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RECKSON ASSOCIATES REALTY CORP

Form 10-Q

August 14, 2002

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UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, DC 20549  
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FORM 10-Q

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

FOR THE QUARTERLY PERIOD ENDED JUNE 30, 2002

COMMISSION FILE NUMBER: 1-13762  
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RECKSON ASSOCIATES REALTY CORP.  
(Exact name of registrant as specified in its charter)

MARYLAND  
(State or other jurisdiction of incorporation  
or organization)

11-3233650  
(IRS Employer Identification Number)

225 BROADHOLLOW ROAD, MELVILLE, NY  
(Address of principal executive office)

11747  
(zip code)

(631) 694-6900  
(Registrant's telephone number including area code)  
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Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports) Yes X No \_\_, and (2) has been subject to such filing requirements for the past 90 days. Yes X No \_\_.

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The company has two classes of common stock, par value \$.01 par value per share, with 49,132,033 and 9,915,313 shares of Class A common stock and Class B common stock outstanding, respectively as of August 12, 2002

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RECKSON ASSOCIATES REALTY CORP.  
QUARTERLY REPORT  
FOR THE THREE MONTHS ENDED JUNE 30, 2002

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PART I -- FINANCIAL INFORMATION

ITEM 1 -- FINANCIAL STATEMENTS

RECKSON ASSOCIATES REALTY CORP.  
CONSOLIDATED BALANCE SHEETS  
(DOLLARS IN THOUSANDS, EXCEPT FOR SHARE AMOUNTS)

JUNE 30,

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2002

(UNAUDITED)

ASSETS:

Commercial real estate properties, at cost:

Land .....	\$ 418,748
Building and improvements .....	2,405,072
Developments in progress:	
Land .....	90,229
Development costs .....	24,919
Furniture, fixtures and equipment .....	7,791

2,946,759

Less accumulated depreciation ..... (408,349)

2,538,410

Investments in real estate joint ventures .....	5,697
Investments in mortgage notes and notes receivable .....	55,368
Investments in service companies and affiliate loans and joint ventures .....	79,178
Cash and cash equivalents .....	39,389
Tenant receivables .....	11,511
Deferred rents receivable .....	94,264
Prepaid expenses and other assets .....	25,271
Contract and land deposits and pre-acquisition costs .....	101
Deferred leasing and loan costs .....	64,811

TOTAL ASSETS ..... \$ 2,914,000

LIABILITIES:

Mortgage notes payable .....	\$ 745,983
Unsecured credit facility .....	176,000
Senior unsecured notes .....	499,239
Accrued expenses and other liabilities .....	77,919
Dividends and distributions payable .....	33,199

TOTAL LIABILITIES ..... 1,532,340

Minority partners' interests in consolidated partnerships .....	243,286
Preferred unit interest in the operating partnership .....	19,662
Limited partners' minority interest in the operating partnership .....	78,173

341,121

Commitments and contingencies ..... --

STOCKHOLDERS' EQUITY:

Preferred Stock, \$.01 par value, 25,000,000 shares authorized	
Series A preferred stock, 9,192,000 shares issued and outstanding .....	92
Series B preferred stock, 2,000,000 shares issued and outstanding .....	20
Common Stock, \$.01 par value, 100,000,000 shares authorized Class A common stock, 50,988,233 and 49,982,377 shares issued and outstanding, respectively .....	510
Class B common stock, 10,283,513 shares issued and outstanding .....	103
Additional paid in capital .....	1,039,814

Total Stockholders' Equity ..... 1,040,539

TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY ..... \$ 2,914,000

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(see accompanying notes to financial statements)

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RECKSON ASSOCIATES REALTY CORP.  
CONSOLIDATED STATEMENTS OF INCOME  
(UNAUDITED AND IN THOUSANDS, EXCEPT PER SHARE AND SHARE AMOUNTS)

	THREE MONTHS ENDED JUNE 30,		2000
	2002	2001	
<b>REVENUES:</b>			
Base rents .....	\$ 109,528	\$ 111,184	\$ 21,184
Tenant escalations and reimbursements .....	14,099	14,165	2,000
Equity in earnings of real estate joint ventures and service companies .....	159	801	
Interest income on mortgage notes and notes receivable .....	1,565	1,559	
Gain on sales of real estate .....	--	--	
Investment and other income .....	284	4,678	
<b>TOTAL REVENUES</b> .....	<b>125,635</b>	<b>132,387</b>	<b>25,184</b>
<b>EXPENSES:</b>			
Property operating expenses .....	41,739	40,874	8,000
Marketing, general and administrative .....	7,693	8,411	1,000
Interest .....	22,124	23,562	4,000
Depreciation and amortization .....	28,031	27,172	5,000
<b>TOTAL EXPENSES</b> .....	<b>99,587</b>	<b>100,019</b>	<b>19,000</b>
Income before minority interests and preferred dividends and distributions .....	26,048	32,368	5,000
Minority partners' interests in consolidated partnerships .....	(4,813)	(4,065)	(1,000)
Distributions to preferred unit holders .....	(280)	(461)	(1,000)
Limited partners' minority interest in the operating partnership .....	(1,663)	(2,616)	(1,000)
<b>Net Income</b> .....	<b>19,292</b>	<b>25,226</b>	<b>4,000</b>
Dividends to preferred shareholders .....	(5,487)	(5,467)	(1,000)
<b>Net income available to common shareholders</b> .....	<b>\$ 13,805</b>	<b>\$ 19,759</b>	<b>\$ 2,000</b>
<b>Net Income available to:</b>			
Class A common .....	\$ 10,548	\$ 15,109	\$ 2,000
Class B common .....	3,257	4,650	
<b>Total</b> .....	<b>\$ 13,805</b>	<b>\$ 19,759</b>	<b>\$ 2,000</b>
<b>Basic net income per weighted average common share:</b>			
Class A common .....	\$ .21	\$ .32	\$ .20
Class B common .....	\$ .32	\$ .45	\$ .20

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	=====	=====	=====
Basic weighted average common shares outstanding:			
Class A common .....	50,775,300	47,221,917	50,39
Class B common .....	10,283,513	10,283,513	10,28
Diluted net income per weighted average common share:			
Class A common .....	\$ .21	\$ .32	\$
	=====	=====	=====
Class B common .....	\$ .22	\$ .34	\$
	=====	=====	=====
Diluted weighted average common shares outstanding:			
Class A common .....	51,164,788	47,600,390	50,75
Class B common .....	10,283,513	10,283,513	10,28

(see accompanying notes to financial statements)

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RECKSON ASSOCIATES REALTY CORP.  
CONSOLIDATED STATEMENTS OF CASH FLOWS  
(UNAUDITED AND IN THOUSANDS)

	SIX MONTHS END JUNE 30,	
	2002	
	-----	-----
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income .....	\$ 40,761	\$
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization .....	54,167	
Gain on sales of real estate .....	(537)	
Minority partners' interests in consolidated partnerships .....	9,933	
Limited partners' minority interest in the operating partnership .....	3,597	
Equity in earnings of real estate joint ventures and service companies .....	(494)	
CHANGES IN OPERATING ASSETS AND LIABILITIES:		
Tenant receivables .....	(1,878)	
Real estate tax escrows .....	288	
Prepaid expenses and other assets .....	20,389	
Deferred rents receivable .....	(13,175)	
Accrued expenses and other liabilities .....	(9,077)	
	-----	-----
Net cash provided by operating activities .....	103,974	
	-----	-----
CASH FLOWS FROM INVESTING ACTIVITIES:		
Increase in contract deposits and pre-acquisition costs .....	--	
Additions to developments in progress .....	(31,809)	
Proceeds from mortgage note receivable repayments .....	8	
Investments in affiliate joint ventures .....	--	
Additions to commercial real estate properties .....	(20,810)	
Additions to furniture, fixtures and equipment .....	(64)	
Payment of leasing costs .....	(6,169)	
Proceeds from sales of real estate and marketable securities .....	2,128	
	-----	-----
Net cash used in investing activities .....	(56,716)	(

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CASH FLOWS FROM FINANCING ACTIVITIES:	
Proceeds from issuance of common stock net of issuance costs .....	6,014
Principal payments on secured borrowings .....	(5,094)
Payment of loan and equity issuance costs .....	(990)
Increase in investments in affiliate loans and service companies .....	--
Proceeds from issuance of senior unsecured notes .....	49,432
Proceeds from secured borrowings .....	--
Proceeds from unsecured credit facility .....	45,000
Repayment of unsecured credit facility .....	(140,600)
Distributions to minority partners in consolidated partnerships .....	(9,559)
Distributions to limited partners in the operating partnership .....	(6,364)
Distributions to preferred unit holders .....	(774)
Dividends to common shareholders .....	(55,935)
Dividends to preferred shareholders .....	(10,974)
Net cash (used in) provided by financing activities .....	(129,844)
Net (decrease) increase in cash and cash equivalents .....	(82,586)
Cash and cash equivalents at beginning of period .....	121,975
Cash and cash equivalents at end of period .....	\$ 39,389

(see accompanying notes to financial statements)

RECKSON ASSOCIATES REALTY CORP.  
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
JUNE 30, 2002  
(UNAUDITED)

1. ORGANIZATION AND FORMATION OF THE COMPANY

Reckson Associates Realty Corp. (the "Company") is a self-administered and self managed real estate investment trust ("REIT") engaged in the ownership, management, operation, leasing and development of commercial real estate properties, principally office and industrial buildings and also owns land for future development (collectively, the "Properties") located in the New York tri-state area (the "Tri-State Area").

The Company was incorporated in Maryland in September 1994. In June 1995, the Company completed an initial public offering (the "IPO") and commenced operations.

The Company became the sole general partner of Reckson Operating Partnership, L.P. (the "Operating Partnership") by contributing substantially all of the net proceeds of the IPO in exchange for an approximate 73% interest in the Operating Partnership. All Properties acquired by the Company are held by or through the Operating Partnership. In conjunction with the IPO, the Operating Partnership executed various option and purchase agreements whereby it issued common units of limited partnership interest in the Operating Partnership ("OP Units") to certain continuing investors in exchange for (i) interests in certain property partnerships, (ii) fee simple and leasehold interests in properties and development land, (iii) certain other business assets and (iv) 100% of the non-voting preferred stock of the management and construction companies. At June 30, 2002, the Company's ownership percentage in the Operating Partnership was

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approximately 89.4%.

### 2. BASIS OF PRESENTATION

The accompanying consolidated financial statements include the consolidated financial position of the Company and the Operating Partnership at June 30, 2002 and December 31, 2001 and the results of their operations for the three and six months ended June 30, 2002 and 2001, respectively, and, their cash flows for the six months ended June 30, 2002 and 2001, respectively. The Operating Partnership's investments in majority owned and/or controlled real estate joint ventures are reflected in the accompanying financial statements on a consolidated basis with a reduction for the minority partners' interest. The Operating Partnership also invests in real estate joint ventures where it may own less than a controlling interest. Such investments are reflected in the accompanying financial statements on the equity method of accounting. The operating results of the service companies currently conducted by Reckson Management Group, Inc., RANY Management Group, Inc., Reckson Construction Group New York, Inc. and Reckson Construction Group, Inc., in which the Operating Partnership owns a 97% non-controlling interest are reflected in the accompanying financial statements on the equity method of accounting. All significant intercompany balances and transactions have been eliminated in the consolidated financial statements.

Minority partners' interests in consolidated partnerships represent a 49% non-affiliated interest in RT Tri-State LLC, owner of an eight property suburban office portfolio, a 40% non-affiliated interest in Omni Partners, L.P., owner of a 575,000 square foot suburban office property and beginning December 21, 2001, a 49% non-affiliated interest in Metropolitan 919 Third Avenue, LLC, owner of the property located at 919 Third Avenue, New York, NY. Limited partners' minority interest in the Operating Partnership was approximately 10.6% and 11.3% at June 30, 2002 and 2001, respectively.

The accompanying interim unaudited financial statements have been prepared by the Company's management pursuant to the rules and regulations of the Securities and Exchange Commission. Certain information and footnote disclosure normally included in the financial statements prepared in accordance with accounting principles generally accepted in the United States ("GAAP") may have been condensed or omitted pursuant to such rules and regulations, although management believes that the disclosures are adequate to make the information presented not misleading. The unaudited

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financial statements as of June 30, 2002 and for the three and six month periods ended June 30, 2002 and 2001 include, in the opinion of management, all adjustments, consisting of normal recurring adjustments, necessary to present fairly the financial information set forth herein. The results of operations for the interim periods are not necessarily indicative of the results that may be expected for the year ending December 31, 2002. These financial statements should be read in conjunction with the Company's audited financial statements and the notes thereto included in the Company's Form 10-K for the year ended December 31, 2001.

The Company intends to qualify as a REIT under Sections 856 through 869 of the Internal Revenue Code of 1986, as amended (the "Code"). As a REIT, the Company will not generally be subject to corporate Federal income taxes as long as it satisfies certain technical requirements of the Code relating to composition of its income and assets and requirements relating to distributions of taxable income to shareholders.

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In October 2001, the Financial Accounting Standards Board ("FASB") issued Statement No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets". Statement No. 144 provides accounting guidance for financial accounting and reporting for the impairment or disposal of long-lived assets. Statement No. 144 supersedes Statement No. 121, Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed of. It also supersedes the accounting and reporting provisions of Accounting Principles Board Opinion No. 30, Reporting the Results of Operations--Reporting the Effects of Disposal of a Segment of a Business, and Extraordinary, Unusual and Infrequently Occurring Events and Transactions related to the disposal of a segment of a business. The Company adopted Statement No. 144 on January 1, 2002. The adoption of this statement did not have a material effect on the results of operations or the financial position of the Company.

Effective January 1, 2002 the Company has elected to follow FASB Statement No. 123, "Accounting for Stock Based Compensation". Statement No.123 requires the use of option valuation models which determine the fair value of the option on the date of the grant. All future employee stock option grants will be expensed over the options' vesting periods based on the fair value at the date of the grant in accordance with Statement No. 123. The Company expects minimal financial impact in the current year from the adoption of Statement No. 123. To determine the fair value of the stock options granted, the Company intends to use a Black-Scholes option pricing model. Historically, the Company had applied Accounting Principles Board Opinion No. 25 and related interpretations in accounting for its stock option plans and reported pro forma disclosures in its Form 10-K filings by estimating the fair value of options issued and the related expense in accordance with Statement No. 123. Accordingly, no compensation cost had been recognized for its stock option plans in the past.

