

Notes To Consolidated Financial Statements

Mack-Cali Realty Corporation and Subsidiaries

(dollars in thousands, except per share/unit amounts)

1) Organization and Basis of Presentation

ORGANIZATION

Mack-Cali Realty Corporation, a Maryland corporation, and subsidiaries (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. As of December 31, 2000, the Company owned or had interests in 267 properties plus developable land (collectively, the "Properties"). The Properties aggregate approximately 28.2 million square feet, and are comprised of 163 office buildings and 91 office/flex buildings totaling approximately 27.8 million square feet (which includes eight office buildings and four office/flex buildings aggregating 1.5 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 multi-family residential complexes consisting of 451 units, two stand-alone retail properties and three land leases. The Properties are located in 11 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. ("Operating Partnership"). See Investments in Unconsolidated Joint Ventures in Note 2 for the Company's treatment of unconsolidated joint venture interests. All significant intercompany accounts and transactions have been eliminated.

The preparation of financial statements in conformity with generally accepted accounting principles ("GAAP") requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

2) Significant Accounting Policies

RENTAL PROPERTY

Rental properties are stated at cost less accumulated depreciation and amortization. Costs directly related to the acquisition and development of rental properties are capitalized. Capitalized development costs include interest, property taxes, insurance and other project costs incurred during the period of development. Included in total rental property is construction-in-progress of \$162,497 and \$99,987 as of December 31, 2000 and 1999, 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.

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

	Remaining lease term
Leasehold interests	
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

On a periodic basis, management assesses whether there are any indicators that the value of the real estate properties may be impaired. A property's value is impaired only if management's estimate of the aggregate future cash flows (undiscounted and without interest charges) to be generated by the property are 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. Management does not believe that the value of any of its rental properties is impaired.

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 net sales price of the assets which have been identified for sale is less than the net book value of the assets, a valuation allowance is established. See Note 7.

INVESTMENTS IN UNCONSOLIDATED JOINT VENTURES

The Company accounts for its investments in unconsolidated joint ventures under the equity method of accounting as the Company exercises significant influence, but does not control these entities. These investments are recorded initially at cost, as Investments in Unconsolidated Joint Ventures, and subsequently adjusted for equity in earnings and cash contributions and distributions. Any difference between the carrying amount of these investments on the balance sheet of the Company and the underlying equity in net assets is amortized as an adjustment to equity in earnings of unconsolidated joint ventures over 40 years. See Note 4.

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 on a straight-line basis, which approximates the effective interest method, over the term of the related indebtedness. Amortization of such costs is included in interest expense and was \$3,943, \$3,320 and \$1,580 for the years ended December 31, 2000, 1999 and 1998, 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 provide leasing services to the Properties and receive compensation based on space leased. The portion of such compensation, which is capitalized and amortized, approximated \$3,704, \$3,704 and \$3,509 for the years ended December 31, 2000, 1999 and 1998, respectively.

REVENUE RECOGNITION

Base rental revenue is recognized on a straight-line basis over the terms of the respective leases. Unbilled rents receivable represents the amount by which straight-line rental revenue exceeds rents currently billed in accordance with the lease agreements. Parking and other revenue includes income from parking spaces leased to tenants, income from tenants for additional services provided by the Company, income from tenants for early lease terminations and income from managing properties for third parties. Rental income on residential property under operating leases having terms generally of one year or less is recognized when earned.

Reimbursements 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 15.

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 on net income that it currently distributes to its shareholders, provided that the Company, for its taxable years beginning prior to January 1, 2001, satisfies certain organizational and operational requirements including the requirement to distribute at least 95 percent of its REIT taxable income to its shareholders. For its taxable years beginning after December 31, 2000, as a result of recent amendments to the Code, the Company will be required to distribute at least 90 percent of its REIT taxable income to its shareholders. Effective January 1, 2001, the Company may elect to treat one or more of its existing or newly created corporate subsidiaries as a taxable REIT subsidiary ("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. The Company has elected to treat certain of its existing and newly created corporate subsidiaries as a TRS. 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.

INTEREST RATE CONTRACTS

Interest rate contracts are utilized by the Company to reduce interest rate risks. The Company does not hold or issue derivative financial instruments for trading purposes. The differentials to be received or paid under contracts designated as hedges are recognized over the life of the contracts as adjustments to interest expense.

In certain situations, the Company uses forward treasury lock agreements to mitigate the potential effects of changes in interest rates for prospective transactions. Gains and losses are deferred and amortized as adjustments to interest expense over the remaining life of the associated debt to the extent that such debt remains outstanding.

EARNINGS PER SHARE

In accordance with the Statement of Financial Accounting Standards No. 128 ("FASB No. 128"), 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 stockholders 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 December 31, 2000 represents dividends payable to shareholders of record as of January 4, 2001 (56,982,893 shares), distributions payable to minority interest common unitholders (7,963,725 common units) on that same date and preferred distributions payable to preferred unitholders (220,340 preferred units) for the fourth quarter 2000. The fourth quarter 2000 dividends and common unit distributions of \$0.61 per share and per common unit, as well as the fourth quarter preferred unit distribution of \$17.6046 per preferred unit, were approved by the Board of Directors on December 20, 2000 and paid on January 22, 2001.

The dividends and distributions payable at December 31, 1999 represents dividends payable to shareholders of record as of January 4, 2000 (58,450,552 shares), distributions payable to minority interest common unitholders (8,153,710 common units) on that same date and preferred distributions payable to preferred unitholders (229,304 preferred units) for the fourth quarter

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1999. The fourth quarter 1999 dividends and common unit distributions of \$0.58 per share and per common unit (pro-rated for units issued during the quarter), as well as the fourth quarter preferred unit distribution of \$16.8750 per preferred unit, were approved by the Board of Directors on December 17, 1999 and paid on January 21, 2000.

UNDERWRITING COMMISSIONS AND COSTS

Underwriting commissions and costs incurred in connection with the Company's stock offerings are reflected as a reduction of additional paid-in capital.

STOCK OPTIONS

The Company accounts for stock-based compensation using the intrinsic value method prescribed in Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees," and related Interpretations ("APB No. 25"). Under APB No. 25, compensation cost 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, if any, 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. The Company provides additional pro forma disclosures as required under Statement of Financial Accounting Standards No. 123, "Accounting for Stock Based Compensation" ("FASB No. 123"). See Note 16.

EXTRAORDINARY ITEM

Extraordinary item represents the effect resulting from the early settlement of certain debt obligations, including related deferred financing costs, prepayment penalties, yield maintenance payments and other related items.

NON-RECURRING CHARGES

The Company considers non-recurring charges as costs incurred specific to significant non-recurring events that impact the comparative measurement of the Company's performance.

RECLASSIFICATIONS

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

3) Acquisitions, Property Sales and Other Transactions

2000 TRANSACTIONS

Operating Property Acquisitions

The Company acquired the following operating properties during the year ended December 31, 2000:

Acquisition Date	Property/Portfolio Name	Location	# of Bldgs.	Rentable Square Feet	Investment by Company ^(a)
Office					
5/23/00	555 & 565 Taxter Road	Elmsford, Westchester County, NY	2	341,108	\$42,980
6/14/00	Four Gatehall Drive	Parsippany, Morris County, NJ	1	248,480	42,381
Total Office Property Acquisitions:			3	589,588	\$85,361
Office/Flex					
3/24/00	Two Executive Drive ^(b)	Moorestown, Burlington County, NJ	1	60,800	\$ 4,007
7/14/00	915 North Lenola Road ^(b)	Moorestown, Burlington County, NJ	1	52,488	2,542
Total Office/Flex Property Acquisition:			2	113,288	\$ 6,549
Total Operating Property Acquisitions:			5	702,876	\$91,910

(a) Transactions were funded primarily from net proceeds received in the sale or sales of rental property.

(b) The properties were acquired through the exercise of a purchase option obtained in the initial acquisition of the McGarvey portfolio in January 1998.

Properties Placed in Service

The Company placed in service the following properties through the completion of development during the year ended December 31, 2000:

Date Placed In Service	Property Name	Location	# of Bldgs.	Rentable Square Feet	Investment by Company ^(a)
Office					
9/01/00	Harborside Plaza 4-A ^(b)	Jersey City, Hudson County, NJ	1	207,670	\$61,459
9/15/00	Liberty Corner Corp. Center	Bernards Township, Somerset County, NJ	1	132,010	17,430
Total Properties Placed in Service:			2	339,680	\$78,889

(a) Transactions were funded primarily through draws on the Company's revolving credit facilities and amounts presented are as of December 31, 2000.

(b) Project includes a seven-story 1,100-car parking garage.

Land Acquisitions

On January 13, 2000, the Company acquired approximately 127 acres of developable land located at the Company's Airport Business Center, Lester, Delaware County, Pennsylvania. The land was acquired for approximately \$2,069.

