
Diluted weighted average shares/units:	73,070	73,769	70,867

Inflation

The Company's leases with the majority of its tenants provide for recoveries and escalation charges based upon the tenant's proportionate share of, and/or increases in, real estate taxes and certain operating costs, which reduce the Company's exposure to increases in operating costs resulting from inflation.

Disruption in Operations Due To Year 2000 Problems

The Year 2000 issue was the result of computer programs and embedded chips using a two-digit format, as opposed to four digits, to indicate the year. Such computer systems may have been unable to interpret dates beyond the year 1999, which could have caused a system failure or other computer errors, leading to disruptions in operations.

We developed a three-phase Year 2000 project (the "Project") to identify, remedy and test our Year 2000 systems compliance, including, but not limited to, central accounting and operating systems, tenant compliance and property compliance. In addition, we prepared contingency plans in the event of Year 2000 failures associated with critical building support systems and our accounting system.

Our Project was completed on schedule during the fourth quarter of 1999. Approximately \$1.0 million was incurred to modify, upgrade and/or replace non-compliant systems.

We experienced no system failures or computer errors associated with Year 2000 compliance. We have concluded the Project and anticipate no further Year 2000 compliance issues or expenditures.

Disclosure Regarding Forward-Looking Statements

The Company considers portions of this information to be forward-looking statements within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934. Such forward-looking statements relate to, without limitation, the Company's future economic performance, plans and objectives for future operations and projections of revenue and other financial items. Forward-looking statements can be identified by the use of words such as "may," "will," "should," "expect," "anticipate," "estimate" or "continue" or comparable terminology. Forward-looking statements are inherently subject to risks and uncertainties, many of which the Company cannot predict with accuracy and some of which the Company might not even anticipate. Although the Company believes that the expectations reflected in such forward-looking statements are based upon reasonable assumptions, it can give no assurance that its expectations will be achieved. Future events and actual results, financial and otherwise, may differ materially from the results discussed in the forward-looking statements. See "Risk Factors" for a discussion of important factors with respect to such forward-looking statements, including certain risks and uncertainties, that could cause actual results to differ materially from those presented in the forward-looking statements.