In April 2002, the FASB issued Statement No. 145, which rescinded Statement No. 4, "Reporting Gains and Losses from Extinguishment of Debt". Statement No. 145 is effective for fiscal years beginning after May 15, 2002. The Company will adopt Statement No. 145 on January 1, 2003.

Certain prior period amounts have been reclassified to conform to the current period presentation.

### 3. MORTGAGE NOTES PAYABLE

As of June 30, 2002, the Company had approximately \$746.0 million of fixed rate mortgage notes which mature at various times between 2004 and 2027. The notes are secured by 21 properties with a net carrying value of approximately \$1.5 billion and have a weighted average interest rate of approximately 7.3%.

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### 4. SENIOR UNSECURED NOTES

As of June 30, 2002, the Operating Partnership had outstanding approximately \$499.2 million (net of issuance discounts) of senior unsecured notes (the "Senior Unsecured Notes"). The following table sets forth the Operating Partnership's Senior Unsecured Notes and other related disclosures by scheduled maturity date (dollars in thousands):



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ISSUANCE	FACE AMOUNT	COUPON RATE	TERM	MATURITY
March 26, 1999	\$ 100,000	7.40%	5 years	March 15, 2004
June 17, 2002	\$ 50,000	6.00%	5 years	June 15, 2007
August 27, 1997	\$ 150,000	7.20%	10 years	August 28, 2007
March 26, 1999	\$ 200,000	7.75%	10 years	March 15, 2009

Interest on the Senior Unsecured Notes is payable semiannually with principal and unpaid interest due on the scheduled maturity dates. In addition, the Senior Unsecured Notes issued on March 26, 1999 and June 17, 2002 were issued at aggregate discounts of \$738,000 and \$267,500, respectively. Such discounts are being amortized over the term of the Senior Unsecured Notes to which they relate.

On June 17, 2002, the Operating Partnership issued \$50 million of 6% (6.13% effective rate) senior unsecured notes. Net proceeds of approximately \$49.4 million received from this issuance were used to repay outstanding borrowings under the Company's unsecured credit facility.

#### 5. UNSECURED CREDIT FACILITY

As of June 30, 2002, the Company had a three year \$575 million unsecured revolving credit facility (the "Credit Facility") from JPMorgan Chase Bank, as administrative agent, UBS Warburg LLC as syndication agent and Deutsche Bank as documentation agent. The Credit Facility matures in September 2003 and borrowings under the Credit Facility are currently priced off LIBOR plus 105 basis points.

The Company utilizes the Credit Facility primarily to finance real estate investments, fund its real estate development activities and for working capital purposes. At June 30, 2002, the Company had availability under the Credit Facility to borrow approximately an additional \$400 million, subject to compliance with certain financial covenants.

#### 6. COMMERCIAL REAL ESTATE INVESTMENTS

As of June 30, 2002, the Company owned and operated 77 office properties (inclusive of eleven office properties owned through joint ventures) comprising approximately 13.8 million square feet, 102 industrial properties comprising approximately 6.8 million square feet and two retail properties comprising approximately 20,000 square feet located in the Tri-State Area.

The Company also owns approximately 254 acres of land in 12 separate parcels of which the Company can develop approximately two million square feet of office space and approximately 450,000 square feet of industrial space. On April 1, 2002, the Company paid approximately \$23.8 million to acquire an additional 52.7 acres of land located in Valhalla, NY on which the Company can develop approximately 875,000 square feet of office space. The Company currently owns and operates three buildings encompassing approximately 700,000 square feet in the same office park in which this land is located. The Company financed this acquisition in part from the sales proceeds of an office property being held by a qualified intermediary for the purposes of an exchange of real property pursuant to Section 1031 of the Code and from an advance under the Credit Facility. In addition, the Company owns a 32 acre land parcel in Rye Brook, NY

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which is under contract for sale for approximately \$22.3 million. The sale of this land is subject to certain rezoning and other municipal approvals. At this time it is undetermined whether these approvals or rezoning will be obtained and the sale closed. The Company currently owns and operates six buildings encompassing approximately

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542,000 square feet in the same office park in which this land is located. As of June 30, 2002, the Company had invested approximately \$115 million in these developments in progress. Management has made subjective assessments as to the value and recoverability of these investments based on current and proposed development plans. The Company has capitalized approximately \$5.4 million for the six months ended June 30, 2002 related to real estate taxes, interest and other carrying costs related to these developments in progress.

The Company also owns a 357,000 square foot office building in Orlando, Florida. Additionally, the Company holds a \$17.0 million interest in a note receivable secured by a partnership interest in Omni Partners, L.P., owner of the Omni, a 575,000 square foot Class A office property located in Uniondale, NY and three other notes receivable aggregating \$36.5 million which bear interest at rates ranging from 10.5% to 12% per annum and are secured by a minority partner's preferred unit interest in the Operating Partnership and certain real property. As of June 30, 2002, management has made subjective assessments as to the underlying security value on the Company's note receivable investments. These assessments indicated an excess of market value over carrying value related to the Company's note receivable investments.

The Company also owns a 60% non-controlling interest in a 172,000 square foot office building located at 520 White Plains Road in White Plains, New York (the "520JV"). As of June 30, 2002, the 520JV had total assets of \$21.5 million, a mortgage note payable of \$12.8 million and other liabilities of \$0.9 million. The Company's allocable share of the 520JV mortgage note payable is approximately \$7.7 million. In addition, the 520JV had total revenues of \$1,615,000 and total expenses of \$1,637,000 for the six months ended June 30, 2002. The Company accounts for the 520JV under the equity method of accounting. The 520JV contributed approximately \$29,000 and \$216,000 to the Company's equity in earnings of real estate joint ventures for the six months ended June 30, 2002 and 2001, respectively.

On December 21, 2001, the Company formed a joint venture with the New York State Teachers' Retirement System ("NYSTRS") whereby NYSTRS acquired a 49% indirect interest in the property located at 919 Third Avenue, New York, NY for \$220.5 million which included \$122.1 million of its proportionate share of secured mortgage debt and approximately \$98.4 million of cash which was then distributed to the Company. On January 4, 2002, net proceeds from this sale were used primarily to repay borrowings under the Credit Facility and for working capital purposes.

In addition. On August 7, 2002, the Company sold an industrial property on Long Island aggregating approximately 32,000 square feet for approximately \$1.8 million. This property was sold to the sole tenant of the property through an option contained in the tenant's lease. On August 8, 2002, the Company sold two Class A office properties located in Westchester County, NY aggregating approximately 157,000 square feet for approximately \$18.5 million. Net proceeds from the August 8th sale were used to repay borrowings under the Credit Facility.

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### 7. STOCKHOLDERS' EQUITY

An OP Unit and a share of Class A common stock have essentially the same economic characteristics as they effectively share equally in the net income or loss and distributions of the Operating Partnership. Subject to certain holding periods OP Units may either be redeemed for cash or, at the election of the Company, exchanged for shares of Class A common stock on a one-for-one basis.

On March 28, 2002, approximately 11,303 Series B preferred units of the Operating Partnership, with a liquidation preference value of approximately \$11.3 million, were exchanged for 451,934 OP Units at a price of \$25.01 per OP Unit. In addition, during the three months ended June 30, 2002, 666,466 OP Units were exchanged for an equal number of shares of the Company's Class A common stock.

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During May 2002, the Board of Directors of the Company declared the following dividends on the Company's securities:

SECURITY	DIVIDEND/ DISTRIBUTION	RECORD DATE	PAYMENT DATE	THREE MONTHS ENDED
Class A common stock	\$ .4246	July 5, 2002	July 17, 2002	June 30, 2002
Class B common stock	\$ .6471	July 15, 2002	July 31, 2002	July 31, 2002
Series A preferred stock	\$ .476563	July 15, 2002	July 31, 2002	July 31, 2002
Series B preferred stock	\$ .553125	July 15, 2002	July 31, 2002	July 31, 2002

On May 22, 2002, approximately \$1.4 million of loans made to certain executive officers to purchase the Company's common stock matured. The loans were secured by 61,668 shares of the Company's Class A common stock. The loans were satisfied by the executive officers with the 61,668 shares of Class A common stock. The market value of these shares on May 22, 2002 was sufficient to fully satisfy these loans and as such there was no financial impact to the Company. The Company has subsequently retired these shares.

As of June 30, 2002, the Company had issued and outstanding 10,283,513 shares of Class B Exchangeable Common Stock, par value \$.01 per share (the "Class B common stock") and were entitled to receive an annual dividend of \$2.5968 per share. The dividend on the shares of Class B common stock is subject to adjustment annually based on a formula which measures increases or decreases in the Company's Funds From Operations, as defined, over a base year. On July 31, 2002, the annual dividend on the Class B common stock was decreased to \$2.5884 per share.

The shares of Class B common stock are exchangeable at any time, at the option of the holder, into an equal number of shares of Class A common stock, subject to customary antidilution adjustments. The Company, at its option, may redeem any or all of the Class B common stock in exchange for an equal number of shares of the Company's Class A common stock at any time following November 23, 2003.

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The Board of Directors of the Company has authorized the purchase of up to an additional five million shares of the Company's Class B common stock and/or its Class A common stock. Transactions conducted on the New York Stock Exchange will be effected in accordance with the safe harbor provisions of the Securities Exchange Act of 1934 and may be terminated by the Company at any time. Subsequent to June 30, 2002, the Company purchased 368,200 shares of Class B common stock at an average price of \$22.90 per Class B share and 1,856,200 shares of Class A common stock at an average price of \$21.98 per Class A share for an aggregate purchase price for both the Class A and Class B common stock of approximately \$49.2 million. Previously, under the Company's prior stock buy-back program, the Company had purchased and retired 1,410,804 shares of Class B common stock at an average price of \$21.48 per Class B share and 61,704 shares of Class A common stock at an average price of \$23.03 per Class A share for an aggregate purchase price for both the Class A and Class B common stock of approximately \$31.7 million. In addition, the Board of Directors of the Company has formed a pricing committee to consider purchases of up to \$75 million of the Company's outstanding preferred securities.

The Company currently has issued and outstanding 9,192,000 shares of 7.625% Series A Convertible Cumulative Preferred Stock (the "Series A preferred stock"). The Series A preferred stock is redeemable by the Company on or after April 13, 2003 at a price of approximately \$25.95 per share with such price decreasing, at annual intervals, to \$25.00 per share over a five year period. In addition, the Series A preferred stock, at the option of the holder, is convertible at any time into the Company's Class A common stock at a price of \$28.51 per share.

The Company currently has issued and outstanding two million shares of Series B Convertible Cumulative Preferred Stock (the "Series B preferred stock"). The Series B preferred stock is redeemable by the Company as follows: (i) on or after March 2, 2002 to and including June 2, 2003, at an amount which provides an annual rate of return with respect to such shares of 15%, (ii) on or

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after June 3, 2003 to and including June 2, 2004, \$25.50 per share and (iii) on or after June 3, 2004 and thereafter, \$25.00 per share. In addition, the Series B preferred stock, at the option of the holder, is convertible at any time into the Company's Class A common stock at a price of \$26.05 per share. The Series B preferred stock currently accumulates dividends at a rate of 8.85% per annum.

Basic net income per share on the Company's Class A common stock was calculated using the weighted average number of shares outstanding of 50,775,300 and 47,221,917 for the three months ended June 30, 2002 and 2001, respectively and 50,396,326 and 46,357,533 for the six months ended June 30, 2002 and 2001, respectively.

Basic net income per share on the Company's Class B common stock was calculated using the weighted average number of shares outstanding of 10,283,513 for the three and six month periods ended June 30, 2002 and 2001.

The following table sets forth the Company's reconciliation of numerators and denominators of the basic and diluted net income per weighted average common share and the computation of basic and diluted net income per weighted average share for the Company's Class A common stock (in thousands except for earnings per share data):

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	THREE MONTHS ENDED JUNE 30,		SIX MONTHS ENDED JUNE 30,	
	2002	2001	2002	2001
Numerator:				
Income before dividends to preferred shareholders and income allocated to Class B shareholders .....	\$ 19,292	\$ 25,226	\$ 40,761	\$ 50,000
Dividends to preferred shareholders .....	(5,487)	(5,467)	(10,974)	(10,974)
Income allocated to Class B common shareholders .....	(3,257)	(4,650)	(7,080)	(10,000)
Numerator for basic and diluted net income per Class A common share .....	\$ 10,548	\$ 15,109	\$ 22,707	\$ 29,026
Add back:				
Denominator:				
Denominator for basic net income per share weighted average Class A common shares .....	50,775	47,222	50,396	47,222
Effect of dilutive securities:				
Common stock equivalents .....	390	378	363	378
Denominator for diluted net income per Class A common share - adjusted weighted average shares and assumed conversions .....	51,165	47,600	50,759	47,600
Basic net income per Class A common share:				
Net income per Class A common share .....	\$ .21	\$ .32	\$ .45	\$ .61
Diluted net income per Class A common share:				
Diluted net income per Class A common share .....	\$ .21	\$ .32	\$ .45	\$ .61

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The following table sets forth the Company's reconciliation of numerators and denominators of the basic and diluted net income per weighted average common share and the computation of basic and diluted net income per weighted average share for the Company's Class B common stock (in thousands except for earnings per share data):

	THREE MONTHS ENDED JUNE 30,		SIX MONTHS ENDED JUNE 30,	
	2002	2001	2002	2001
Numerator:				
Income before dividends to preferred shareholders and income allocated to Class A shareholders .....	\$ 19,292	\$ 25,226	\$ 40,761	\$ 50,000
Dividends to preferred shareholders .....	(5,487)	(5,467)	(10,974)	(10,974)

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Income allocated to Class A common shareholders .....	(10,548)	(15,109)	(22,707)	(3)
Numerator for basic and diluted net income per Class B common share .....	3,257	4,650	7,080	1
Add back:				
Income allocated to Class A common shareholders .....	10,548	15,109	22,707	3
Limited partner's minority interest in the operating partnership .....	1,663	2,616	3,597	
Numerator for diluted net income per Class B common share .....	\$ 15,468	\$ 22,375	\$ 33,384	\$ 4
Denominator:				
Denominator for basic net income per share weighted average Class B common shares .....	10,284	10,284	10,284	1
Effect of dilutive securities:				
Weighted average Class A common shares outstanding .....	50,775	47,222	50,396	4
Weighted average OP Units outstanding .....	7,500	7,763	7,504	
Common stock equivalents .....	390	378	363	
Denominator for diluted net income per Class B common share - adjusted weighted average shares and assumed conversions .....	68,949	65,647	68,547	6
Basic net income per Class B common share:				
Net income per Class B common share .....	\$ .32	\$ .45	\$ .69	\$
Diluted net income per Class B common share:				
Diluted net income per Class B common share .....	\$ .22	\$ .34	\$ .49	\$

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8. SUPPLEMENTAL DISCLOSURES OF CASH FLOWS INFORMATION (IN THOUSANDS)

	SIX MONTHS ENDED JUNE 30,	
	2002	2001
Cash paid during the period for interest .....	\$ 45,817	\$ 52,766
Interest capitalized during the period .....	\$ 4,406	\$ 5,137

9. SEGMENT DISCLOSURE

The Company owns all of the interests in its real estate properties by or

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through the Operating Partnership. The Company's portfolio consists of Class A office properties located within the New York City metropolitan area and Class A suburban office and industrial properties located and operated within the Tri-State Area (the "Core Portfolio"). The Company's portfolio also includes one office property located in Orlando, Florida. The Company has Managing Directors who report directly to the Co-Presidents and Chief Financial Officer who have been identified as the Chief Operating Decision Makers due to their final authority over resource allocation, decisions and performance assessment.