On August 24, 2000, the Company entered into a joint venture with SJP Properties Company ("SJP Properties") to form

MC-SJP Morris V Realty, LLC and MC-SJP Morris VI Realty, LLC, which acquired approximately 47.5 acres of developable land located in Parsippany, Morris County, New Jersey. The land was acquired for approximately \$16,193. The Company accounts for the joint venture on a consolidated basis.

Property Sales

The Company sold the following properties during the year ended December 31, 2000:

Sale Date	Property Name	Location	# of Bldgs.	Rentable Square Feet	Net Sales Proceeds	Net Book Value	Gain/(Loss)
Land							
02/25/00	Horizon Center Land	Hamilton Township, Mercer County, NJ	—	39.1 acres	\$ 4,180	\$ 1,932	\$ 2,248
Office							
04/17/00	95 Christopher Columbus Dr.	Jersey City, Hudson County, NJ	1	621,900	148,222	80,583	67,639
04/20/00	6900 IH-40 West	Amarillo, Potter County, TX	1	71,771	1,467	1,727	(260)
06/09/00	412 Mt. Kemble Avenue	Morris Township, Morris County, NJ	1	475,100	81,981	75,439	6,542
09/21/00	Cielo Center	Austin, Travis County, TX	1	270,703	45,785	35,749	10,036
11/15/00	210 South 16th Street ^(a)	Omaha, Douglas County, NE	1	319,535	11,976	12,828	(852)
Totals:			5	1,759,009	\$293,611	\$208,258	\$85,353

(a) In connection with the sale of the Omaha, Nebraska property, the Company provided to the purchaser an \$8,750 mortgage loan bearing interest payable monthly at an annual rate of 9.50 percent. The loan is secured by the Omaha, Nebraska property and will mature on November 14, 2003.

Other Events

On June 27, 2000, William L. Mack was appointed Chairman of the Board of Directors and John J. Cali was named Chairman Emeritus of the Board of Directors. Brant Cali resigned as Executive Vice President, Chief Operating Officer and Assistant Secretary of the Company and as a member of the Board of Directors, and John R. Cali resigned as Executive Vice President, Development of the Company. John R. Cali was appointed to the Board of Directors of the Company to take the seat previously held by Brant Cali. See Note 14.

On September 21, 2000, the Company and Prentiss Properties Trust, a Maryland REIT ("Prentiss"), mutually agreed to terminate the agreement and plan of merger ("Merger Agreement") dated as

of June 27, 2000, among the Company, the Operating Partnership, Prentiss and Prentiss Properties Acquisition Partners, L.P., a Delaware limited partnership of which Prentiss (through a wholly-owned direct subsidiary) is the sole general partner ("Prentiss Partnership"). In connection with such termination, the Company deposited \$25,000 into escrow for the benefit of Prentiss and Prentiss Partnership. This cost and approximately \$2,911 of other costs associated with the termination of the Merger Agreement are included in non-recurring charges for the year ended December 31, 2000. Simultaneous with the termination, the Company sold to Prentiss its 270,703 square-foot Cielo Center property located in Austin, Travis County, Texas. See "2000 Transactions—Property Sales."

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1999 TRANSACTIONS

Operating Property Acquisitions

The Company acquired the following operating properties during the year ended December 31, 1999:

Acquisition Date	Property/Portfolio Name	Location	# of Bldgs.	Rentable Square Feet	Investment by Company ^(a)
Office					
3/05/99	Pacifica Portfolio—Phase III ^(b)	Colorado Springs, El Paso County, CO	2	94,737	\$ 5,709
7/21/99	1201 Connecticut Avenue, NW	Washington, D.C.	1	169,549	32,799
Total Office Property Acquisitions:			3	264,286	\$38,508
Office/Flex					
12/21/99	McGarvey Portfolio—Phase III ^(c)	Moorestown, Burlington County, NJ	3	138,600	\$ 8,012
Total Office/Flex Property Acquisition:			3	138,600	\$ 8,012
Total Operating Property Acquisitions:			6	402,886	\$46,520

Properties Placed in Service

The Company placed in service the following properties through the completion of development or redevelopment during the year ended December 31, 1999:

Date Placed in Service	Property Name	Location	# of Bldgs.	Rentable Square Feet	Investment by Company ^(a)
Office					
8/09/99	2115 Linwood Avenue	Fort Lee, Bergen County, NJ	1	68,000	\$ 8,147
11/01/99	795 Folsom Street ^(d)	San Francisco, San Francisco County, CA	1	183,445	37,337
Total Office Properties Placed in Service:			2	251,445	\$45,484
Office/Flex					
3/01/99	One Center Court	Totowa, Passaic County, NJ	1	38,961	\$ 2,140
9/17/99	12 Skyline Drive ^(e)	Hawthorne, Westchester County, NY	1	46,850	5,023
12/10/99	600 West Avenue ^(e)	Stamford, Fairfield County, CT	1	66,000	5,429
Total Office/Flex Properties Placed in Service:			3	151,811	\$12,592
Land Lease					
2/01/99	Horizon Center Business Park ^(f)	Hamilton Township, Mercer County, NJ	N/A	27.7 acres	\$ 1,007
Total Land Lease Transactions:				27.7 acres	\$ 1,007
Total Properties Placed in Service:			5	403,256	\$59,083

(a) Transactions were funded primarily through draws on the Company's revolving credit facilities.

(b) William L. Mack, Chairman of the Board of Directors of the Company and an equity holder in the Operating Partnership, was an indirect owner of an interest in certain of the buildings contained in the Pacifica portfolio.

(c) The properties were acquired through the exercise of a purchase option obtained in the initial acquisition of the McGarvey portfolio in January 1998.

(d) On June 1, 1999, the building was acquired for redevelopment for approximately \$34,282.

(e) The Company purchased the land on which this property was constructed, from an entity whose principals include Timothy M. Jones, Martin S. Berger and Robert F. Weinberg, each of whom are affiliated with the Company as the President of the Company, a current member of the Board of Directors and a former member of the Board of Directors of the Company, respectively.

(f) On February 1, 1999, the Company entered into a ground lease agreement to lease 27.7 acres of developable land located at the Company's Horizon Center Business Park, located in Hamilton Township, Mercer County, New Jersey on which Home Depot constructed a 134,000 square-foot retail store.

Land Acquisitions

On February 26, 1999, the Company acquired approximately 2.3 acres of vacant land adjacent to one of the Company's operating properties located in San Antonio, Bexar County, Texas for approximately \$1,524, which was made available from the Company's cash reserves.

On March 2, 1999, the Company entered into a joint venture agreement with SJP Vaughn Drive, L.L.C. Under the agreement, the Company has agreed to contribute its vacant land at Three Vaughn Drive, Princeton, Mercer County, New Jersey, subject

to satisfaction of certain conditions, for an equity interest in the venture.

On March 15, 1999, the Company entered into a joint venture with SJP 106 Allen Road, L.L.C. to form MC-SJP Pinson Development, L.L.C., which acquired vacant land located in Bernards Township, Somerset County, New Jersey. The joint venture subsequently completed construction and placed in service a 132,010 square-foot office building on this site (see "2000 Transactions—Properties Placed in Service"). The Company accounts for the joint venture on a consolidated basis.

On August 31, 1999, the Company acquired, from an entity whose principals include Brant Cali, a former executive officer of the Company and a former member of the Board of Directors of the Company, and certain immediate family members of John J. Cali, Chairman Emeritus of the Board of Directors of the Company, approximately 28.1 acres of developable land adjacent to two of the Company's operating properties located in Roseland, Essex County, New Jersey for approximately \$6,097. The acquisition was funded with cash and the issuance of 121,624 common units to the seller. The Company has commenced construction of a 220,000 square-foot office building on the acquired land.

In August 1999, the Company entered into an agreement with SJP Properties which provides a cooperative effort in seeking approvals to develop up to approximately 1.8 million square feet of office development on certain vacant land owned or controlled, respectively, by the Company and SJP Properties, in Hanover and Parsippany, Morris County, New Jersey. The agreement provides that the parties shall share equally in the costs associated with seeking such requisite approvals. Subsequent to obtaining the requisite approvals, upon mutual consent, the Company and SJP Properties may enter into one or more joint ventures to construct on the vacant land, or seek to dispose of their respective vacant land parcels subject to the agreement.