The Company does not consider (i) interest incurred on its Credit Facility and Senior Unsecured Notes and (ii) the operating performance of the office property located in Orlando, Florida as part of its Core Portfolio's property operating performance for purposes of its component disclosure set forth below.

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The following table sets forth the components of the Company's revenues and expenses and other related disclosures for the three and six months ended June 30, 2002 and 2001 (in thousands):

	THREE MONTHS ENDED			
	JUNE 30, 2002			
	CORE PORTFOLIO	OTHER	CONSOLIDATED TOTALS	CORE PORTFOLIO
<b>REVENUES:</b>				
Base rents, tenant escalations and reimbursements .....	\$ 121,517	\$ 2,110	\$ 123,627	\$ 123,0
Equity in earnings of real estate joint ventures and service companies .....	--	159	159	
Other income .....	141	1,708	1,849	1,9
<b>Total Revenues .....</b>	<b>121,658</b>	<b>3,977</b>	<b>125,635</b>	<b>124,9</b>
<b>EXPENSES:</b>				
Property operating expenses .....	40,190	1,549	41,739	40,0
Marketing, general and administrative .....	4,671	3,022	7,693	5,4
Interest .....	12,990	9,134	22,124	12,1
Depreciation and amortization .....	25,831	2,200	28,031	25,0
<b>Total Expenses .....</b>	<b>83,682</b>	<b>15,905</b>	<b>99,587</b>	<b>82,7</b>
Income (loss) before minority interests and preferred dividends and distributions .....	\$ 37,976	\$ (11,928)	\$ 26,048	\$ 42,1
<b>Total assets .....</b>	<b>\$2,693,174</b>	<b>\$ 220,826</b>	<b>\$ 2,914,000</b>	<b>\$ 2,691,9</b>

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	SIX MONTHS ENDED			
	JUNE 30, 2002			
	CORE PORTFOLIO	OTHER	CONSOLIDATED TOTALS	CORE PORTFOLIO
<b>REVENUES:</b>				
Base rents, tenant escalations and reimbursements .....	\$ 241,715	\$ 4,417	\$ 246,132	\$ 243,752
Equity in earnings of real estate joint ventures and service companies .....	--	494	494	--
Other income .....	1,093	3,383	4,476	2,478
<b>Total Revenues .....</b>	<b>242,808</b>	<b>8,294</b>	<b>251,102</b>	<b>246,230</b>
<b>EXPENSES:</b>				
Property operating expenses .....	81,610	2,341	83,951	80,434
Marketing, general and administrative .....	9,275	5,557	14,832	10,070
Interest .....	25,954	17,166	43,120	25,055
Depreciation and amortization .....	50,428	3,739	54,167	46,631
<b>Total Expenses .....</b>	<b>167,267</b>	<b>28,803</b>	<b>196,070</b>	<b>162,190</b>
Income (loss) before minority interests and preferred dividends and distributions .....	\$ 75,541	\$ (20,509)	\$ 55,032	\$ 84,040

10. RELATED PARTY TRANSACTIONS

As part of the Company's REIT structure it is provided management, leasing and construction related services through taxable REIT subsidiaries as defined by the Code. These services are currently provided by Reckson Management Group, Inc., RANY Management Group, Inc., Reckson Construction Group New York, Inc.,

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and Reckson Construction Group, Inc. (collectively, the "Service Companies"). The Operating Partnership owns a 97% non-controlling interest in the Service Companies. An entity which is substantially owned by certain Rechler family members who are also executive officers of the Company owns a 3% controlling interest in the Service Companies. During the six months ended June 30, 2002, Reckson Construction Group, Inc. billed approximately \$77,000 of market rate services and Reckson Management Group, Inc. billed approximately \$156,000 of market rate management fees to certain properties in which certain Rechler family members who are also executive officers maintain an equity interest. These properties consist of five properties in which these officers had acquired their interests prior to the initial public offering, but were not contributed to the Company as part of the initial public offering (the "Option Properties"). At the initial public offering the Operating Partnership was granted ten year options to acquire these interests at a price based upon an agreed upon formula. In addition, for the six months ended June 30, 2002, Reckson Construction Group, Inc. performed market rate services, aggregating approximately \$200,000 for a property in which certain executive officers maintain an equity interest.



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The Company leases 43,713 square feet of office and storage space at an Option Property for its corporate offices located in Melville, New York at an annual base rent of approximately \$1.1 million. The Company also leases 10,722 square feet of warehouse space used for equipment, materials and inventory storage at an Option Property located in Deer Park, New York at an annual base rent of approximately \$72,000.

A company affiliated with an independent director of the Company, leases 15,566 square feet in a property owned by the Company at an annual base rent of approximately \$416,000. In addition, Reckson Strategic Venture Partners, LLC ("RSVP") leases 5,144 square feet in one of the Company's joint venture properties at an annual base rent of approximately \$170,000.

During 1997, the Company formed FrontLine Capital Group, formerly Reckson Service Industries, Inc., ("FrontLine") and Reckson Strategic Venture Partners, LLC ("RSVP"). RSVP is a real estate venture capital fund which invests primarily in real estate and real estate operating companies outside the Company's core office and industrial focus and whose common equity is held indirectly by FrontLine. In connection with the formation and spin-off of FrontLine, the Operating Partnership established an unsecured credit facility with FrontLine (the "FrontLine Facility") in the amount of \$100 million for FrontLine to use in its investment activities, operations and other general corporate purposes. The Company has advanced approximately \$93.4 million under the FrontLine Facility. The Operating Partnership also approved the funding of investments of up to \$100 million relating to RSVP (the "RSVP Commitment"), through RSVP-controlled joint ventures (for REIT-qualified investments) or advances made to FrontLine under an unsecured loan facility (the "RSVP Facility") having terms similar to the FrontLine Facility (advances made under the RSVP Facility and the FrontLine Facility hereafter, the "FrontLine Loans"). During March 2001, the Company increased the RSVP Commitment to \$110 million and as of June 30, 2002, approximately \$109.1 million had been funded through the RSVP Commitment, of which \$59.8 million represents investments by the Company in RSVP-controlled (REIT-qualified) joint ventures and \$49.3 million represents loans made to FrontLine under the RSVP Facility. As of June 30, 2002, interest accrued (net of reserves) under the FrontLine Facility and the RSVP Facility was approximately \$19.6 million. RSVP retained the services of two managing directors to manage RSVP's day to day operations. Prior to the spin off of Frontline, the Company guaranteed certain salary provisions of their employment agreements with RSVP Holdings, LLC, RSVP's common member. The term of these employment agreements is seven years commencing March 5, 1998 provided however, the term may be earlier terminated after five years upon certain circumstances. The salary for each managing director is \$1 million in the first five years and \$1.6 million in years six and seven.

At June 30, 2001, the Company assessed the recoverability of the FrontLine Loans and reserved approximately \$3.5 million of the interest accrued during the three-month period then ended. In addition, the Company formed a committee of its Board of Directors, comprised solely of independent directors, to consider any actions to be taken by the Company in connection with the FrontLine Loans and its investments in joint ventures with RSVP. During the third quarter of 2001, the Company noted a significant deterioration in FrontLine's operations and financial condition and, based on its assessment of value and recoverability and considering the findings and recommendations of the committee and its financial advisor, the Company recorded a \$163 million valuation reserve charge, inclusive of anticipated costs, in its consolidated statements of operations relating to its investments in the FrontLine Loans and joint ventures with RSVP. The Company has discontinued the accrual of interest income with respect to the FrontLine Loans. The Company has also reserved against its share of GAAP equity in earnings from the RSVP controlled joint ventures funded through the RSVP Commitment until such income is realized through cash distributions.

At December 31, 2001, the Company, pursuant to Section 166 of the Code

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charged off \$70 million of the aforementioned reserve directly related to the FrontLine Facility, including accrued interest. On February 14, 2002, the Company charged off an additional \$38 million of the reserve directly related to the FrontLine Facility, including accrued interest and \$47 million of the reserve directly related to the RSVP Facility, including accrued interest.

FrontLine is in default under the FrontLine Loans from the Operating Partnership and on June 12, 2002, filed a voluntary petition for relief under Chapter 11 of the United States Bankruptcy Code.

As a result of the foregoing, the net carrying value of the Company's investments in the FrontLine Loans and joint venture investments with RSVP, inclusive of the Company's share of previously accrued GAAP equity in earnings on those investments, is approximately \$65 million which was reassessed with no change by management as of June 30, 2002. Such amount has been reflected in investments in service companies and affiliate loans and joint ventures on the Company's consolidated balance sheet. The common and preferred members of RSVP are currently in dispute over certain provisions of the RSVP operating agreement. The members are currently negotiating to restructure the RSVP operating agreement to settle the dispute. There can be no assurances that the members will successfully negotiate a settlement.

Both the FrontLine Facility and the RSVP Facility have terms of five years, are unsecured and advances thereunder are recourse obligations of FrontLine. Notwithstanding the valuation reserve,

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under the terms of the credit facilities, interest accrued on the FrontLine Loans at a rate equal to the greater of (a) the prime rate plus two percent and (b) 12% per annum, with the rate on amounts that were outstanding for more than one year increasing annually at a rate of four percent of the prior year's rate. In March 2001, the credit facilities were amended to provide that (i) interest is payable only at maturity and (ii) the Company may transfer all or any portion of its rights or obligations under the credit facilities to its affiliates. The Company requested these changes as a result of changes in REIT tax laws. As a result of FrontLine's default under the FrontLine Loans, interest on borrowings thereunder accrue at default rates ranging between 13% and 14.5% per annum.

In November 1999, the Company received 176,186 shares of the common stock of FrontLine as fees in connection with the FrontLine Loans. As a result of certain tax rule provisions included in the REIT Modernization Act, it was determined that the Company could no longer maintain any equity position in FrontLine. As part of a compensation program, the Company distributed these shares to certain non-executive employees, subject to recourse loans. The loans were scheduled to be forgiven over time based on continued employment with the Company. Based on the current value of FrontLine's common stock, the Company has established a valuation reserve charge relating to the outstanding balance of these loans in the amount of \$2.4 million.

### 11. COMMITMENTS AND CONTINGENCIES

HQ Global Workplaces, Inc. ("HQ"), one of the largest providers of flexible officing solutions in the world and which is controlled by FrontLine, currently operates nine (formerly eleven) executive office centers in the Company's properties, three of which are held through joint ventures. The leases under which these office centers operate expire between 2008 and 2011, encompass approximately 225,000 square feet and have current contractual annual base rents of approximately \$6.7 million. On March 13, 2002, as a result of experiencing

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financial difficulties, HQ voluntarily filed a petition for relief under Chapter 11 of the U.S. Bankruptcy Code. As of June 30, 2002, HQ's leases with the Company were in default. Further, effective March 13, 2002, the Bankruptcy Court granted HQ's petition to reject two of its leases with the Company. The two rejected leases aggregated approximately 23,900 square feet and provided for contractual base rents of approximately \$548,000 for the 2002 calendar year. Commencing April 1, 2002 and pursuant to the bankruptcy filing, HQ has been paying current rental charges under its leases with the Company, other than under the two rejected leases. The Company is in negotiation to restructure three of the leases and leave the terms of the remaining six leases unchanged. All negotiations with HQ are conducted by a committee designated by the Board and chaired by an independent director. There can be no assurance as to whether any deal will be consummated with HQ or if HQ will affirm or reject any or all of its remaining leases with the Company. As a result of the foregoing, the Company has reserved approximately \$500,000 (net of minority partners' interests and including the Company's share of unconsolidated joint venture interest), or 74%, of the amounts due from HQ as of June 30, 2002.

WorldCom/MCI and its affiliates ("WorldCom"), a telecommunications company, which leases as of June 30, 2002 approximately 547,000 square feet in fifteen of the Company's properties located throughout the Tri-State Area voluntarily filed a petition for relief under Chapter 11 of the U.S. Bankruptcy Code on July 21, 2002. The total annualized base rental revenue from these leases amounts to approximately \$12.3 million, or 2.8% of the Company's total 2002 annualized rental revenue, making it the Company's second largest tenant based on base rental revenue earned on a consolidated basis. All of WorldCom's leases are current on base rental charges through July 31, 2002 and the Company currently holds approximately \$300,000 in security deposits relating to these leases. There can be no assurance as to whether WorldCom will affirm or reject any or all of its leases with the Company. As a result of the foregoing, the Company has increased its reserve against the deferred rent receivable on its balance sheet at June 30, 2002 in an amount equal to \$1.1 million representing approximately 51% of the outstanding deferred rent receivable attributable to WorldCom.