Property Sales

The Company sold the following properties during the year ended December 31, 1999:

Sale Date	Property Name	Location	# of Bldgs.	Rentable Square Feet	Net Sales Proceeds	Net Book Value	Gain/(Loss)
Office							
11/15/99	400 Alexander Road	Princeton, Mercer County, NJ	1	70,550	\$ 8,628	\$ 6,573	\$2,055
12/15/99	Beardsley Corporate Center	Phoenix, Maricopa County, AZ	1	119,301	8,772	8,870	(98)
Totals:			2	189,851	\$17,400	\$15,443	\$1,957

4) Investments in Unconsolidated Joint Ventures

PRU-BETA 3 (Nine Campus Drive)

On March 27, 1998, the Company acquired a 50 percent interest in an existing joint venture with The Prudential Insurance Company of America ("Prudential"), known as Pru-Beta 3, which owns and operates Nine Campus Drive, a 156,495 square-foot office building, located in the Mack-Cali Business Campus (formerly Prudential Business Campus) office complex in Parsippany, Morris County, New Jersey. The Company performs management and leasing services for the property owned by the joint venture and recognized \$140, \$149 and \$114 in fees for such services in the years ended December 31, 2000, 1999 and 1998, respectively.

HPMC

On April 23, 1998, the Company entered into a joint venture agreement with HCG Development, L.L.C. and Summit Partners I, L.L.C. to form HPMC Development Partners, L.P. and, on July 21, 1998, entered into a second joint venture, HPMC Development Partners II, L.P. (formerly known as HPMC Lava Ridge Partners, L.P.), with these same parties. HPMC Development Partners, L.P.'s efforts have focused on two development projects, commonly referred to as Continental Grand II and Summit Ridge. HPMC Development Partners II, L.P.'s efforts have focused on three development projects, commonly referred to as Lava Ridge, Peninsula Gateway and Stadium Gateway. Among other things,

the partnership agreements provide for a preferred return on the Company's invested capital in each venture, in addition to 50 percent of such venture's profit above the preferred returns, as defined in each agreement.

Continental Grand II

Continental Grand II is a 239,085 square-foot office building located in El Segundo, Los Angeles County, California, which was constructed and placed in service by the venture.

Summit Ridge

Summit Ridge is an office complex of three one-story buildings aggregating 133,841 square feet located in San Diego, San Diego County, California, which was constructed and placed in service by the venture. In January 2001, the venture sold the office complex for approximately \$17,450.

Lava Ridge

Lava Ridge is an office complex of three two-story buildings aggregating 183,200 square feet located in Roseville, Placer County, California, which was constructed and placed in service by the venture.

Peninsula Gateway

Peninsula Gateway is a parcel of land purchased from the city of Daly City, located in San Mateo County, California, upon which the venture has commenced construction of an office building and theater and retail complex aggregating 471,379 square feet.

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Stadium Gateway

Stadium Gateway is a 1.5 acre site located in Anaheim, Orange County, California, acquired by the venture upon which it has commenced construction of a six-story 261,554 square-foot office building.

G&G MARTCO (Convention Plaza)

On April 30, 1998, the Company acquired a 49.9 percent interest in an existing joint venture, known as G&G Martco, which owns Convention Plaza, a 305,618 square-foot office building, located in San Francisco, San Francisco County, California. A portion of its initial investment was financed through the issuance of common units, as well as funds drawn from the Company's credit facilities. Subsequently, on June 4, 1999, the Company acquired an additional 0.1 percent interest in G&G Martco through the issuance of common units (see Note 11). The Company performs management and leasing services for the property owned by the joint venture and recognized \$231, \$225 and \$20 in fees for such services in the years ended December 31, 2000, 1999 and 1998, respectively.

AMERICAN FINANCIAL EXCHANGE L.L.C.

On May 20, 1998, the Company entered into a joint venture agreement with Columbia Development Company, L.L.C. to form American Financial Exchange L.L.C. The venture was initially formed to acquire land for future development, located on the Hudson River waterfront in Jersey City, Hudson County, New Jersey, adjacent to the Company's Harborside Financial Center office complex. The Company holds a 50 percent interest in the joint venture. Among other things, the partnership agreement provides for a preferred return on the Company's invested capital in the venture, in addition to the Company's proportionate share of the venture's profit, as defined in the agreement. The joint venture acquired land on which it constructed a parking facility, which is currently leased to a parking operator under a 10-year agreement. Such parking facility serves a ferry service between the Company's Harborside property and Manhattan.

In the fourth quarter 2000, the Company started construction of a 575,000 square-foot office building and terminated the parking agreement on certain of the land owned by the venture. The total costs of the project are currently projected to be approximately \$140,000. The project, which is currently 100 percent pre-leased, is anticipated to be completed in third quarter 2002.

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

On August 20, 1998, the Company entered into a joint venture agreement with S.B. New York Realty Corp. to form Ramland Realty Associates L.L.C. The venture was formed to own, manage and operate One Ramland Road, a 232,000 square-foot office/flex building plus adjacent developable land, located in Orangeburg, Rockland County, New York. In August 1999, the joint venture completed redevelopment of the property and placed the office/flex

building in service. The Company holds a 50 percent interest in the joint venture. The Company performs management, leasing and other services for the property owned by the joint venture and recognized \$198, \$628 and \$0 in fees for such services in the years ended December 31, 2000, 1999 and 1998, respectively.

ASHFORD LOOP ASSOCIATES L.P. (1001 South Dairy Ashford/2100 West Loop South)

On September 18, 1998, the Company entered into a joint venture agreement with Prudential to form Ashford Loop Associates L.P. The venture was formed to own, manage and operate 1001 South Dairy Ashford, a 130,000 square-foot office building acquired on September 18, 1998 and 2100 West Loop South, a 168,000 square-foot office building acquired on November 25, 1998, both located in Houston, Harris County, Texas. The Company holds a 20 percent interest in the joint venture. The joint venture may be required to pay additional consideration due to earn-out provisions in the acquisition contracts. Subsequently, through December 31, 2000, the venture paid \$19,714 (\$3,943 representing the Company's share) in accordance with earn-out provisions in the acquisition contracts. The Company performs management and leasing services for the properties owned by the joint venture and recognized \$172, \$117 and \$30 in fees for such services in the years ended December 31, 2000, 1999 and 1998, respectively.

ARCAP INVESTORS, L.L.C.

On March 18, 1999, the Company invested in ARCap Investors, L.L.C., a joint venture with several participants, which was formed to invest in sub-investment grade tranches of commercial mortgage-backed securities ("CMBS"). The Company has invested \$20,000 in the venture. William L. Mack, Chairman of the Board of Directors of the Company and an equity holder in the Operating Partnership, is a principal of the managing member of the venture. At December 31, 2000, the venture held approximately \$575,621 face value of CMBS bonds at an aggregate cost of \$280,982.

SOUTH PIER AT HARBORSIDE HOTEL DEVELOPMENT

On November 17, 1999, the Company entered into an agreement with Hyatt Corporation to develop a 350-room hotel on the Company's South Pier at Harborside Financial Center, Jersey City, Hudson County, New Jersey. In July 2000, the joint venture began development of the hotel project.

NORTH PIER AT HARBORSIDE RESIDENTIAL DEVELOPMENT

On August 5, 1999, the Company entered into an agreement which, upon satisfaction of certain conditions, provides for the contribution of its North Pier at Harborside Financial Center, Jersey City, Hudson County, New Jersey to a joint venture with Lincoln Property Company Southwest, Inc., in exchange for cash and an equity interest in the venture. The venture intends to develop residential housing on the property.

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 December 31, 2000 and 1999:

	December 31, 2000							
	Pru-Beta 3	HPMC	G&G Martco	American Financial Exchange	Ramland Realty	Ashford Loop	ARCap	Combined Total
Assets:								
Rental property, net	\$20,810	\$ 78,119	\$ 10,589	\$13,309	\$38,497	\$37,777	\$ —	\$199,101
Other assets	2,690	27,082	2,418	11,851	9,729	900	310,342	365,012
Total assets	\$23,500	\$105,201	\$ 13,007	\$25,160	\$48,226	\$38,677	\$310,342	\$564,113
Liabilities and partners'/ members' capital:								
Mortgages and loans payable	\$ —	\$ 63,486	\$ 50,000	\$ —	\$33,966	\$ —	\$129,562	\$277,014
Other liabilities	160	5,035	1,392	9,400	1,785	1,027	3,750	22,549
Partners'/ members' capital	23,340	36,680	(38,385)	15,760	12,475	37,650	177,030	264,550
Total liabilities and partners'/ members' capital	\$23,500	\$105,201	\$ 13,007	\$25,160	\$48,226	\$38,677	\$310,342	\$564,113
Company's net investment in unconsolidated joint ventures	\$16,110	\$ 35,079	\$ 3,973	\$15,809	\$ 2,782	\$ 7,874	\$ 19,811	\$101,438

	December 31, 1999							
	Pru-Beta 3	HPMC	G&G Martco	American Financial Exchange	Ramland Realty	Ashford Loop	ARCap	Combined Total
Assets:								
Rental property, net	\$21,817	\$ 72,148	\$ 11,552	\$10,695	\$19,549	\$31,476	\$ —	\$167,237
Other assets	3,319	6,427	2,571	773	5,069	768	239,441	258,368
Total assets	\$25,136	\$ 78,575	\$ 14,123	\$11,468	\$24,618	\$32,244	\$239,441	\$425,605
Liabilities and partners'/ members' capital:								
Mortgages and loans payable	\$ —	\$ 41,274	\$ 43,081	\$ —	\$17,300	\$ —	\$108,407	\$210,062
Other liabilities	186	7,254	1,383	2	1,263	3,536	36,109	49,733
Partners'/ members' capital	24,950	30,047	(30,341)	11,466	6,055	28,708	94,925	165,810
Total liabilities and partners'/ members' capital	\$25,136	\$ 78,575	\$ 14,123	\$11,468	\$24,618	\$32,244	\$239,441	\$425,605
Company's net investment in unconsolidated joint ventures	\$17,072	\$ 23,337	\$ 8,352	\$11,571	\$ 2,697	\$ 6,073	\$ 20,032	\$ 89,134

Notes

Mack-Cali Realty Corporation and Subsidiaries

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 years ended December 31, 2000, 1999 and 1998:

	Year Ended December 31, 2000							
	Pru-Beta 3	HPMC	G&G Martco	American Financial Exchange	Ramland Realty	Ashford Loop	ARCap	Combined Total
Total revenues	\$ 5,028	\$ 9,254	\$ 10,695	\$ 1,009	\$ 3,917	\$ 5,917	\$ 19,931	\$ 55,751
Operating and other expense	(1,619)	(2,628)	(3,312)	(155)	(1,030)	(2,773)	(3,060)	(14,577)
Depreciation and amortization	(1,226)	(5,908)	(1,531)	(62)	(975)	(839)	—	(10,541)
Interest expense	—	(4,535)	(4,084)	—	(1,547)	—	(5,045)	(15,211)
Net income (loss)	\$ 2,183	\$ (3,817)	\$ 1,768	\$ 792	\$ 365	\$ 2,305	\$ 11,826	\$ 15,422
Company's equity in earnings of unconsolidated joint ventures	\$ 935	\$ 3,248	\$ 483	\$ 735	\$ 180	\$ 474	\$ 2,000	\$ 8,055

	Year Ended December 31, 1999							
	Pru-Beta 3	HPMC	G&G Martco	American Financial Exchange	Ramland Realty	Ashford Loop	ARCap	Combined Total
Total revenues	\$ 4,938	\$ 459	\$ 9,011	\$ 917	\$ 1,426	\$ 4,162	\$ 10,093	\$ 31,006
Operating and other expenses	(1,505)	(104)	(3,238)	(287)	(352)	(2,327)	(3,774)	(11,587)
Depreciation and amortization	(1,234)	(100)	(1,422)	(96)	(439)	(551)	—	(3,842)
Interest expense	—	(119)	(3,116)	—	(45)	—	(2,185)	(5,465)
Net income	\$ 2,199	\$ 136	\$ 1,235	\$ 534	\$ 590	\$ 1,284	\$ 4,134	\$ 10,112
Company's equity in earnings (loss) of unconsolidated joint ventures	\$ 827	—	\$ (366)	\$ 541	\$ 298	\$ 233	\$ 1,060	\$ 2,593

	Year Ended December 31, 1998							
	Pru-Beta 3	HPMC	G&G Martco	American Financial Exchange	Ramland Realty	Ashford Loop	ARCap	Combined Total
Total revenues	\$ 3,544	—	\$ 7,320	\$ 490	—	\$ 603	—	\$ 11,957
Operating and other expenses	(1,124)	—	(2,955)	(35)	—	(287)	—	(4,401)
Depreciation and amortization	(1,000)	—	(759)	(50)	—	(76)	—	(1,885)
Interest expense	—	—	(3,495)	—	—	—	—	(3,495)
Net income	\$ 1,420	—	\$ 111	\$ 405	—	\$ 240	—	\$ 2,176
Company's equity in earnings (loss) of unconsolidated joint ventures	\$ 723	—	\$ (182)	\$ 455	—	\$ 59	—	\$ 1,055

5) Deferred Charges and Other Assets

December 31,	2000	1999
Deferred leasing costs	\$ 80,667	\$ 62,076
Deferred financing costs	23,085	16,690
	103,752	78,766
Accumulated amortization	(26,303)	(20,197)
Deferred charges, net	77,449	58,569
Prepaid expenses and other assets	25,206	7,867
Total deferred charges and other assets, net	\$102,655	\$ 66,436

6) Restricted Cash

Restricted cash includes security deposits for the Company's residential properties and certain commercial 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:

December 31,	2000	1999
Security deposits	\$6,477	\$6,021
Escrow and other reserve funds	80	1,060
Total restricted cash	\$6,557	\$7,081

7) Rental Property Held For Sale

As of December 31, 2000, included in total rental property are 10 office properties that the Company has identified as held for sale. These properties have an aggregate carrying value of \$107,458 and \$107,264 as of December 31, 2000 and 1999, respectively, and are located in San Antonio, Bexar County, Texas or Houston, Harris County, Texas.

As of December 31, 1999, included in total rental property were three office properties that the Company had identified as held for sale. The three office properties have an aggregate carrying value of \$77,783 as of December 31, 1999 and are located in Omaha, Douglas County, Nebraska; Jersey City, Hudson County, New Jersey or Amarillo, Potter County, Texas. The office properties located in Jersey City, Hudson County, New Jersey and Amarillo, Potter County, Texas were sold in April 2000 in two separate transactions and the property located in Omaha, Douglas County, Nebraska was sold in November 2000. See Note 3.

The following is a summary of the condensed results of operations of the rental properties held for sale at December 31, 2000 for the years ended December 31, 2000, 1999 and 1998:

Years Ended December 31,	2000	1999	1998
Total revenues	\$ 26,069	\$ 24,181	\$ 23,856
Operating and other expenses	(13,227)	(12,589)	(11,391)
Depreciation and amortization	(2,380)	(2,732)	(2,397)
Net income	\$ 10,462	\$ 8,860	\$ 10,068

There can be no assurance if and when sales of the Company's rental properties held for sale will occur.

8) Senior Unsecured Notes

On March 16, 1999, the Operating Partnership issued \$600,000 face amount of senior unsecured notes with interest payable semi-annually in arrears. The total proceeds from the issuance (net of selling commissions and discount) of approximately \$593,500 were used to pay down outstanding borrowings under the Unsecured Facility, as defined in Note 9, and to pay off certain mortgage loans. The senior unsecured notes were issued at a discount of approximately \$2,748, which is being amortized over the terms of the respective tranches as an adjustment to interest expense.

On August 2, 1999, the Operating Partnership issued \$185,283 of senior unsecured notes with interest payable monthly in arrears. The proceeds from the issuance were used to retire an equivalent amount of a non-recourse mortgage loan.

On December 21, 2000, the Operating Partnership issued \$15,000 of senior unsecured notes with interest payable semi-annually in arrears. The total proceeds from the issuance (net of selling commissions) of approximately \$14,907 were used primarily to pay down outstanding borrowings under the Prudential Facility, as defined in Note 9.

The Operating Partnership's total senior unsecured notes (collectively, "Senior Unsecured Notes") are redeemable at any time at the option of the Company, subject to certain conditions including yield maintenance.

Notes

Mack-Cali Realty Corporation and Subsidiaries

A summary of the terms of the Senior Unsecured Notes outstanding as of December 31, 2000 and 1999 is as follows:

	December 31, 2000	1999	Effective Rate ⁽¹⁾
7.180% Senior Unsecured Notes, due December 31, 2003	\$185,283	\$185,283	7.23%
7.000% Senior Unsecured Notes, due March 15, 2004	299,744	299,665	7.27%
7.250% Senior Unsecured Notes, due March 15, 2009	298,072	297,837	7.49%
7.835% Senior Unsecured Notes, due December 15, 2010	15,000	—	7.92%
Total Senior Unsecured Notes	\$798,099	\$782,785	7.35%

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

In January 2001, the Operating Partnership issued \$300,000 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 \$296,300 were used to pay down outstanding borrowings under the 2000 Unsecured Facility, as defined in Note 9. The senior unsecured notes were issued at a discount of approximately \$1,731, which will be amortized over the term as an adjustment to interest expense.

The terms of the Senior Unsecured Notes 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.

9) Revolving Credit Facilities

2000 UNSECURED FACILITY

On June 22, 2000, the Company obtained an unsecured revolving credit facility ("2000 Unsecured Facility") with a current borrowing capacity of \$800,000 from a group of 24 lenders. The interest rate on outstanding borrowings under the credit line is currently the London Inter-Bank Offered Rate ("LIBOR") (6.56 percent at December 31, 2000) plus 80 basis points. The Company may instead elect an interest rate representing the higher of 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 rate and facility fee will be changed on a sliding scale. Subject to certain conditions, the Company has the ability to increase the borrowing capacity of the credit line up to \$1,000,000. 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 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.