MetroMedia Fiber Network Services, Inc. ("MetroMedia"), which leases approximately 112,000 square feet in one property from the Company, voluntarily filed a petition for relief under Chapter 11 of the U.S. Bankruptcy Code in May 2002. MetroMedia's lease with the Company provided for

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contractual base rent of approximately \$25 per square foot amounting to \$2.8 million per calendar year and expired in May 2010. In July 2002, the Bankruptcy Court granted MetroMedia's petition to restructure and reduce space under its existing lease. As a result, the lease was amended to reduce MetroMedia's space by 80,357 square feet to 31,718 square feet. Annual base rent on the 31,718 square feet MetroMedia will continue to lease is \$25 per square foot amounting to approximately \$793,000 per annum. Further, pursuant to the Bankruptcy Court order MetroMedia is required to pay to the Company a surrender fee of approximately \$1.8 million. As a result of the foregoing, at June 30, 2002, the Company has written off approximately \$388,000 of deferred rent receivable relating to this lease and recognized the aforementioned surrender fee.

Arthur Andersen, LLP ("AA") leases approximately 38,000 square feet in one of the Company's New York City buildings. AA's lease with the Company provides for base rent of approximately \$2 million on an annualized basis and expires in April 2004. AA is current on all rental charges through July 31, 2002. AA has experienced significant financial difficulties with its business and there is uncertainty as to whether it will remain in its space for the duration of its

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lease term. As of June 30, 2002, the Company has reserved 100% of the deferred rent receivable related to this lease which is approximately \$140,000.

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### ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion should be read in conjunction with the accompanying Consolidated Financial Statements of Reckson Associates Realty Corp. (the "Company") and related notes thereto.

The Company considers certain statements set forth herein to be forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended, with respect to the Company's expectations for future periods. Certain forward-looking statements, including, without limitation, statements relating to the timing and success of acquisitions and the completion of development or redevelopment of properties, the financing of the Company's operations, the ability to lease vacant space and the ability to renew or relet space under expiring leases, involve risks and uncertainties. Although the Company believes that the expectations reflected in such forward-looking statements are based on reasonable assumptions, the actual results may differ materially from those set forth in the forward-looking statements and the Company can give no assurance that its expectation will be achieved. Among those risks, trends and uncertainties are: the general economic climate, including the conditions affecting industries in which our principal tenants compete; changes in the supply of and demand for office and industrial properties in the New York Tri-State area; changes in interest rate levels; downturns in rental rate levels in our markets and our ability to lease or release space in a timely manner at current or anticipated rental rate levels; the availability of financing to us or our tenants; credit to our tenants, changes in operating costs, including utility, security and insurance costs; repayment of debt owed to the Company by third parties (including FrontLine Capital Group); risks associated with joint ventures; and other risks associated with the development and acquisition of properties, including risks that development may not be completed on schedule, that the tenants will not take occupancy or pay rent, or that development or operating costs may be greater than anticipated. Consequently, such forward-looking statements should be regarded solely as reflections of the Company's current operating and development plans and estimates. These plans and estimates are subject to revisions from time to time as additional information becomes available, and actual results may differ from those indicated in the referenced statements.

### CRITICAL ACCOUNTING POLICIES

The consolidated financial statements of the Company include accounts of the Company and all majority-owned subsidiaries. The preparation of financial statements in conformity with accounting principles generally accepted in the United States ("GAAP") requires management to make estimates and assumptions in certain circumstances that affect amounts reported in the Company's consolidated financial statements and related notes. In preparing these financial statements, management has utilized information available including its past history, industry standards and the current economic environment among other factors in forming its estimates and judgments of certain amounts included in the consolidated financial statements, giving due consideration to materiality. It is possible that the ultimate outcome as anticipated by management in formulating its estimates inherent in these financial statements may not materialize. However, application of the critical accounting policies below

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involves the exercise of judgment and use of assumptions as to future uncertainties and, as a result, actual results could differ from these estimates. In addition, other companies may utilize different estimates, which may impact comparability of the Company's results of operations to those of companies in similar businesses.

### Revenue Recognition and Accounts Receivable

Rental revenue is recognized on a straight line basis, which averages minimum rents over the terms of the leases. The excess of rents recognized over amounts contractually due are included in deferred rents receivable on the Company's balance sheets. The leases also typically provide for tenant reimbursements of common area maintenance and other operating expenses and real estate taxes. Ancillary and other property related income is recognized in the period earned.

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The Company makes estimates of the collectibility of its tenant accounts receivables related to base rents, tenant escalations and reimbursements and other revenue or income. The Company specifically analyzes tenant receivables and analyzes historical bad debts, customer credit worthiness, current economic trends, changes in customer payment terms, publicly available information and to the extent available, guidance provided by the tenant when evaluating the adequacy of its allowance for doubtful accounts. In addition, when tenants are in bankruptcy the Company makes estimates of the expected recovery of pre-petition administrative and damage claims. In some cases, the ultimate resolution of those claims can exceed a year. These estimates have a direct impact on the Company's net income because a higher bad debt reserve results in less net income.

During the six months ended June 30, 2002, the Company incurred approximately \$3.5 million of bad debt expense related to tenant receivables and deferred rents receivable which accordingly reduced total revenues and reported net income during the period.

The Company records interest income on investments in mortgage notes and notes receivable on an accrual basis of accounting. The Company does not accrue interest on impaired loans where, in the judgment of management, collection of interest according to the contractual terms is considered doubtful. Among the factors the Company considers in making an evaluation of the collectibility of interest are: (i) the status of the loan, (ii) the value of the underlying collateral, (iii) the financial condition of the borrower and (iv) anticipated future events.

Gain on sales of real estate are recorded when title is conveyed to the buyer, subject to the buyer's financial commitment being sufficient to provide economic substance to the sale.

### Real Estate

Land, buildings and improvements, furniture, fixtures and equipment are recorded at cost. Tenant improvements, which are included in buildings and improvements, are also stated at cost. Expenditures for maintenance and repairs are charged to operations as incurred. Renovations and/or replacements, which improve or extend the life of the asset are capitalized and depreciated over their estimated useful lives.

Depreciation is computed utilizing the straight-line method over the

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estimated useful lives of ten to thirty years for buildings and improvements and five to ten years for furniture, fixtures and equipment. Tenant improvements are amortized on a straight-line basis over the term of the related leases.

The Company is required to make subjective assessments as to the useful lives of its properties for purposes of determining the amount of depreciation to reflect on an annual basis with respect to those properties. These assessments have a direct impact on the Company's net income. Should the Company lengthen the expected useful life of a particular asset, it would be depreciated over more years and result in less depreciation expense and higher annual net income.

Assessment by the Company of certain other lease related costs must be made when the Company has a reason to believe that the tenant will not be able to execute under the term of the lease as originally expected.

### Long Lived Assets

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. Such cash flows consider factors such as expected future operating income, trends and prospects, as well as the effects of demand, competition and other factors. To the extent impairment has occurred, the loss will be measured as the excess of the carrying amount of the property over the fair value of the property.

The Company is required to make subjective assessments as to whether there are impairments in the value of its real estate properties and other investments. These assessments have a direct impact on the Company's net income because recognizing an impairment results in an immediate negative adjustment to net income. In determining impairment, if any, the Company has adopted Financial Accounting Standards Board Statement No. 144, "Accounting for the Impairment or Disposal of Long Lived Assets."

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### OVERVIEW AND BACKGROUND

The Company is a self-administered and self-managed real estate investment trust ("REIT") specializing in the acquisition, leasing, financing, management and development of office and industrial properties. The Company's growth strategy is focused on the real estate markets in and around the New York tri-state area (the "Tri-State Area").

The Company owns all of the interests in its real properties through Reckson Operating Partnership, L.P. (the "Operating Partnership"). As of June 30, 2002, the Company owned and operated 77 office properties (inclusive of eleven office properties which are owned through joint ventures) comprising approximately 13.8 million square feet, 102 industrial properties comprising approximately 6.8 million square feet and two retail properties comprising approximately 20,000 square feet located in the Tri-State Area.

The Company also owns approximately 254 acres of land in 12 separate parcels of which the Company can develop approximately two million square feet of office space and approximately 450,000 square feet of industrial space. On April 1, 2002, the Company paid approximately \$23.8 million to acquire an additional 52.7 acres of land located in Valhalla, NY on which the Company can develop approximately 875,000 square feet of office space. The Company currently

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owns and operates three buildings encompassing approximately 700,000 square feet in the same office park in which this land is located. The Company financed this acquisition in part from the sales proceeds of an office property being held by a qualified intermediary for the purposes of an exchange of real property pursuant to Section 1031 of the Internal Revenue Code of 1986 and from an advance under the Company's unsecured credit facility. In addition, the Company owns a 32 acre land parcel in Rye Brook, NY which is under contract for sale for approximately \$22.3 million. The sale of this land is subject to certain rezoning and other municipal approvals. At this time it is undetermined whether these approvals or rezoning will be obtained and the sale closed. The Company currently owns and operates six buildings encompassing approximately 542,000 square feet in the same office park in which this land is located. As of June 30, 2002, the Company had invested approximately \$115 million in these developments in progress. Management has made subjective assessments as to the value and recoverability of these investments based on current and proposed development plans. The Company has capitalized approximately \$5.4 million for the six months ended June 30, 2002 related to real estate taxes, interest and other carrying costs related to these developments in progress.

The Company also owns a 357,000 square foot office building in Orlando, Florida. Additionally, the Company holds a \$17.0 million interest in a note receivable secured by a partnership interest in Omni Partners, L.P., owner of the Omni, a 575,000 square foot Class A office property located in Uniondale, NY and three other notes receivable aggregating \$36.5 which bear interest at rates ranging from 10.5% to 12% per annum and are secured by a minority partner's preferred unit interest in the Operating Partnership and certain real property. As of June 30, 2002, management has made subjective assessments as to the underlying security value on the Company's note receivable investments. These assessments indicated an excess of market value over carrying value related to the Company's note receivable investments.

As part of the Company's REIT structure it is provided management, leasing and construction related services through taxable REIT subsidiaries as defined by the Code. These services are currently provided by Reckson Management Group, Inc., RANY Management Group, Inc., Reckson Construction Group New York, Inc., and Reckson Construction Group, Inc. (collectively, the "Service Companies"). The Operating Partnership owns a 97% non-controlling interest in the Service Companies. An entity which is substantially owned by certain Rechler family members who are also executive officers of the Company owns a 3% controlling interest in the Service Companies. During the six months ended June 30, 2002, Reckson Construction Group, Inc. billed approximately \$77,000 of market rate services and Reckson Management Group, Inc. billed approximately \$156,000 of market rate management fees to certain properties in which certain Rechler family members who are also executive officers maintain an equity interest. These properties consist of five properties in which these officers had acquired their interests prior to the initial public offering, but were not contributed to the Company as part of the initial public offering (the "Option Properties"). At the initial public offering the Operating Partnership was granted ten year options to acquire these interests at a price based upon an agreed upon formula. In addition, for the six months ended June 30, 2002, Reckson Construction Group, Inc. performed market rate services, aggregating approximately \$200,000 for a property in which certain executive officers maintain an equity interest.

The Company leases 43,713 square feet of office and storage space at an Option Property for its corporate offices located in Melville, New York at an annual base rent of approximately \$1.1 million. The Company also leases 10,722 square feet of warehouse space used for equipment, materials and inventory storage at an Option Property located in Deer Park, New York at an annual base rent of approximately \$72,000.

A company affiliated with an independent director of the Company, leases 15,566

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square feet in a property owned by the Company at an annual base rent of approximately \$416,000. In addition, Reckson Strategic Venture Partners, LLC ("RSVP") leases 5,144 square feet in one of the Company's joint venture properties at an annual base rent of approximately \$170,000.

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During July 1998, the Company formed Metropolitan Partners, LLC ("Metropolitan") for the purpose of acquiring Class A office properties in New York City. Currently the Company owns, through Metropolitan, five Class A office properties aggregating approximately 3.5 million square feet.

During September 2000, the Company formed a joint venture (the "Tri-State JV") with Teachers Insurance and Annuity Association ("TIAA") and contributed eight Class A suburban office properties aggregating approximately 1.5 million square feet to the Tri-State JV for a 51% majority ownership interest. TIAA contributed approximately \$136 million for a 49% interest in the Tri-State JV which was then distributed to the Company. For purposes of its financial statements the Company consolidates this joint venture.

On December 21, 2001, the Company formed a joint venture with the New York State Teachers' Retirement Systems ("NYSTRS") whereby NYSTRS acquired a 49% indirect interest in the property located at 919 Third Avenue, New York, NY for \$220.5 million which included \$122.1 million of its proportionate share of secured mortgage debt and approximately \$98.4 million of cash which was then distributed to the Company. For purposes of its financial statements the Company consolidates this joint venture.

The total market capitalization of the Company at June 30, 2002 was approximately \$3.3 billion. The Company's total market capitalization is based on the sum of (i) the market value of the Company's Class A common stock and common units of limited partnership interest in the Operating Partnership ("OP Units") (assuming conversion) of \$24.90 per share/unit (based on the closing price of the Company's Class A common stock on June 28, 2002), (ii) the market value of the Company's Class B common stock of \$25.50 per share (based on the closing price of the Company's Class B common stock on June 28, 2002), (iii) the liquidation preference value of the Company's Series A preferred stock and Series B preferred stock of \$25 per share, (iv) the liquidation preference value of the Operating Partnership's preferred units of \$1,000 per unit and (v) the approximately \$1.3 billion (including its share of joint venture debt and net of minority partners' interests share of joint venture debt) of debt outstanding at June 30, 2002. As a result, the Company's total debt to total market capitalization ratio at June 30, 2002 equaled approximately 39.0%.