The lending group for the 2000 Unsecured Facility consists of: Chase Manhattan Bank, as administrative agent; Fleet National Bank, as syndication agent; Bank of America, N.A., as documentation agent; Bank One, NA, Commerzbank Aktiengesellschaft and First Union National Bank, as senior managing agents; PNC Bank, N.A., as managing agent; Bank Austria Creditanstalt Corporate Finance, Inc., Bayerische Hypo-und Vereinsbank AG, Dresdner Bank AG, Societe Generale, Summit Bank and Wells Fargo Bank, N.A., as co-agents; and Bayerische Landesbank Girozentrale; Citizens Bank of Massachusetts; European American Bank; Chevy Chase Bank; Citicorp Real Estate, Inc.; DG Bank Deutsche Genossenschaftsbank, AG; Erste Bank; KBC Bank N.V.; SunTrust Bank; Bank Leumi USA and Israel Discount Bank of New York.

In conjunction with obtaining the 2000 Unsecured Facility, the Company drew funds on the new facility to repay in full and terminate the Unsecured Facility, as defined below.

UNSECURED FACILITY

The Company had an unsecured revolving credit facility ("Unsecured Facility") with a borrowing capacity of \$1,000,000 from a group of 28 lenders. The interest rate was based on the Company's achievement of investment grade unsecured debt ratings and, at the Company's election, bore interest at either 90 basis

points over LIBOR or the higher of the lender's prime rate or the Federal Funds rate plus 50 basis points. In conjunction with obtaining the 2000 Unsecured Facility, the Company repaid in full and terminated the Unsecured Facility on June 22, 2000.

ORIGINAL UNSECURED FACILITY

The Original Unsecured Facility ("Original Unsecured Facility") was repaid in full and retired in connection with the Company obtaining the Unsecured Facility in April 1998. On account of pre-payment fees, loan origination fees, legal fees, and other costs incurred in the retirement of the Original Unsecured Facility, an extraordinary loss of \$2,203, net of minority interest's share of the loss (\$275), was recorded for the year ended December 31, 1998.

PRUDENTIAL FACILITY

The Company has a revolving credit facility ("Prudential Facility") with Prudential Securities Corp. ("PSC") in the amount of \$100,000, which currently bears interest at 110 basis points over one-month LIBOR, with a maturity date of June 29, 2001. The Prudential Facility is a recourse liability of the Operating Partnership and is secured by the Company's equity interest in Harborside Plazas 2 and 3. The Prudential Facility limits the ability of the Operating Partnership to make any distributions during any fiscal quarter in an amount in excess of 100 percent of the Operating Partnership's available funds from operations (as defined) for the immediately preceding fiscal quarter (except to the extent such excess distributions or dividends are attributable to gains from the sale of the Operating Partnership's assets or are required for

the Company to maintain its status as a REIT under the Code); provided, however, that the Operating Partnership may make distributions and pay dividends in excess of 100 percent of available funds from operations (as defined) for the preceding fiscal quarter for not more than three consecutive quarters. In addition to the foregoing, the Prudential Facility limits the liens placed upon the subject property and certain collateral, the use of proceeds from the Prudential Facility, and the maintenance of ownership of the subject property and assets derived from said ownership. The Company has been notified that the Prudential Facility will not be renewed.

SUMMARY

As of December 31, 2000 and 1999, the Company had outstanding borrowings of \$348,840 and \$177,000, respectively, under its revolving credit facilities (with aggregate borrowing capacity of \$900,000 and \$1,100,000, respectively). The total outstanding borrowings were from the 2000 Unsecured Facility at December 31, 2000 and from the Unsecured Facility at December 31, 1999, with no outstanding borrowings under the Prudential Facility.

10) Mortgages and Loans Payable

The Company has mortgages and loans payable which are comprised of various loans collateralized by certain of the Company's rental properties. Payments on mortgages and loans payable are generally due in monthly installments of principal and interest, or interest only.

A summary of the Company's mortgages and loans payable as of December 31, 2000 and 1999 is as follows:

Property Name	Lender	Effective Interest Rate	Principal Balance at December 31,		Maturity
			2000	1999	
201 Commerce Drive	Sun Life Assurance Co.	6.240%	\$ —	\$ 1,059	09/01/00
3 & 5 Terri Lane	First Union National Bank	6.220%	—	4,434	10/31/00
101 & 225 Executive Drive	Sun Life Assurance Co.	6.270%	2,198	2,375	06/01/01
Mack-Cali Morris Plains	Corestates Bank	7.510%	2,169	2,235	12/31/01
Mack-Cali Willowbrook	CIGNA	8.670%	9,460	10,250	10/01/03
400 Chestnut Ridge	Prudential Insurance Co.	9.440%	13,588	14,446	07/01/04
Mack-Cali Centre VI	Principal Life Insurance Co.	6.865%	35,000	35,000	04/01/05
Various ^(a)	Prudential Insurance Co.	7.100%	150,000	150,000	05/15/05
Mack-Cali Bridgewater I	New York Life Ins. Co.	7.000%	23,000	23,000	09/10/05
Mack-Cali Woodbridge II	New York Life Ins. Co.	7.500%	17,500	17,500	09/10/05
Mack-Cali Short Hills	Prudential Insurance Co.	7.740%	25,911	26,604	10/01/05
500 West Putnam Avenue	New York Life Ins. Co.	6.520%	10,069	10,784	10/10/05
Harborside—Plaza I	U.S. West Pension Trust	5.610%	54,370	51,015	01/01/06
Harborside—Plazas 2 and 3	Northwestern/Principal	7.320%	95,630	98,985	01/01/06
Mack-Cali Airport	Allstate Life Insurance Co.	7.050%	10,500	10,500	04/01/07
Kemble Plaza II	Mitsubishi Tr & Bk Co.	LIBOR+0.65%	—	40,025	01/31/08
Kemble Plaza I	Mitsubishi Tr & Bk Co.	LIBOR+0.65%	32,178	32,178	01/31/09
Total Property Mortgages			\$481,573	\$530,390	

(a) The Company has the option to convert the mortgage loan, which is secured by 11 properties, to unsecured debt.

Notes

Mack-Cali Realty Corporation and Subsidiaries

INTEREST RATE CONTRACTS

On November 20, 1997, the Company entered into a forward treasury rate lock agreement with a commercial bank. The agreement locked an interest rate of 5.88 percent per annum for the interpolated seven-year U.S. Treasury Note effective March 1, 1998, on a notional amount of \$150,000. The agreement was used to fix the interest rate on the \$150,000 Prudential Mortgage Loan. On March 2, 1998, the Company paid \$2,035 in settlement of the agreement, which is being amortized to interest expense over the term of the \$150,000 Prudential Mortgage Loan.

On October 1, 1998, the Company entered into a forward treasury rate lock agreement with a commercial bank. The agreement locked an interest rate of 4.089 percent per annum for the three-year U.S. Treasury Note effective November 4, 1999, on a notional amount of \$50,000. The agreement was used to fix the Index Rate on \$50,000 of the Harborside-Plaza 1 mortgage, for which the interest rate was reset to the three-year U.S. Treasury Note (5.82 percent) plus 110 basis points for the three years beginning November 4, 1999 (see "Property Mortgages: Harborside-Plaza 1"). The Company received \$2,208 in settlement of the agreement, which is being amortized to interest expense over the three year-period.

SCHEDULED PRINCIPAL PAYMENTS

Scheduled principal payments and related weighted average annual interest rates for the Company's Senior Unsecured Notes, revolving credit facilities and mortgages and loans payable as of December 31, 2000 are as follows:

Year	Scheduled Amortization	Principal Maturities	Total	Weighted Avg. Interest Rate of Future Repayments ^(a)
2001	\$ 3,239	\$ 4,211	\$ 7,450	7.43%
2002	3,433	—	3,433	8.20%
2003	3,581	540,934	544,515	7.44%
2004	2,420	309,863	312,283	7.34%
2005	1,584	253,178	254,762	7.13%
Thereafter	(473)	506,542	506,069	7.38%
Totals/Weighted Average	\$13,784	\$1,614,728	\$1,628,512	7.29%

(a) Assumes a weighted average LIBOR rate at December 31, 1999 of 6.73 percent in calculating revolving credit facility and other variable rate debt interest rates.

CASH PAID FOR INTEREST AND INTEREST CAPITALIZED

Cash paid for interest for the years ended December 31, 2000, 1999 and 1998 was \$112,157, \$91,883 and \$92,441, respectively. Interest capitalized by the Company for the years ended December 31, 2000, 1999 and 1998 was \$11,524, \$6,840 and \$3,547, respectively.

SUMMARY OF INDEBTEDNESS

As of December 31, 2000, the Company's total indebtedness of \$1,628,512 (weighted average interest rate of 7.29 percent) was comprised of \$381,018 of revolving credit facility borrowings and other variable rate mortgage debt (weighted average rate of 7.53 percent) and fixed rate debt of \$1,247,494 (weighted average rate of 7.25 percent).

As of December 31, 1999, the Company's total indebtedness of \$1,490,175 (weighted average interest rate of 7.27 percent) was comprised of \$249,204 of revolving credit facility borrowings and other variable rate mortgage debt (weighted average rate of 7.42 percent) and fixed rate debt of \$1,240,971 (weighted average rate of 7.24 percent).

11) Minority Interests

Minority interests in the accompanying consolidated financial statements relate to (i) preferred units in the Operating Partnership ("Preferred Units"), common units in the Operating Partnership and warrants to purchase common units ("Unit Warrants"), held by parties other than the Company, and (ii) interests in consolidated partially-owned properties for the portion of such properties not owned by the Company.

OPERATING PARTNERSHIP

Preferred Units

At January 1, 1999, the Company had 27,132 Series A Preferred Units and 223,124 Series B Preferred Units outstanding.

The Preferred Units have a stated value of \$1,000 per unit and are preferred as to assets over any class of common units or other class of preferred units of the Company, based on circumstances per the applicable unit certificates. The quarterly distribution on each Preferred Unit is an amount equal to the greater of (i) \$16.875 (representing 6.75 percent of the Preferred Unit stated value of an annualized basis) or (ii) the quarterly distribution attributable to a Preferred Unit determined as if such unit had been converted into

common units, subject to adjustment for customary anti-dilution rights. Each of the Preferred Units may be converted at any time into common units at a conversion price of \$34.65 per unit. Common units received pursuant to such conversion may be redeemed for an equal number of shares of common stock.

During the year ended December 31, 1999, 20,952 Series A Preferred Units were converted into 604,675 common units. During the year ended December 31, 2000, 6,180 Series A Preferred Units and 2,784 Series B Preferred Units were converted into 258,702 common units.

As of December 31, 2000, there were 220,340 Series B Preferred Units outstanding (convertible into 6,359,019 common units). There were no Series A Preferred Units outstanding as of December 31, 2000.

Common Units

At January 1, 1999, the Company had 9,086,585 common units outstanding.

Certain individuals and entities own common units in the Operating Partnership. A common unit and a share of common stock of the Company have substantially the same economic characteristics in as much as they effectively share equally in the net income or loss of the Operating Partnership. Common units are redeemable by the common unitholders at their option, subject to certain restrictions, on the basis of one common unit for either one share of common stock or cash equal to the fair market value of a share at the time of the redemption. The Company has the option to deliver shares of common stock in exchange for all or any portion of the cash requested. When a unitholder redeems a common unit, minority interest in the Operating Partnership is reduced and the Company's investment in the Operating Partnership is increased.

During the year ended December 31, 1999, the Company issued an aggregate of 122,062 common units in connection with two separate transactions, valued at approximately \$3,362. During the year ended December 31, 1999, the Company issued 604,675 common units in connection with the conversion of 20,952 Preferred Units. During the year ended December 31, 1999, an aggregate of 1,934,657 common units were redeemed for an equivalent number of shares of common stock in the Company. During the year ended December 31, 1999, the Company also issued 275,046 common units, valued at approximately \$8,141, in connection with the achievement of certain performance goals at the Mack Properties, as defined below, in redemption of an equivalent number of contingent common units.

During the year ended December 31, 2000, the Company issued 258,702 common units in connection with the conversion of 8,964 Preferred Units, and an aggregate of 448,688 common units were redeemed for an equivalent number of shares of common stock in the Company.

As of December 31, 2000, there were 7,963,725 common units outstanding.

Contingent Common and Preferred Units

In connection with the Mack transaction in December 1997, 2,006,432 contingent common units, 11,895 Series A contingent Preferred Units and 7,799 Series B contingent Preferred Units were issued as contingent non-participating units ("Contingent Units"). Redemption of such Contingent Units occurred upon the achievement of certain performance goals relating to certain of the Mack properties ("Mack Properties"), specifically the achievement of certain leasing activity. When Contingent Units were redeemed for common and Preferred Units, an adjustment to the purchase price of certain of the Mack Properties was recorded, based on the value of the units issued.

On account of certain of the performance goals at the Mack Properties having been achieved during the year ended December 31, 1999, the Company redeemed 275,046 contingent common units and issued an equivalent number of common units, as indicated above. There were no Contingent Units outstanding as of December 31, 1999.

Unit Warrants

The Company has 2,000,000 Unit Warrants outstanding which enable the holders to purchase an equal number of common units at \$37.80 per unit. The Unit Warrants are all currently exercisable and expire on December 11, 2002.

Minority Interest Ownership

As of December 31, 2000 and 1999, the minority interest common unitholders owned 12.3 percent (20.1 percent, including the effect of the conversion of Preferred Units into common units) and 12.2 percent (20.2 percent including the effect of the conversion of Preferred Units into common units) of the Operating Partnership, respectively (excluding any effect for the exercise of Unit Warrants).

PARTIALLY-OWNED PROPERTIES

On December 28, 1999, the Company sold an interest in six office properties located in Parsippany, Morris County, New Jersey for \$83,600. Amongst other things, the operating agreements provided for a preferred return to the joint venture members. On June 29, 2000 the Company acquired a 100 percent interest in these properties and the Company paid an additional \$836 to the minority interest member in excess of its investment.

On August 24, 2000, MC-SJP Morris V Realty, LLC and MC-SJP Morris VI Realty, LLC acquired land in which SJP Properties has a minority interest amounting to \$1,925.

The Company controlled these operations and has consolidated the financial position and results of operations of partially-owned properties in the financial statements of the Company. The equity interests of the other members are reflected as minority

Notes

Mack-Cali Realty Corporation and Subsidiaries

interests: partially-owned properties in the consolidated financial statements of the Company.

12) Employee Benefit Plan

All employees of the Company who meet certain minimum age and period of service requirements are eligible to participate in a 401(k) defined contribution plan (the "401(k) Plan"). The 401(k) Plan allows eligible employees to defer up to 15 percent of their annual compensation, subject to certain limitations imposed by federal law. The amounts contributed by employees are immediately vested and non-forfeitable. The Company, at management's discretion, may match employee contributions and/or make discretionary contributions. Management has approved, for the year ended December 31, 2001, a Company matching contribution to be paid under the 401(k) Plan equal to 50 percent of the first 3.5 percent of annual salary, as defined in the 401(k) Plan, contributed to the plan in 2001. Total expense recognized by the Company for the years ended December 31, 2000, 1999 and 1998 was \$0, \$400 and \$0, respectively.

13) 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 December 31, 2000 and 1999. 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 December 31, 2000 and 1999.

The estimated fair value (excluding prepayment penalties) of the Senior Unsecured Notes and mortgages and loans payable as of December 31, 2000 approximated the carrying values of \$798,099 and \$481,573, respectively, and as of December 31, 1999 was approximately \$741,824 and \$511,281, respectively, based upon then current interest rates for debt with similar terms and remaining maturities. Revolving credit facility borrowings as of December 31, 2000 and 1999 approximated the carrying values of \$348,840 and \$177,000, respectively.

Disclosure about fair value of financial instruments is based on pertinent information available to management as of December 31, 2000 and 1999. 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 December 31, 2000 and current estimates of fair value may differ significantly from the amounts presented herein.

14) Commitments and Contingencies

TAX ABATEMENT AGREEMENTS

Harborside Financial Center

Pursuant to an agreement with the City of Jersey City, New Jersey, the Company is required to make payments in lieu of property taxes ("PILOT") on its Harborside Plaza 2 and 3 properties. The agreement, which commenced in 1990, is for a term of 15 years. Such PILOT is equal to two percent of Total Project Costs, as defined, in year one and increases by \$75 per annum through year 15. Total Project Costs, as defined, are \$145,644. The PILOT totaled \$2,677, \$2,620 and \$2,570 for the years ended December 31, 2000, 1999 and 1998, respectively.

The Company has entered into a similar agreement with the City of Jersey City, New Jersey on its Harborside Plaza 4-A property. Pursuant to the agreement, such PILOT is equal to two percent of Total Project Costs, as defined, which was estimated to be \$45,497. The PILOT, based upon the estimated Total Project Costs, was \$25 for the in-service period of the property during the year ended December 31, 2000.

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 December 31, 2000, are as follows:

Year	Amount
2001	\$ 531
2002	531
2003	531
2004	534
2005	534
Thereafter	21,997
Total	\$24,658

Ground lease expense incurred during the years ended December 31, 2000, 1999 and 1998 amounted to \$570, \$561 and \$419, respectively.