During 1997, the Company formed FrontLine Capital Group, formerly Reckson Service Industries, Inc., ("FrontLine") and Reckson Strategic Venture Partners, LLC ("RSVP"). RSVP is a real estate venture capital fund which invests primarily in real estate and real estate operating companies outside the Company's core office and industrial focus and whose common equity is held indirectly by FrontLine. In connection with the formation and spin-off of FrontLine, the Operating Partnership established an unsecured credit facility with FrontLine (the "FrontLine Facility") in the amount of \$100 million for FrontLine to use in its investment activities, operations and other general corporate purposes. The Company has advanced approximately \$93.4 million under the FrontLine Facility. The Operating Partnership also approved the funding of investments of up to \$100 million relating to RSVP (the "RSVP Commitment"), through RSVP-controlled joint



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ventures (for REIT-qualified investments) or advances made to FrontLine under an unsecured loan facility (the "RSVP Facility") having terms similar to the FrontLine Facility (advances made under the RSVP Facility and the FrontLine Facility hereafter, the "FrontLine Loans"). During March 2001, the Company increased the RSVP Commitment to \$110 million and as of June 30, 2002, approximately \$109.1 million had been funded through the RSVP Commitment, of which \$59.8 million represents investments by the Company in RSVP-controlled (REIT-qualified) joint ventures and \$49.3 million represents loans made to FrontLine under the RSVP Facility. As of June 30, 2002, interest accrued (net of reserves) under the FrontLine Facility and the RSVP Facility was approximately \$19.6 million. RSVP retained the services of two managing directors to manage RSVP's day to day operations. Prior to the spin off of Frontline, the Company guaranteed certain salary provisions of their employment agreements with RSVP Holdings, LLC, RSVP's common member. The term of these employment agreements is seven years commencing March 5, 1998 provided however, the term may be earlier terminated after five years upon certain circumstances. The salary for each managing director is \$1 million in the first five years and \$1.6 million in years six and seven.

At June 30, 2001, the Company assessed the recoverability of the FrontLine Loans and reserved approximately \$3.5 million of the interest accrued during the three-month period then ended. In addition, the Company formed a committee of its Board of Directors, comprised solely of independent directors, to consider any actions to be taken by the Company in connection with the FrontLine Loans and its investments in joint ventures with RSVP. During the third quarter of 2001,

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the Company noted a significant deterioration in FrontLine's operations and financial condition and, based on its assessment of value and recoverability and considering the findings and recommendations of the committee and its financial advisor, the Company recorded a \$163 million valuation reserve charge, inclusive of anticipated costs, in its consolidated statements of operations relating to its investments in the FrontLine Loans and joint ventures with RSVP. The Company has discontinued the accrual of interest income with respect to the FrontLine Loans. The Company has also reserved against its share of GAAP equity in earnings from the RSVP controlled joint ventures funded through the RSVP Commitment until such income is realized through cash distributions.

At December 31, 2001, the Company, pursuant to Section 166 of the Code charged off \$70 million of the aforementioned reserve directly related to the FrontLine Facility, including accrued interest. On February 14, 2002, the Company charged off an additional \$38 million of the reserve directly related to the FrontLine Facility, including accrued interest and \$47 million of the reserve directly related to the RSVP Facility, including accrued interest.

FrontLine is in default under the FrontLine Loans from the Operating Partnership and on June 12, 2002, filed a voluntary petition for relief under Chapter 11 of the United States Bankruptcy Code.

As a result of the foregoing, the net carrying value of the Company's investments in the FrontLine Loans and joint venture investments with RSVP, inclusive of the Company's share of previously accrued GAAP equity in earnings on those investments, is approximately \$65 million which was reassessed with no change by management as of June 30, 2002. Such amount has been reflected in investments in service companies and affiliate loans and joint ventures on the Company's consolidated balance sheet. The common and preferred members of RSVP are currently in dispute over certain provisions of the RSVP operating agreement. The members are currently negotiating to restructure the RSVP

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operating agreement to settle the dispute. There can be no assurances that the members will successfully negotiate a settlement.

Both the FrontLine Facility and the RSVP Facility have terms of five years, are unsecured and advances thereunder are recourse obligations of FrontLine. Notwithstanding the valuation reserve, under the terms of the credit facilities, interest accrued on the FrontLine Loans at a rate equal to the greater of (a) the prime rate plus two percent and (b) 12% per annum, with the rate on amounts that were outstanding for more than one year increasing annually at a rate of four percent of the prior year's rate. In March 2001, the credit facilities were amended to provide that (i) interest is payable only at maturity and (ii) the Company may transfer all or any portion of its rights or obligations under the credit facilities to its affiliates. The Company requested these changes as a result of changes in REIT tax laws. As a result of FrontLine's default under the FrontLine Loans, interest on borrowings thereunder accrue at default rates ranging between 13% and 14.5% per annum.

In November 1999, the Company received 176,186 shares of the common stock of FrontLine as fees in connection with the FrontLine Loans. As a result of certain tax rule provisions included in the REIT Modernization Act, it was determined that the Company could no longer maintain any equity position in FrontLine. As part of a compensation program, the Company distributed these shares to certain non-executive employees, subject to recourse loans. The loans were scheduled to be forgiven over time based on continued employment with the Company. Based on the current value of FrontLine's common stock, the Company has established a valuation reserve charge relating to the outstanding balance of these loans in the amount of \$2.4 million.

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### RESULTS OF OPERATIONS

Three months ended June 30, 2002 as compared to the three months ended June 30, 2001.

The Company's total revenues decreased by \$6.8 million or 5.1% for the three months ended June 30, 2002 as compared to the 2001 period. Property operating revenues, which include base rents and tenant escalations and reimbursements ("Property Operating Revenues") decreased by \$1.7 million or 1.4% for the three months ended June 30, 2002 as compared to the 2001 period. The change in Property Operating Revenues is attributable to increases in rental rates in our "same store" properties amounting to \$9.1 million. In addition, Property Operating Revenues increased by \$0.8 million attributable to lease up of newly developed and redeveloped properties. These increases in Property Operating Revenues were offset by \$4.4 million of operating revenue attributable to six properties that were sold in 2001. The Company's Property Operating Revenues was further effected by the impact of the straightline rent adjustment of \$4.4 million for the three months ended June 30,

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2002 as compared to \$10.9 million for the 2001 period. Straightline rent for the three months ended June 30, 2002 was decreased by \$1.8 million for bad debt reserves. This decrease of \$6.5 million is primarily attributable to the property located at 919 Third Avenue for the free rent period, which was effective through February 28, 2002, contained in the lease of the largest tenant in the building. Other revenues (excluding Property Operating Revenues) decreased by \$5.0 million or 71.5% for the three months ended June 30, 2002 as

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compared to the 2001 period. This decrease is primarily attributable to \$4.6 million of interest income accrued on the FrontLine Loans during the 2001 period with no such comparable interest earned for the 2002 period.

Property operating expenses, real estate taxes and ground rents ("Property Expenses") increased by \$0.9 million or 2.1% for the three months ended June 30, 2002 as compared to the 2001 period. This increase includes a \$1.5 million increase in property operating expenses and a \$1.1 million increase in real estate taxes related to our "same-store" properties. Included in the \$1.5 million of property operations expense increase is \$500,000 and \$350,000 attributable to increases in security and insurance costs respectively. These increases result primarily from implications of September 11th and security cost increases primarily relate to our New York City properties. These increases in Property Expenses were offset by \$1.7 million of expenses attributable to six properties that were sold in 2001.

Gross Operating Margins (defined as Property Operating Revenues less Property Expenses, taken as a percentage of Property Operating Revenues) for the three months ended June 30, 2002 and 2001 were 66.2% and 67.4%, respectively. The decrease in Gross Operating Margins is primarily attributable to decreases in average occupancy of the portfolio and also as a result of an increase in reserves on deferred rents receivable which reduced property operating revenues for the three months ended June 30, 2002.

Marketing, general and administrative expenses decreased by approximately \$718,000 or 8.5% for the three months ended June 30, 2002 as compared to the 2001 period. The decrease in marketing, general and administrative expenses is primarily due to staff reduction, cost containment and reduction in legal and professional fees incurred during the 2001 period in connection with certain cancelled acquisition transactions. Marketing, general and administrative expenses, as a percentage of total revenues, were 6.1% for the three months ended June 30, 2002 as compared to 6.4% for the 2001 period. The Company capitalized approximately \$1.3 million of marketing, general and administrative expenses for the three months ended June 30, 2002 as compared to \$1.2 million for the 2001 period. These costs relate to leasing, construction and development activities, which are performed by the Company.

Interest expense decreased by approximately \$1.4 million for the three months ended June 30, 2002 as compared to the 2001 period. The decrease was primarily attributable to a decrease in interest expense on the Company's variable rate debt due to lower interest rates and a lower average balance outstanding on the Company's unsecured credit facility. The weighted average balance outstanding was \$218.1 million for the three months ended June 30, 2002 as compared to \$323.2 million for the three months ended June 30, 2001.

Six months ended June 30, 2002 as compared to the six months ended June 30, 2001.

The Company's total revenues decreased by \$12.2 million or 4.6% for the six months ended June 30, 2002 as compared to the 2001 period. Property Operating Revenues decreased by \$2.6 million or 1.1% for the six months ended June 30, 2002 as compared to the 2001 period. The change in Property Operating Revenues is attributable to increases in rental rates in our "same store" properties amounting to \$13.9 million. In addition, Property Operating Revenues increased by \$3.0 million attributable to lease up of newly developed and redeveloped properties. These increases in Property Operating Revenues were offset by \$9.3 million of revenue attributable to six properties that were sold in 2001. The Company's property operating revenues was further effected by the impact of the straightline rent adjustment of \$13.0 million for the six months ended June 30, 2002 as compared to \$22.0 million for the 2001 period. This decrease of \$9.0 million is primarily attributable to the property located at 919 Third Avenue

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for the free rent period, which was effective through February 28, 2002, contained in the lease of the largest tenant in the building. Straightline rent for the six

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months ended June 30, 2002 was decreased by \$2.5 million for bad debt reserves. Other revenues (excluding Property Operating Revenues) decreased by \$9.5 million or 65.7% for the six months ended June 30, 2002 as compared to the 2001 period. This decrease is primarily attributable to \$6.1 million of interest income accrued on the FrontLine Loans during the 2001 period with no such comparable interest accrual for the 2002 period.

Property Expenses increased by \$2.1 million or 2.5% for the six months ended June 30, 2002 as compared to the 2001 period. This increase is primarily due to a \$2.0 million increase in property operating expenses and a \$2.2 million increase in real estate taxes related to our "same store" properties. Included in the \$2.0 million increase in property operating expenses is \$850,000 and \$470,000 attributable to increases in security and insurance costs, respectively. The increases result primarily from implications of September 11th and security cost increases primarily relate to our New York City properties. In addition, Property Expenses increased by \$0.8 million attributable to the lease up of newly developed and redeveloped properties. These increases in Property Expenses were offset by \$3.3 million of expenses attributable to six properties that were sold in 2001.

Gross Operating Margins for the six months ended June 30, 2002 and 2001 were 65.9% and 67.1%, respectively. The decrease in Gross Operating Margins is primarily attributable to decreases in average occupancy of the portfolio and also as a result of an increase in reserves on deferred rents receivable.

Marketing, general and administrative expenses decreased by approximately \$1.1 million or 6.8% for the six months ended June 30, 2002 as compared to the 2001 period. The decrease in marketing, general and administrative expenses is primarily due to staff reduction, cost containment and reduction in legal and professional fees incurred during the 2001 period in connection with certain cancelled acquisition transactions. Marketing, general and administrative expenses, as a percentage of total revenues, were 5.9% for the six months ended June 30, 2002 as compared to 6.0% for the 2001 period. The Company capitalized approximately \$2.6 million of marketing, general and administrative expenses for the six months ended June 30, 2002 as compared to \$2.4 million for the 2001 period. These costs relate to leasing, construction and development activities, which are performed by the Company.

Interest expense decreased by approximately \$4.1 million for the six months ended June 30, 2002 as compared to the 2001 period. The decrease was primarily attributable to a decrease in interest expense on the Company's variable rate debt due to lower interest rates and a lower average balance outstanding on the Company's unsecured credit facility. The weighted average balance outstanding was \$211.8 million for the six months ended June 30, 2002 as compared to \$289.0 million for the six months ended June 30, 2001.

### LIQUIDITY AND CAPITAL RESOURCES

As of June 30, 2002, the Company had a three year \$575 million unsecured revolving credit facility (the "Credit Facility") from JPMorgan Chase Bank, as administrative agent, UBS Warburg LLC as syndication agent and Deutsche Bank as documentation agent. The Credit Facility matures in September 2003 and borrowings under the Credit Facility are currently priced off LIBOR plus 105

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basis points.

The Company utilizes the Credit Facility primarily to finance real estate investments, fund its real estate development activities and for working capital purposes. At June 30, 2002, the Company had availability under the Credit Facility to borrow approximately an additional \$400 million, subject to compliance with certain financial covenants.

On March 28, 2002, approximately 11,303 Series B preferred units of limited partnership interest in the Operating Partnership, with a liquidation preference value of approximately \$11.3 million, were exchanged for 451,934 OP Units at a price of \$25.01 per OP Unit. In addition, during the three months ended June 30, 2002, 666,466 OP Units were exchanged for an equal number of shares of the Company's Class A common stock.

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On June 17, 2002, the Operating Partnership issued \$50 million of 6% (6.13% effective rate) senior unsecured notes due June 15, 2007. Net proceeds of approximately \$49.4 million were used to repay outstanding borrowings under the Credit Facility.

On August 7, 2002, the Company sold an industrial property on Long Island aggregating approximately 32,000 square feet for approximately \$1.8 million. This property was sold to the sole tenant of the property through an option contained in the tenant's lease. On August 8, 2002, the Company sold two Class A office properties located in Westchester County, NY aggregating approximately 157,000 square feet for approximately \$18.5 million. Net proceeds from the August 8th sale were used to repay borrowings under the Credit Facility.