OTHER

On April 19, 1999, the Company announced the following changes in the membership of its Board of Directors and the identities, titles and responsibilities of its executive officers: (i) Thomas A. Rizk resigned from the Board of Directors, the Executive Committee of the Board of Directors, his position as Chief Executive Officer and as an employee of the Company; (ii) Mitchell E. Hersh was appointed Chief Executive Officer of the Company simultaneous with his resignation from his positions as President and Chief Operating Officer of the Company; (iii) Timothy M. Jones was appointed President of the Company simultaneous with his resignation from his positions as Executive Vice President and Chief Investment Officer of the Company; and (iv) Brant Cali was appointed to the Board of Directors of the Company to fill the remainder of Thomas A. Rizk's term as a Class III Director and was appointed Chief Operating Officer of the Company, also remaining as an Executive Vice President and Assistant Secretary of the Company.

Pursuant to the terms of Mr. Rizk's employment agreement entered into with the Company in December 1997 and an agreement entered into simultaneous with his resigning from the Company, Mr. Rizk received payments of approximately \$14,490 in April 1999 and \$500 in April 2000 and will receive \$500 annually over the next two years. All costs associated with Mr. Rizk's resignation are included in non-recurring charges for the year ended December 31, 1999.

On June 27, 2000, both Brant Cali and John R. Cali resigned their positions as officers of the Company and Brant Cali resigned as a director of the Company. John R. Cali was appointed to the Board of Directors of the Company to take the seat previously held by Brant Cali. As required by Brant Cali and John R. Cali's employment agreements with the Company: (i) the Company paid \$2,820 and \$2,806 (less applicable withholding) to Brant Cali and John R. Cali, respectively; (ii) all options to acquire shares of the Company's common stock and Restricted Stock Awards (as hereinafter defined) held by Brant Cali and John R. Cali became fully vested on the effective date of their resignations from the Company. All costs associated with Brant Cali and John R. Cali's resignations, which totaled approximately \$9,228, are included in non-recurring charges for the year ended December 31, 2000.

The Company is a defendant in certain litigation arising in the normal course of business activities. Management does not believe that the resolution of these matters will have a materially adverse effect upon the Company.

15) Tenant Leases

The Properties are leased to tenants under operating leases with various expiration dates through 2016. 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 December 31, 2000, are as follows:

<u>Year</u>	<u>Amount</u>
2001	\$ 475,043
2002	440,153
2003	379,721
2004	326,091
2005	276,779
Thereafter	997,529
<u>Total</u>	<u>\$2,895,316</u>

16) 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 Articles of Incorporation provide for, among other things, certain restrictions on the transfer of the 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 will demand 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.

COMMON STOCK REPURCHASES

On August 6, 1998, the Board of Directors of the Company authorized a share repurchase program ("Repurchase Program") under which the Company was permitted to purchase up to \$100,000 of the Company's outstanding common stock. Purchases could be made from time to time in open market transactions at prevailing prices or through privately negotiated transactions. 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 \$52,562 from August 1998 through December 1999.

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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 \$150,000 of the Company's outstanding common stock above the \$52,562 that had previously been purchased. The Company purchased for constructive retirement 2,026,300 shares of its outstanding common stock for an aggregate cost of approximately \$55,514 from September 13, 2000 through December 31, 2000.

Subsequent to year end through February 15, 2001, the Company purchased for constructive retirement 72,000 shares of its outstanding common stock for an aggregate cost of approximately \$1,982 under the Repurchase Program.

DIVIDEND REINVESTMENT AND STOCK PURCHASE PLAN

The Company filed a registration statement with the SEC for the Company's dividend reinvestment and stock purchase plan ("Plan") which was declared effective in February 1999. The Plan commenced on March 1, 1999.

During the year ended December 31, 1999, 1,082 shares were issued and proceeds of approximately \$32 were received from stock purchases and/or dividend reinvestments under the Plan. The Company did not issue any shares under the Plan during the year ended December 31, 2000.

SHAREHOLDER RIGHTS PLAN

On June 10, 1999, the Board of Directors of the Company authorized a dividend distribution of one preferred share purchase right ("Right") for each outstanding share of common stock which were distributed to all holders of record of the common stock on July 6, 1999. Each Right entitles the registered holder to purchase from the Company one one-thousandth of a share of Series A junior participating preferred stock, par value \$0.01 per share ("Preferred Shares"), at a price of \$100.00 per one one-thousandth of a Preferred Share ("Purchase Price"), subject to adjustment as provided in the rights agreement. The Rights expire on July 6, 2009, unless the expiration date is extended or the Right is redeemed or exchanged earlier by the Company.

The Rights are attached to each share of common stock. The Rights are generally exercisable only if a person or group becomes the beneficial owner of 15 percent or more of the outstanding common stock or announces a tender offer for 15 percent or more of the outstanding common stock ("Acquiring Person"). In the event that a person or group becomes an Acquiring Person, each holder of a Right will have the right to receive, upon exercise, common stock having a market value equal to two times the Purchase Price of the Right.

On June 27, 2000, the Company amended its shareholder rights plan to prevent the triggering of such plan as a result of the Merger Agreement.

STOCK OPTION PLANS

In September 2000, the Company established the 2000 Employee Stock Option Plan ("2000 Employee Plan") and the 2000 Director Stock Option Plan ("2000 Director Plan") under which a total of 2,700,000 shares (subject to adjustment) of the Company's common stock have been reserved for issuance (2,500,000 shares under the 2000 Employee Plan and 200,000 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 have been reserved for issuance (4,980,188 shares under the Employee Plan and 400,000 shares under the Director Plan). Stock options granted under the Employee Plan in 1994 and 1995 have become exercisable over a three-year period and those options granted under both the 2000 Employee Plan and Employee Plan in 1996, 1997, 1998, 1999 and 2000 become exercisable over a five-year period. All stock options granted under both the 2000 Director Plan and Director Plan become 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 December 31, 2000 and 1999, the stock options outstanding had a weighted average remaining contractual life of approximately 7.5 and 7.4 years, respectively.

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

	Shares Under Options	Weighted Average Exercise Price
Outstanding at January 1, 1998	3,287,290	\$31.47
Granted	1,048,620	\$35.90
Exercised	(267,660)	\$20.47
Lapsed or canceled	(128,268)	\$36.61
Outstanding at December 31, 1998	3,939,982	\$33.22
Granted	426,400	\$25.23
Exercised	(47,583)	\$22.31
Lapsed or canceled	(591,648)	\$36.92
Outstanding at December 31, 1999	3,727,151	\$31.86
Granted	1,523,900	\$26.75
Exercised	(117,053)	\$21.45
Lapsed or canceled	(500,679)	\$34.64
Outstanding at December 31, 2000	4,633,319	\$30.14
Options exercisable at December 31, 1999	1,724,920	\$29.78
Options exercisable at December 31, 2000	2,049,041	\$31.02
Available for grant at December 31, 1999	662,878	
Available for grant at December 31, 2000	2,344,757	

The weighted average fair value of options granted during 2000, 1999 and 1998 were \$3.40, \$2.74 and \$5.59 per option, respectively. The fair value of each significant option grant is estimated on the date of grant using the Black-Scholes model. The following weighted average assumptions are included in the Company's fair value calculations of stock options:

	2000	1999	1998
Expected life (in years)	6	6	6
Risk-free interest rate	5.67%	6.12%	5.41%
Volatility	22.66%	24.72%	23.37%
Dividend yield	8.82%	9.15%	5.78%

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Under the above models, the value of stock options granted during 2000, 1999 and 1998 totaled approximately \$5,181, \$1,167 and \$5,281, respectively, which would be amortized ratably on a pro forma basis over the appropriate vesting period. Had the Company determined compensation cost for these granted securities in accordance with FASB No. 123, the Company's pro forma net income, basic earnings per share and diluted earnings per share would have been \$179,131, \$3.07 and \$3.01 in 2000, \$113,854, \$1.95 and \$1.94 in 1999 and \$110,061, \$1.97 and \$1.96 in 1998, respectively.

STOCK WARRANTS

The Company has 360,000 warrants outstanding which enable the holders to purchase an equal number of shares of its common stock ("Stock Warrants") at \$33 per share (the market price at

date of grant). Such warrants are all currently exercisable and expire on January 31, 2007.

The Company also has 389,976 Stock Warrants outstanding which enable the holders to purchase an equal number of its shares of common stock at \$38.75 per share (the market price at date of grant). Such warrants vest equally over a five-year period through December 31, 2001 and expire on December 12, 2007.