The following table sets forth the Company's invested capital (before valuation reserves) in RSVP controlled (REIT-qualified) joint ventures and amounts which were advanced under the RSVP Commitment to FrontLine, for its investment in RSVP controlled investments (in thousands):

	RSVP CONTROLLED JOINT VENTURES	AMOUNTS ADVANCED	TOTAL
	-----	-----	-----
Privatization	\$21,480	\$ 3,520	\$ 25,000
Student Housing	18,086	3,935	22,021
Medical Offices	20,185	--	20,185
Parking	--	9,091	9,091
Resorts	--	8,057	8,057
Net leased retail	--	3,180	3,180
Other assets and overhead	--	21,598	21,598
	-----	-----	-----
	\$59,751	\$49,381	\$109,132
	=====	=====	=====

Included in these investments is approximately \$17.5 million of cash that has been contributed to the respective RSVP controlled joint ventures or advanced under the RSVP Commitment to FrontLine and is being held, along with cash from the preferred investors.

As of June 30, 2002, the Company has issued and outstanding 10,283,513 shares of Class B Exchangeable Common Stock, par value \$.01 per share (the

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"Class B common stock") and were entitled to receive an annual dividend of \$2.5968 per share. The dividend on the shares of Class B common stock is subject to adjustment annually based on a formula which measures increases or decreases in the Company's Funds From Operations ("FFO"), as defined, over a base year. On July 31, 2002, the annual dividend on the Class B common stock was decreased to \$2.5884 per share.

The shares of Class B common stock are exchangeable at any time, at the option of the holder, into an equal number of shares of Class A common stock, subject to customary antidilution adjustments. The Company, at its option, may redeem any or all of the Class B common stock in exchange for an equal number of shares of the Company's Class A common stock at any time following November 23, 2003.

The Board of Directors of the Company has authorized the purchase of up to an additional five million shares of the Company's Class B common stock and/or its Class A common stock. Transactions conducted on the New York Stock Exchange will be effected in accordance with the safe harbor provisions of the Securities Exchange Act of 1934 and may be terminated by the Company at any time. Subsequent to June 30, 2002, the Company purchased 368,200 shares of Class B common stock at an average price of \$22.90 per Class B share and 1,856,200 shares of Class A common stock at an average price of \$21.98 per Class A share for an aggregate purchase price for both Class A and Class B common stock of approximately \$49.2 million. Previously, under the Company's prior stock buy-back program, the Company purchased and retired 1,410,804 shares of Class B common stock at an average price of \$21.48 per Class B share and 61,704 shares of Class A common stock at an average price of \$23.03 per Class A share for an aggregate purchase price for both the Class A and Class B common stock of approximately \$31.7 million. In addition, the Board of Directors of the Company has formed a pricing committee to consider purchases of up to \$75 million of the Company's outstanding preferred securities.

On May 22, 2002, approximately \$1.4 million of loans made to certain executive officers to purchase the Company's common stock matured. The loans were secured by 61,668 shares of the Company's Class A common stock. The loans were satisfied by the executive officers with the 61,668

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shares of Class A common stock. The market value of these shares on May 22, 2002 was sufficient to fully satisfy these loans and as such there was no financial impact to the Company. The Company has subsequently retired these shares.

The Company also owns a 60% non-controlling interest in a 172,000 square foot office building located at 520 White Plains Road in White Plains, New York (the "520JV"). As of June 30, 2002, the 520JV had total assets of \$21.5 million, a mortgage note payable of \$12.8 million and other liabilities of \$.9 million. The Company's allocable share of the 520JV mortgage note payable is approximately \$7.7 million. In addition the 520JV had total revenues of \$1,615,000 and total expenses of \$1,637,000 for the six months ended June 30, 2002. The Company accounts for the 520JV under the equity method of accounting. The 520JV contributed approximately \$29,000 and \$216,000 to the Company's equity in earnings of real estate joint ventures for the six months ended June 30, 2002 and 2001, respectively.

Effective January 1, 2002 the Company has elected to follow FASB Statement No. 123, "Accounting for Stock Based Compensation." Statement No. 123 requires the use of option valuation models which determine the fair value of the option on the date of the grant. All future employee stock option grants will be expensed over the options' vesting periods based on the fair value at the date

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of the grant in accordance with Statement No. 123. The Company expects minimal financial impact in the current year from the adoption of Statement No. 123. To determine the fair value of the stock options granted, the Company intends to use a Black-Scholes option pricing model. Historically, the Company had applied Accounting Principles Board Opinion No. 25 and related interpretations in accounting for its stock option plans and had reported pro forma disclosures in its Form 10-K filings by estimating the fair value of options issued and the related expense in accordance with Statement No. 123. Accordingly, no compensation cost had been recognized for its stock option plans in the past.

The Company's indebtedness at June 30, 2002 totaled approximately \$1.3 billion (including its share of joint venture debt and net of minority partners' interests share of joint venture debt) and was comprised of \$176 million outstanding under the Credit Facility, approximately \$499.2 million of senior unsecured notes and approximately \$610.4 million of mortgage indebtedness. Based on the Company's total market capitalization of approximately \$3.3 billion at June 30, 2002 (calculated based on the sum of (i) the market value of the Company's Class A common stock and OP Units, assuming conversion, (ii) the market value of the Company's Class B common stock, (iii) the liquidation preference value of the Company's preferred stock, (iv) the liquidation preference value of the Operating Partnership's preferred units and (v) the \$1.3 billion of debt), the Company's debt represented approximately 39.0% of its total market capitalization.

HQ Global Workplaces, Inc. ("HQ"), one of the largest providers of flexible officing solutions in the world and which is controlled by FrontLine, currently operates nine (formerly eleven) executive office centers in the Company's properties, three of which are held through joint ventures. The leases under which these office centers operate expire between 2008 and 2011, encompass approximately 225,000 square feet and have current contractual annual base rents of approximately \$6.7 million. On March 13, 2002, as a result of experiencing financial difficulties, HQ voluntarily filed a petition for relief under Chapter 11 of the U.S. Bankruptcy Code. As of June 30, 2002, HQ's leases with the Company were in default. Further, effective March 13, 2002, the Bankruptcy Court granted HQ's petition to reject two of its leases with the Company. The two rejected leases aggregated approximately 23,900 square feet and provided for contractual base rents of approximately \$548,000 for the 2002 calendar year. Commencing April 1, 2002 and pursuant to the bankruptcy filing, HQ has been paying current rental charges under its leases with the Company, other than under the two rejected leases. The Company is in negotiations to restructure three of the leases and leave the terms of the remaining six leases unchanged. All negotiations with HQ are conducted by a committee designated by the Board and chaired by an independent director. There can be no assurance as to whether any deal will be consummated with HQ or if HQ will affirm or reject any or all of its remaining leases with the Company. As a result of the foregoing, the Company has reserved approximately \$500,000 (net of minority partners' interests and including the Company's share of unconsolidated joint venture interest), or 74%, of the amounts due from HQ as of June 30, 2002.

WorldCom/MCI and its affiliates ("WorldCom"), a telecommunications company, which leases as of June 30, 2002 approximately 547,000 square feet in fifteen of the Company's properties located throughout the Tri-State Area voluntarily filed a petition for relief under Chapter 11 of the U.S. Bankruptcy Code on July 21, 2002. The total annualized base rental revenue from these leases amounts to approximately \$12.3 million, or 2.8% of the Company's total 2002 annualized rental revenue, making it the Company's second largest tenant based on base rental revenue earned on a consolidated basis. All of WorldCom's leases are current on base rental charges through July 31, 2002 and the Company currently holds approximately \$300,000 in security deposits relating to these leases. There can be no assurance as to whether WorldCom will affirm or reject any or all of its leases with the Company. As a result of the foregoing, the Company has increased its reserve against the deferred rent receivable on its balance

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sheet at June 30, 2002 in an amount equal to \$1.1 million representing approximately 51% of the outstanding deferred rent receivable attributable to WorldCom.

MetroMedia Fiber Network Services, Inc. ("MetroMedia"), which leases approximately 112,000 square feet in one property from the Company, voluntarily filed a petition for relief under Chapter 11 of the U.S. Bankruptcy Code in May 2002. MetroMedia's lease with the Company provided for contractual base rent of approximately \$25 per square foot amounting to \$2.8 million per calendar year and expired in May 2010. In July 2002, the Bankruptcy Court granted MetroMedia's petition to restructure and reduce space under its existing lease. As a result, the lease was amended to reduce MetroMedia's space by 80,357 square feet to 31,718 square feet. Annual base rent on the 31,718 square feet MetroMedia will continue to lease is \$25 per square foot amounting to approximately \$793,000 per annum. Further, pursuant to the Bankruptcy Court order MetroMedia is required to pay to the Company a surrender fee of approximately \$1.8 million. As a result of the foregoing, at June 30, 2002, the Company has written off approximately \$388,000 of deferred rent receivable relating to this lease and recognized the aforementioned surrender fee.

Arthur Andersen, LLP ("AA") leases approximately 38,000 square feet in one of the Company's New York City buildings. AA's lease with the Company provides for base rent of approximately \$2 million on an annualized basis and expires in April 2004. AA is current on all rental charges through July 31, 2002. AA has experienced significant financial difficulties with its business and there is uncertainty as to whether it will remain in its space for the duration of its lease term. As of June 30, 2002, the Company has reserved 100% of the deferred rent receivable related to this lease which is approximately \$140,000.

### CONTRACTUAL OBLIGATIONS AND COMMERCIAL COMMITMENTS

The following table sets forth the Company's significant debt obligations by scheduled principal cash flow payments and maturity date and its commercial commitments by scheduled maturity at June 30, 2002 (in thousands):

	MATURITY DATE					
	2002	2003	2004	2005	2006	THEREAFTER
Mortgage notes payable (1)	\$ 5,965	\$ 12,300	\$ 13,169	\$14,167	\$ 13,785	\$128,700
Mortgage notes payable (2)	--	--	2,616	18,553	129,920	406,808
Senior unsecured notes	--	--	100,000	--	--	400,000
Unsecured credit facility	--	176,000	--	--	--	--
Land lease obligations	1,331	2,687	2,811	2,814	2,795	49,921
Air rights lease obligations	187	369	379	379	379	4,659
	-----	-----	-----	-----	-----	-----
	\$ 7,483	\$191,356	\$118,975	\$35,913	\$146,879	\$990,088
	=====	=====	=====	=====	=====	=====

(1) Scheduled principal amortization payments

(2) Principal payments due at maturity

Certain of the mortgage notes payable are guaranteed by certain limited



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partners in the Operating Partnership and/or the Company. In addition, consistent with customary practices in non-recourse lending, certain non-recourse mortgages may be recourse to the Company under certain limited circumstances including environmental issues and breaches of material representations.

In addition, at June 30, 2002, the Company had approximately \$1.0 million in outstanding undrawn standby letters of credit issued under the Credit Facility which expire in 2003.

Thirteen of the Company's office properties and two of the Company's industrial properties which were acquired by the issuance of OP Units are subject to agreements limiting the Company's ability to transfer them prior to agreed upon dates without the consent of the limited partner who transferred the respective property to the Company. In the event the Company transfers any of these properties prior to the expiration of these limitations, the Company may be required to make a payment relating to taxes incurred by the limited partner. The limitations on nine of the properties expire prior to June 30, 2003. The limitations on the remaining properties expire between 2007 and 2013.

Eleven of the Company's office properties are held in joint ventures which contain certain limitations on transfer. These limitations include requiring the consent of the joint venture partner to transfer a property prior to various specified dates ranging from 2003 to 2005, rights of first offer, and buy/sell provisions.

Historically, rental revenue has been the principal source of funds to pay operating expenses, debt service and capital expenditures, excluding non-recurring capital expenditures of the Company. The Company expects to meet its short-term liquidity requirements generally through its net cash provided by operating activities along with the Credit Facility previously discussed. The Credit Facility contains several financial covenants with which the Company must be in compliance in order to borrow funds thereunder. The Company expects to meet certain of its financing requirements through long-term secured and unsecured borrowings and the issuance of debt and equity securities of the Company. There can be no assurance that there will be adequate demand for the Company's equity at the time or at the price in which the Company desires to raise capital through the sale of additional equity. In addition, the Company also believes that it will, from time to time, generate funds from the disposition of certain of its real estate properties or interests therein. The Company will refinance existing mortgage indebtedness or indebtedness under the Credit Facility at maturity or retire such debt through the issuance of additional debt securities or additional equity securities. The Company anticipates that the current balance of cash and cash equivalents and cash flows from operating activities, together with cash available from borrowings and equity offerings, will be adequate to meet the capital and liquidity requirements of the Company in both the short and long-term.

The Company is subject to federal, state and local laws and regulations relating to the protection of the environment, which may require a current or previous owner or operator of real estate to investigate and clean up hazardous or toxic substances or petroleum product releases at a property. An owner of real estate is liable for the costs of removal or remediation of certain hazardous or toxic substances on or in the property. These laws often impose such liability without regard to whether the owner knew of, or caused, the presence of the contaminants. Clean-up costs and the owner's liability generally are not limited under the enactments and could exceed the value of the property and/or the aggregate assets of the owner. The presence of, or the failure to properly remediate, the substances may adversely affect the owner's ability to sell or rent the property or to borrow using the property as collateral.

As a result of current economic conditions, certain tenants have either not

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renewed their leases upon expiration or have paid the Company to terminate their leases. In addition, a number of U.S. companies have filed for protection under federal bankruptcy laws. Certain of these companies are tenants of the Company. The Company is subject to the risk that other companies that are tenants of the Company may file for bankruptcy protection. This may have an adverse impact on the financial results and condition of the Company. In addition, vacancy rates in our markets have been trending higher and in some instances our asking rents in our markets have been trending lower and landlords are being required to grant greater concessions such as free rent and tenant improvements. Additionally, the Company carries comprehensive liability, fire, extended coverage and rental loss insurance on all of its properties. Five of the Company's properties are located in New York City. As a result of the events of September 11, 2001, insurance companies are limiting and/or excluding coverage for acts of terrorism in all risk policies. The Company's current insurance coverage provides for full replacement cost of its properties, except that the coverage for acts of terrorism on its properties covers losses in an amount up to \$100 million per occurrence (except for one property which has an additional aggregate \$150 million of coverage). As a result, the Company may suffer losses from acts of terrorism that are not covered by insurance. In addition, the mortgage loans which are secured by certain of the Company's properties contain customary covenants, including covenants that require the Company to maintain property insurance in an amount equal to replacement cost of the properties. There can be no assurance that the lenders under these mortgage loans will not take the position that exclusions from the Company's coverage for losses due to terrorist acts is a breach of a covenant which, if uncured, could allow the lenders to declare an event of default and accelerate repayment of the mortgage loans. Other outstanding debt instruments contain standard cross default provisions that would be triggered in the event of an acceleration of the mortgage loans. This matter could adversely affect the Company's financial results, its ability to finance and/or refinance its properties or to buy or sell properties.

In order to qualify as a REIT for federal income tax purposes, the Company is required to make distributions to its stockholders of at least 90% of REIT taxable income. The Company expects to use its cash flow from operating activities for distributions to stockholders and for payment of recurring, non-incremental revenue-generating expenditures. The Company intends to invest amounts accumulated for distribution in short-term investments.

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### INFLATION

The office leases generally provide for fixed base rent increases or indexed escalations. In addition, the office leases provide for separate escalations of real estate taxes, operating expenses and electric costs over a base amount. The industrial leases generally provide for fixed base rent increases, direct pass through of certain operating expenses and separate real estate tax escalations over a base amount. The Company believes that inflationary increases in expenses will be offset by contractual rent increases and expense escalations described above. To the extent the Company's properties contain vacant space, the Company will bear such inflationary increases in expenses.

The Credit Facility bears interest at a variable rate, which will be influenced by changes in short-term interest rates, and is sensitive to inflation.

### FUNDS FROM OPERATIONS

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Management believes that funds from operations ("FFO") is an appropriate measure of performance of an equity REIT. FFO is defined by the National Association of Real Estate Investment Trusts ("NAREIT") as net income or loss, excluding gains or losses from debt restructuring and sales of properties plus depreciation and amortization, and after adjustments for unconsolidated partnerships and joint ventures. FFO does not represent cash generated from operating activities in accordance with accounting principles generally accepted in the United States and is not indicative of cash available to fund cash needs. FFO should not be considered as an alternative to net income, as an indicator of the Company's operating performance or as an alternative to cash flow as a measure of liquidity.

Since all companies and analysts do not calculate FFO in a similar fashion, the Company's calculation of FFO presented herein may not be comparable to similarly titled measures as reported by other companies.

The following table presents the Company's FFO calculation (unaudited and in thousands, except per share/unit data):

	THREE MONTHS ENDED JUNE 30,	
	2002	2001
Net income available to common shareholders .....	\$ 13,805	\$ 19,759
Adjustments for basic funds from operations:		
Add:		
Limited partners' minority interest in the operating partnership .....	1,663	2,616
Real estate depreciation and amortization .....	27,041	26,727
Minority partners' interests in consolidated partnerships .....	4,813	4,065
Less:		
Gain on sales of real estate partnerships .....	--	--
Amounts distributable to minority partners in consolidated partnerships .....	6,329	5,104
Basic Funds From Operations ("FFO") .....	40,993	48,063
Add:		
Dividends and distributions on dilutive shares and units .....	5,767	6,958
Diluted FFO .....	\$ 46,760	\$ 55,021
Weighted average common shares outstanding .....	61,059	57,505
Weighted average units of limited partnership interest outstanding .....	7,500	7,763
Basic weighted average common shares and units outstanding .....	68,559	65,268
Adjustments for dilutive FFO weighted average shares and units outstanding:		
Add:		
Weighted average common stock equivalents .....	390	378
Weighted average shares of Series A Preferred Stock .....	8,060	8,060
Weighted average shares of Series B Preferred Stock .....	1,919	1,919
Weighted average shares of minority partners preferred interest .....	--	2,277
Weighted average shares of preferred limited partnership interest .....	661	1,127
Dilutive FFO weighted average shares and units outstanding .....	79,589	79,029

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK.

The primary market risk facing the Company is interest rate risk on its long term debt, mortgage notes and notes receivable. The Company will, when advantageous, hedge its interest rate risk using financial instruments. The Company is not subject to foreign currency risk.

The Company manages its exposure to interest rate risk on its variable rate indebtedness by borrowing on a short-term basis under its Credit Facility until such time as it is able to retire the short-term variable rate debt with either a long-term fixed rate debt offering, long term mortgage debt, equity offerings or through sales or partial sales of assets.

The Company will recognize all derivatives on the balance sheet at fair value. Derivatives that are not hedges will be adjusted to fair value through income. If a derivative is a hedge, depending on the nature of the hedge, changes in the fair value of the derivative will either be offset against the change in fair value of the hedged asset, liability, or firm commitment through earnings, or recognized in other comprehensive income until the hedged item is recognized in earnings. The ineffective portion of a derivative's change in fair value will be immediately recognized in earnings. As of June 30, 2002, the Company had no derivatives outstanding.

The fair market value ("FMV") of the Company's long term debt, mortgage notes and notes receivable is estimated based on discounting future cash flows at interest rates that management believes reflect the risks associated with long term debt, mortgage notes and notes receivable of similar risk and duration.

The following table sets forth the Company's long term debt obligations by scheduled principal cash flow payments and maturity date, weighted average interest rates and estimated FMV at June 30, 2002 (dollars in thousands):

	FOR THE YEAR ENDED DECEMBER 31,			
	2002	2003	2004	2005
Long term debt:				
Fixed rate .....	\$ 5,965	\$ 12,300	\$ 115,785	\$ 32,720
Weighted average interest rate .....	7.49%	7.51%	7.47%	6.92%
Variable rate .....	\$ --	\$ 176,000	\$ --	\$ --
Weighted average interest rate .....	--	2.97%	--	--
	THEREAFTER	TOTAL (1)	FMV	
Long term debt:				
Fixed rate .....	\$ 935,508	\$ 1,245,983	\$ 1,265,746	
Weighted average interest rate .....	7.27%	7.30%		
Variable rate .....	\$ --	\$ 176,000	\$ 176,000	
Weighted average interest rate .....	--	2.97%		

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(1) Includes aggregate unamortized issuance discounts of approximately \$761 on the senior unsecured notes issued during March 1999 and June 2002, which are due at maturity.

In addition, a one percent increase in the LIBOR rate would have an approximate \$1.8 million annual increase in interest expense based on \$176 million of variable rate debt outstanding at June 30, 2002.

The following table sets forth the Company's mortgage notes and note receivables by scheduled maturity date, weighted average interest rates and estimated FMV at June 30, 2002 (dollars in thousands):

	FOR THE YEAR ENDED DECEMBER 31,					THEREAFTER
	2002	2003	2004	2005	2006	
Mortgage notes and notes receivable:						
Fixed rate .....	\$ 1,157	\$ --	\$ 36,500	\$ --	\$ --	\$ 16,990
Weighted average interest rate .....	9.0%	--	10.23%	--	--	11.92%

(1) Excludes interest receivables aggregating approximately \$721.

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NON-INCREMENTAL REVENUE GENERATING CAPITAL EXPENDITURES,  
TENANT IMPROVEMENT COSTS AND LEASING COMMISSIONS

The following table summarizes the expenditures incurred for capital expenditures for the entire portfolio and tenant improvements and leasing commissions for space leased at the Company's office and industrial properties for the years 1998 through 2001 and the six months ended June 30, 2002.

NON-INCREMENTAL REVENUE GENERATING CAPITAL EXPENDITURES

	1998	1999	2000	2001	AVG 1998-2001
SUBURBAN OFFICE PROPERTIES					
Total .....	\$ 2,004,976	\$ 2,298,899	\$ 3,289,116	\$ 4,606,069	\$ 3,049,765
Per Square Foot .....	0.23	0.23	0.33	0.45	0.31
NYC OFFICE PROPERTIES					
Total .....	N/A	N/A	\$ 946,718	\$ 1,584,501	\$ 1,265,609
Per Square Foot .....	N/A	N/A	0.38	0.45	0.41
INDUSTRIAL PROPERTIES					
Total .....	\$ 1,205,266	\$ 1,048,688	\$ 813,431	\$ 711,666	\$ 944,762
Per Square Foot .....	0.12	0.11	0.11	0.11	0.11

NON-INCREMENTAL REVENUE GENERATING TENANT IMPROVEMENTS AND LEASING COMMISSIONS

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	1998	1999	2000
<b>LONG ISLAND OFFICE PROPERTIES</b>			
Tenant Improvements .....	\$1,140,251	\$1,009,357	\$2,853,706
Per Square Foot Improved .....	3.98	4.73	6.99
Leasing Commissions .....	\$ 418,191	\$ 551,762	\$2,208,604
Per Square Foot Leased .....	1.46	2.59	4.96
	-----	-----	-----
Total Per Square Foot .....	\$ 5.44	\$ 7.32	\$ 11.95
	=====	=====	=====
<b>WESTCHESTER OFFICE PROPERTIES</b>			
Tenant Improvements .....	\$ 711,160	\$1,316,611	\$1,860,027
Per Square Foot Improved .....	4.45	5.62	5.72
Leasing Commissions .....	\$ 286,150	\$ 457,730	\$ 412,226
Per Square Foot Leased .....	1.79	1.96	3.00
	-----	-----	-----
Total Per Square Foot .....	\$ 6.24	\$ 7.58	\$ 8.72
	=====	=====	=====
<b>CONNECTICUT OFFICE PROPERTIES</b>			
Tenant Improvements .....	\$ 202,880	\$ 179,043	\$ 385,531
Per Square Foot Improved .....	5.92	4.88	4.19
Leasing Commissions .....	\$ 151,063	\$ 110,252	\$ 453,435
Per Square Foot Leased .....	4.41	3.00	4.92
	-----	-----	-----
Total Per Square Foot .....	\$ 10.33	\$ 7.88	\$ 9.11
	=====	=====	=====
<b>NEW JERSEY OFFICE PROPERTIES</b>			
Tenant Improvements .....	\$ 654,877	\$ 454,054	\$1,580,323
Per Square Foot Improved .....	3.78	2.29	6.71
Leasing Commissions .....	\$ 396,127	\$ 787,065	\$1,031,950
Per Square Foot Leased .....	2.08	3.96	4.44
	-----	-----	-----
Total Per Square Foot .....	\$ 5.86	\$ 6.25	\$ 11.15
	=====	=====	=====
<b>NEW YORK CITY OFFICE PROPERTIES</b>			
Tenant Improvements .....	N/A	N/A	\$ 65,267
Per Square Foot Improved .....	N/A	N/A	1.79
Leasing Commissions .....	N/A	N/A	\$ 418,185
Per Square Foot Leased .....	N/A	N/A	11.50
	-----	-----	-----
Total Per Square Foot .....	N/A	N/A	\$ 13.29
	=====	=====	=====
<b>INDUSTRIAL PROPERTIES</b>			
Tenant Improvements .....	\$ 283,842	\$ 375,646	\$ 650,216
Per Square Foot Improved .....	0.76	0.25	0.95
Leasing Commissions .....	\$ 200,154	\$ 835,108	\$ 436,506
Per Square Foot Leased .....	0.44	0.56	0.64
	-----	-----	-----
Total Per Square Foot .....	\$ 1.20	\$ 0.81	\$ 1.59
	=====	=====	=====

2001 AVERAGE 2002 NEW  
1998-2001

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LONG ISLAND OFFICE PROPERTIES				
Tenant Improvements .....	\$2,722,457	\$1,931,443	\$ 817,925	\$ 470,774
Per Square Foot Improved .....	8.47	6.04	5.33	10.51
Leasing Commissions .....	\$1,444,412	\$1,155,742	\$ 661,559	\$ 253,957
Per Square Foot Leased .....	4.49	3.38	4.31	5.67
Total Per Square Foot .....	\$ 12.96	\$ 9.42	9.63	\$ 16.18
WESTCHESTER OFFICE PROPERTIES				
Tenant Improvements .....	\$2,584,728	\$1,618,132	\$1,200,380	\$ 967,886
Per Square Foot Improved .....	5.91	5.43	7.59	11.53
Leasing Commissions .....	\$1,263,012	\$ 604,780	\$ 513,884	\$ 357,295
Per Square Foot Leased .....	2.89	2.41	3.25	4.26
Total Per Square Foot .....	\$ 8.80	\$ 7.84	\$ 10.84	\$ 15.79
CONNECTICUT OFFICE PROPERTIES				
Tenant Improvements .....	\$ 213,909	\$ 245,341	\$ 385,999	\$ 384,279
Per Square Foot Improved .....	1.46	4.11	8.86	9.34
Leasing Commissions .....	\$ 209,322	\$ 231,018	\$ 101,574	\$ 101,574
Per Square Foot Leased .....	1.43	3.44	2.33	2.47
Total Per Square Foot .....	\$ 2.89	\$ 7.55	\$ 11.19	\$ 11.81
NEW JERSEY OFFICE PROPERTIES				
Tenant Improvements .....	\$1,146,385	\$ 958,910	\$ 624,731	\$ 336,076
Per Square Foot Improved .....	2.92	3.93	10.22	19.80
Leasing Commissions .....	\$1,602,962	\$ 954,526	\$ 330,520	\$ 127,681
Per Square Foot Leased .....	4.08	3.64	5.13	6.30
Total Per Square Foot .....	\$ 7.00	\$ 7.57	\$ 15.35	\$ 26.10
NEW YORK CITY OFFICE PROPERTIES				
Tenant Improvements .....	\$ 788,930	\$ 427,099	\$2,074,924	\$1,348,436
Per Square Foot Improved .....	15.69	8.74	20.23	20.47
Leasing Commissions .....	\$1,098,829	\$ 758,507	\$ 816,045	\$ 389,781
Per Square Foot Leased .....	21.86	16.68	7.96	5.92
Total Per Square Foot .....	\$ 37.55	\$ 25.42	\$ 28.19	26.39
INDUSTRIAL PROPERTIES				
Tenant Improvements .....	\$1,366,488	\$ 669,048	\$ 743,640	\$ 672,728
Per Square Foot Improved .....	1.65	0.90	1.56	3.71
Leasing Commissions .....	\$ 354,572	\$ 456,585	\$ 330,391	\$ 289,591
Per Square Foot Leased .....	0.43	0.52	0.69	1.60
Total Per Square Foot .....	\$ 2.08	\$ 1.42	\$ 2.25	5.32