As of December 31, 2000 and 1999, there were a total of 749,976 and 914,976 Stock Warrants outstanding, respectively. As of December 31, 2000 and 1999, there were 613,985 and 585,989 Stock Warrants exercisable, respectively. For the years ended December 31, 2000 and 1999, 165,000 and no Stock Warrants were canceled, respectively. No Stock Warrants have been exercised through December 31, 2000.

STOCK COMPENSATION

In July 1999, the Company entered into amended and restated employment contracts with six of its then key executive officers which provided for, among other things, compensation in the form of stock awards and associated tax obligation payments. In addition, in December 1999, the Company granted stock awards to certain other officers of the Company. In connection with the stock awards (collectively, "Restricted Stock Awards"), the executive officers and certain other officers are to receive up to a total of 211,593 shares of the Company's common stock vesting over a five-year period contingent upon the Company meeting certain performance and/or stock price appreciation objectives. The Restricted Stock Awards provided to the executive officers and

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certain other officers were granted under the Employee Plan. Effective January 1, 2000, 31,737 shares of the Company's common stock were issued to the executive officers and certain other officers upon meeting the required objectives. In connection with the resignation of each of Brant Cali and John R. Cali from the Company, all of their respective remaining restricted stock, an aggregate of 38,649 shares, were issued to Brant Cali and John R. Cali upon the accelerated vesting of their remaining Restricted Stock Awards. For the years ended December 31, 2000 and 1999, 5,100 and no unvested Restricted Stock Awards were canceled, respectively.

DEFERRED STOCK COMPENSATION PLAN FOR DIRECTORS

The Deferred Compensation Plan for Directors ("Deferred Compensation Plan"), 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 years ended December 31, 2000 and 1999, 4,227 and 3,319 deferred stock units were earned, respectively.

EARNINGS PER SHARE

FASB No. 128 requires a dual presentation of basic and diluted EPS on the face of the income statement for all companies with complex capital structures even where the effect of such dilution is not material. Basic EPS excludes dilution and is computed by dividing net income available to common stockholders 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 years ended December 31, 2000, 1999 and 1998 in accordance with FASB No. 128:

Year Ended December 31,	2000		1999		1998	
	Basic EPS	Diluted EPS	Basic EPS	Diluted EPS	Basic EPS	Diluted EPS
Net income	\$185,338	\$185,338	\$119,739	\$119,739	\$116,578	\$116,578
Add: Net income attributable to Operating Partnership—common units	—	25,612	—	17,389	—	15,903
Net income attributable to Operating Partnership—preferred units	—	15,441	—	—	—	—
Adjusted net income	\$185,338	\$226,391	\$119,739	\$137,128	\$116,578	\$132,481
Weighted average shares	58,338	73,070	58,385	67,133	55,840	63,893
Per Share	\$ 3.18	\$ 3.10	\$ 2.05	\$ 2.04	\$ 2.09	\$ 2.07

The following schedule reconciles the shares used in the basic EPS calculation to the shares used in the diluted EPS calculation:

Year Ended December 31,	2000	1999	1998
Basic EPS Shares:	58,338	58,385	55,840
Add: Operating Partnership—common units	8,054	8,500	7,598
Operating Partnership—preferred units (after conversion to common units)	6,485	—	—
Stock options	188	241	411
Restricted Stock Awards	5	7	—
Stock Warrants	—	—	44
Diluted EPS Shares:	73,070	67,133	63,893

Contingent Units outstanding in 1998 were not included in the 1998 computation of diluted EPS as such units were anti-dilutive during the period. Preferred Units outstanding in 1999 and 1998 were not included in the 1999 and 1998 computations of diluted EPS as such units were anti-dilutive during the periods.

Through December 31, 2000, under the Repurchase Program, the Company purchased for constructive retirement, a total of 3,895,500 shares of its outstanding common stock for an aggregate cost of approximately \$108,076.

17) Segment Reporting

The Company operates in one business segment—real estate. The Company provides leasing, management, acquisition, development, construction and tenant-related services for its portfolio. The Company does not have any foreign operations. The accounting policies of the segments are the same as those described in Note 2, excluding straight-line rent adjustments, depreciation and amortization and non-recurring charges.

The Company evaluates performance based upon net operating income from the combined properties in the segment.

Selected results of operations for the years ended December 31, 2000, 1999 and 1998 and selected asset information as of December 31, 2000 and 1999 regarding the Company's operating segment are as follows:

	Total Segment	Corporate & Other ^(e)	Total Company
Total contract revenues^(a):			
2000	\$ 557,926	\$ 5,623	\$ 563,549 ^(f)
1999	534,985	3,903	538,888 ^(g)
1998	475,096	4,919	480,015 ^(h)
Total operating and interest expenses^(b):			
2000	\$ 174,116	\$ 126,700	\$ 300,816 ⁽ⁱ⁾
1999	168,166	128,925	297,091 ⁽ⁱ⁾
1998	149,791	113,528	263,319 ^(k)
Net operating income^(c):			
2000	\$ 383,810	\$ (121,077)	\$ 262,733 ^{(f)(i)}
1999	366,819	(125,022)	241,797 ^{(g)(i)}
1998	325,305	(108,609)	216,696 ^{(h)(k)}
Total assets:			
2000	\$ 3,623,107	\$ 53,870	\$ 3,676,977
1999	3,580,782	48,819	3,629,601
Total long-lived assets^(d):			
2000	\$ 3,522,766	\$ 23,574	\$ 3,546,340
1999	3,515,669	24,934	3,540,603

(a) Total contract revenues represent all revenues during the period (including the Company's share of net income from unconsolidated joint ventures), excluding adjustments for straight-lining of rents and the Company's share of straight-line rent adjustments from unconsolidated joint ventures. All interest income is excluded from segment amounts and is classified in Corporate and Other for all periods.

(b) Total operating and interest expenses represent the sum of real estate taxes, utilities, operating services, general and administrative and interest expense. All interest expense (including for property-level mortgages) is excluded from segment amounts and classified in Corporate and Other for all periods.

(c) Net operating income represents total contract revenues [as defined in Note (a)] less total operating and interest expenses [as defined in Note (b)] for the period.

(d) Long-lived assets are comprised of total rental property, unbilled rents receivable and investments in unconsolidated joint ventures.

(e) Corporate & Other represents all corporate-level items (including interest and other investment income, interest expense and non-property general and administrative expense) as well as intercompany eliminations necessary to reconcile to consolidated Company totals.

(f) Excludes \$12,580 of adjustments for straight-lining of rents and \$24 for the Company's share of straight-line rent adjustments from unconsolidated joint ventures.

(g) Excludes \$12,438 of adjustments for straight-lining of rents and \$158 for the Company's share of straight-line rent adjustments from unconsolidated joint ventures.

(h) Excludes \$13,575 of adjustments for straight-lining of rents and \$109 for the Company's share of straight-line rent adjustments from unconsolidated joint ventures.

(i) Excludes \$92,088 of depreciation and amortization and non-recurring charges of \$37,139.

(j) Excludes \$87,209 of depreciation and amortization and non-recurring charges of \$16,458.

(k) Excludes \$78,916 of depreciation and amortization.

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18) Related Party Transactions

The son of a current director of the Company, who was also a former officer of the Company, serves as an officer of a company which provides cleaning and other related services to certain of the Company's properties. The Company has incurred costs from this company of approximately \$3,164, \$2,524 and \$2,296 for the years ended December 31, 2000, 1999 and 1998, respectively. As of December 31, 2000 and 1999, respectively, the Company had accounts payable of approximately \$108 and \$307 to this company.

The Company provides management, leasing and construction services to properties owned by third parties in which certain officers and directors of the Company hold an ownership interest. The Company recognized approximately \$1,921, \$1,960 and \$2,476 in revenues from these properties for the years ended December 31, 2000, 1999 and 1998, respectively. As of December 31, 2000 and 1999, respectively, the Company had total receivables from these properties of approximately \$1,000 and \$96.

The Company purchased land parcels in three separate transactions from affiliates of the Company. The Company also acquired a portfolio of properties from an affiliate of the Company. See Note 3.

19) Impact of Recently-Issued Accounting Standards

In June 1998, the FASB issued Statement of Financial Accounting Standards No. 133, Accounting for Derivative Instruments and Hedging Activities ("FASB No. 133"). FASB No. 133 is effective for all fiscal quarters of all fiscal years beginning after June 15, 1999. In June 1999, the FASB delayed the implementation date of FASB No. 133 by one year (January 1, 2001 for the Company). FASB No. 133 requires that all derivative instruments be recorded on the balance sheet at their fair value. Changes in the fair value of derivatives are recorded each period in current earnings or other comprehensive income, depending on whether a derivative is designated as part of a hedge transaction and, if it is, the type of hedge transaction. Management of the Company has determined that, due to its limited use of derivative instruments, the adoption of FASB No. 133 will not have a significant effect on the Company's financial position at January 1, 2001, nor is it expected to materially impact future results of operations.