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LEASE EXPIRATION SCHEDULE

The following table sets forth scheduled lease expirations for executed leases as of June 30, 2002:

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LONG ISLAND OFFICE (EXCLUDING OMNI)

YEAR OF EXPIRATION	NUMBER OF LEASES EXPIRING	SQUARE FEET EXPIRING	% OF TOTAL LEASED SQ FT	CUMULATIVE % OF TOTAL LEASED SQ FT	EXPIRI GAAP RENT
2002 .....	17	66,399	2.1%	2.1%	\$ 23
2003 .....	50	319,071	10.0%	12.1%	\$ 24
2004 .....	49	301,455	9.5%	21.6%	\$ 21
2005 .....	71	396,191	12.5%	34.0%	\$ 24
2006 .....	44	169,206	5.3%	39.4%	\$ 25
2007 .....	36	423,707	13.3%	52.7%	\$ 24
2008 AND THEREAFTER .....	81	1,505,191	47.3%	100.0%	
	--	-----	-----		
TOTAL/WEIGHTED AVERAGE .....	348	3,181,220	100.0%	--	
	===	=====	=====		

OMNI

YEAR OF EXPIRATION	NUMBER OF LEASES EXPIRING	SQUARE FEET EXPIRING	% OF TOTAL LEASED SQ FT	CUMULATIVE % OF TOTAL LEASED SQ FT	EXPIRI GAAP RENT
2002 .....	2	34,975	6.3%	6.3%	\$ 28.0
2003 .....	3	49,793	9.0%	15.4%	\$ 29.5
2004 .....	5	113,793	20.6%	36.0%	\$ 27.2
2005 .....	4	43,780	7.9%	43.9%	\$ 28.2
2006 .....	0	--	0.0%	43.9%	--
2007 .....	2	59,722	10.8%	54.7%	\$ 26.7
2008 AND THEREAFTER .....	12	250,112	45.3%	100.0%	--
	--	-----	-----		
TOTAL/WEIGHTED AVERAGE .....	28	552,175	100.0%	--	--
	==	=====	=====		

WESTCHESTER OFFICE

YEAR OF EXPIRATION	NUMBER OF LEASES EXPIRING	SQUARE FEET EXPIRING	% OF TOTAL LEASED SQ FT	CUMULATIVE % OF TOTAL LEASED SQ FT	EXPIRI GAAP RENT
2002 .....	24	172,220	5.7%	5.7%	\$ 21
2003 .....	46	242,271	8.0%	13.7%	\$ 22
2004 .....	38	177,296	5.9%	19.6%	\$ 21
2005 .....	51	465,316	15.4%	35.0%	\$ 22
2006 .....	40	720,326	23.8%	58.8%	\$ 22
2007 .....	33	425,732	14.1%	72.9%	\$ 25
2008 AND THEREAFTER .....	35	819,145	27.1%	100.0%	
	--	-----	-----		
TOTAL/WEIGHTED AVERAGE .....	267	3,022,306	100.0%	--	
	===	=====	=====		



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LEASE EXPIRATION SCHEDULE - (CONTINUED )

STAMFORD OFFICE

YEAR OF EXPIRATION	NUMBER OF LEASES EXPIRING	SQUARE FEET EXPIRING	% OF TOTAL LEASED SQ FT	CUMULATIVE % OF TOTAL LEASED SQ FT	EXPI GA RENT
2002 .....	13	32,118	3.0%	3.0%	\$ 24
2003 .....	20	145,085	13.6%	16.6%	\$ 30
2004 .....	28	236,570	22.2%	38.9%	\$ 22
2005 .....	24	123,864	11.6%	50.5%	\$ 26
2006 .....	24	291,313	27.4%	77.9%	\$ 24
2007 .....	10	94,890	8.9%	86.8%	\$ 32
2008 AND THEREAFTER .....	9	140,729	13.2%	100.0%	
TOTAL/WEIGHTED AVERAGE .....	128	1,064,569	100.0%	--	

NEW JERSEY OFFICE

YEAR OF EXPIRATION	NUMBER OF LEASES EXPIRING	SQUARE FEET EXPIRING	% OF TOTAL LEASED SQ FT	CUMULATIVE % OF TOTAL LEASED SQ FT	EXPI GA RENT
2002 .....	8	81,618	4.4%	4.4%	\$ 21
2003 .....	20	319,328	17.2%	21.5%	\$ 27
2004 .....	28	206,608	11.1%	32.6%	\$ 23
2005 .....	27	272,784	14.7%	47.3%	\$ 23
2006 .....	16	181,060	9.7%	57.0%	\$ 24
2007 .....	5	57,237	3.1%	60.1%	\$ 21
2008 AND THEREAFTER .....	20	743,082	39.9%	100.0%	
TOTAL/WEIGHTED AVERAGE .....	124	1,861,717	100.0%	--	

NEW YORK CITY OFFICE

YEAR OF EXPIRATION	NUMBER OF LEASES EXPIRING	SQUARE FEET EXPIRING	% OF TOTAL LEASED SQ FT	CUMULATIVE % OF TOTAL LEASED SQ FT	EXPI GA RENT
2002 .....	10	122,367	3.6%	3.6%	\$ 43
2003 .....	7	114,987	3.4%	6.9%	\$ 32
2004 .....	20	223,677	6.5%	13.5%	\$ 36
2005 .....	34	451,470	13.2%	26.7%	\$ 36
2006 .....	54	346,402	10.1%	36.8%	\$ 30

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2007 .....	12	126,083	3.7%	40.5%	\$ 34
2008 AND THEREAFTER .....	88	2,034,773	59.5%	100.0%	
	--	-----	-----		
TOTAL/WEIGHTED AVERAGE .....	225	3,419,759	100.0%	--	
	===	=====	=====		

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LEASE EXPIRATION SCHEDULE - (CONTINUED)

INDUSTRIAL

YEAR OF EXPIRATION	NUMBER OF LEASES EXPIRING	SQUARE FEET EXPIRING	% OF TOTAL LEASED SQ FT	CUMULATIVE % OF TOTAL LEASED SQ FT	EXPI GA RENT
2002 .....	8	91,878	1.8%	1.8%	\$ 7
2003 .....	19	499,273	9.8%	11.6%	\$ 5
2004 .....	35	562,235	11.0%	22.6%	\$ 6
2005 .....	26	476,541	9.4%	32.0%	\$ 5
2006 .....	39	865,820	17.0%	49.0%	\$ 6
2007 .....	22	229,316	4.5%	53.5%	\$ 7
2008 AND THEREAFTER .....	50	2,371,109	46.5%	100.0%	
	--	-----	-----		
TOTAL/WEIGHTED AVERAGE .....	199	5,096,172	100.0%	--	
	===	=====	=====		

RESEARCH & DEVELOPMENT

YEAR OF EXPIRATION	NUMBER OF LEASES EXPIRING	SQUARE FEET EXPIRING	% OF TOTAL LEASED SQ FT	CUMULATIVE % OF TOTAL LEASED SQ FT	EXPI GA RENT
2002 .....	1	4,620	0.4%	0.4%	\$ 12
2003 .....	4	91,938	8.2%	8.6%	\$ 10
2004 .....	9	99,218	8.9%	17.5%	\$ 13
2005 .....	11	457,440	40.9%	58.3%	\$ 9
2006 .....	7	83,061	7.4%	65.8%	\$ 17
2007 .....	4	85,444	7.6%	73.4%	\$ 12
2008 AND THEREAFTER .....	15	298,015	26.6%	100.0%	
	--	-----	-----		
TOTAL/WEIGHTED AVERAGE .....	51	1,119,736	100.0%	--	
	==	=====	=====		

The following table sets forth the Company's schedule of its top 25 tenants based on base rental revenue as of June 30, 2002:

Tenant Name (1)	Tenant Type	Total Square Feet	Percent of Annual Rental
-----------------	-------------	-------------------	--------------------------

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*	Debevoise & Plimpton	Office	465,420
*	WorldCom/MCI	Office	547,018
*	American Express	Office	238,261
	Bell Atlantic	Office	208,661
*	Shulte Roth & Zabel	Office	230,621
*	HQ Global	Office/Industrial	201,900
	United Distillers	Office	137,918
	Waterhouse Securities	Office	127,143
*	Prudential	Office	219,416
*	Banque Nationale De Paris	Office	144,334
	D.E. Shaw	Office	89,526
	Vytra Healthcare	Office	105,612
	Metromedia Fiber Network Svcs.	Office	112,075
*	Kramer Levin Nessen Kamin, Hoffman-La Roche Inc.	Office	140,892
	Heller Ehrman White	Office	54,815
	Lab Corp	Office	108,000
*	Novartis	Office	150,747
*	Draft Worldwide, Inc.	Office	124,008
	Practicing Law Institute	Office	62,000
	Lockheed Martin Corporation	Office	123,554
*	State Farm	Office/Industrial	162,650
	Estee Lauder	Industrial	370,000
*	JP Morgan Chase Bank	Office	69,527
	Radianz U.S. No. 2 Inc.	Office	130,009

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- (1) Ranked by pro rata share of annualized base rental revenue
- (2) Based on annualized base rental revenue adjusted for pro rata share of joint venture interests.
- \* Part or all of space occupied by tenant is in a 51% or more owned joint venture building.
- 

PART II -- OTHER INFORMATION

Item 1. Legal Proceedings

The Company is not presently subject to any material litigation nor, to the Company's knowledge, is any litigation threatened against the Company, other than routine actions for negligence or other claims and administrative proceedings arising in the ordinary course of business, some of which are expected to be covered by liability insurance and all of which collectively are not expected to have a material adverse effect on the liquidity, results of operations or business or financial condition of the Company.

On or about October 3, 2001, Burgess Services, LLC ("Burgess Services"), Dominion Venture Group, LLC ("Dominion Venture Group") and certain affiliated parties commenced an action in Oklahoma State Court against Reckson Strategic Venture Partners, LLC ("RSVP"), the Company, and RAP-Dominion LLC ("RAP-Dominion"), a joint venture through which the Company invested with RSVP in a venture with certain of the plaintiffs. On April 10, 2002, the litigation was settled without liability on the part of the Company or the defendant. In connection with the settlement, the joint venture will be terminated.

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### Item 2. Changes in Securities and Use of Proceeds

During the three months ended June 30, 2002, the Registrant issued 666,466 shares of its Class A common stock, par value \$0.01 per share, in exchange for an equal number of units of general partnership interest of the Operating Partnership. These transactions were exempt from registration pursuant to Section 4(2) of the Securities Act of 1933.

### Item 3. Defaults Upon Senior Securities -- None

### Item 4. Submission of Matters to a Vote of Securities Holders

On May 23, 2002, the Company held its annual meeting of stockholders. The matters on which the stockholders voted, in person or by proxy, were (1) the election of four nominees as Class I directors to serve until the 2005 annual meeting of stockholders and until their respective successors are duly elected and qualified, (2) to ratify the selection of the independent auditors of the Company and (3) to approve the Company's 2002 stock option plan. The four nominees were elected, the auditors were ratified and the stock option plan was approved. The results of the voting are set for below:

ELECTION OF DIRECTORS	VOTES CAST FOR	VOTES CAST AGAINST	WITHHELD	AB
-----	-----	-----	-----	-----
Scott Rechler	44,377,244	N/A	7,374,349	
Herve Kevenides	50,816,380	N/A	935,193	
Conrad Stephenson	50,816,380	N/A	935,193	
Lewis Ranieri	50,310,080	N/A	1,479,493	
Ratification of Auditors	50,310,816	1,184,235	N/A	25
Approval of 2002 Stock Option Plan	48,464,064	3,186,898	N/A	10

### Item 5. Other Information

The Company has received approval of the Audit Committee of the Board permitting Ernst & Young, LLP, the Company's auditors to perform the following non-audit related services (i) the preparation and review of tax filings; (ii) analysis related to compliance with law including, but not limited to the REIT qualification; (iii) review of Company disclosure related issues; and (iv) analysis relating to alternative structures of potential joint ventures, acquisitions and financings.

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### Item 6. Exhibits and Reports on Form 8-K

#### (a) Exhibits

- 10.1 2002 Stock Option Plan
- 99.1 Certification of Donald Rechler, Co-CEO pursuant to Section 1350 of Chapter 63 of Title 18 of the United State Code
- 99.2 Certification of Scott H. Rechler, Co-CEO pursuant to Section 1350 of Chapter 63 of Title 18 of the United State Code
  
- 99.3 Certification of Michael Maturo, CFO pursuant to Section 1350 of Chapter 63 of Title 18 of the United State Code

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(b) During the three months ended June 30, 2002, the Registrant filed the following reports on Form 8-K:

On May 2, 2002, the Registrant submitted a report on Form 8-K under Item 9 thereof in order to submit its first quarter presentation in satisfaction of the requirements of Regulation FD.

On May 2, 2002, the Registrant submitted a report on Form 8-K under Item 9 thereof in order to submit supplemental operating and financial data for the quarter ended March 31, 2002 in satisfaction of the requirements of Regulation FD.

On May 23, 2002, the Registrant submitted a report on Form 8-K under Item 9 thereof in order to submit an annual shareholders' meeting presentation in satisfaction of the requirements of Regulation FD.

On June 18, 2002, the Registrant submitted a report on Form 8-K under Item 5 thereof relating to the public offering by the Operating Partnership of \$50,000,000 aggregate principal amount of its 6.00% senior unsecured notes due 2007.

On June 28, 2002, the Registrant submitted a report on Form 8-K under Item 9 thereof in order to submit a press release concerning certain data on the Registrant's leases with WorldCom/MCI in satisfaction of the requirements of Regulation FD.

SIGNATURES

Pursuant to the requirements of the Securities and Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned hereunto duly authorized.

RECKSON ASSOCIATES REALTY CORP.

By: /s/ Scott H. Rechler

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Scott H. Rechler, Co-Chief  
Executive Officer

By /s/ Donald Rechler

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Donald Rechler, Co-Chief  
Executive Officer

/s/ Michael Maturo

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Michael Maturo, Executive  
Vice President, Treasurer and  
Chief Financial Officer

DATE: August 12, 2002