

RECKSON ASSOCIATES REALTY CORP

Form 10-Q

November 13, 2001

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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, DC 20549

FORM 10-Q

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

FOR THE QUARTERLY PERIOD ENDED SEPTEMBER 30, 2001

COMMISSION FILE NUMBER: 1-13762

RECKSON ASSOCIATES REALTY CORP.
(EXACT NAME OF REGISTRANT AS SPECIFIED IN ITS CHARTER)

MARYLAND

(STATE OTHER JURISDICTION OF INCORPORATION OF ORGANIZATION)

(IRS. EMPLOYER IDENTIFICATION NUMBER)

225 BROADHOLLOW ROAD, MELVILLE, NY

(ADDRESS OF PRINCIPAL EXECUTIVE OFFICE)

(631) 694-6900
(REGISTRANT'S TELEPHONE NUMBER INCLUDING AREA CODE)

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 .

THE COMPANY HAS TWO CLASSES OF COMMON STOCK, ISSUED AT \$.01 PAR VALUE PER
SHARE WITH 49,876,552 AND 10,283,513 SHARES OF CLASS A COMMON STOCK AND CLASS B
COMMON STOCK OUTSTANDING, RESPECTIVELY AS OF NOVEMBER 9, 2001

RECKSON ASSOCIATES REALTY CORP.
QUARTERLY REPORT
FOR THE THREE MONTHS ENDED SEPTEMBER 30, 2001

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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)

ASSETS:

Commercial real estate properties, at cost:

Land

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Building and improvements	
Developments in progress:	
Land	
Development costs	
Furniture, fixtures and equipment	
Less accumulated depreciation	
Investments in real estate joint ventures	
Investments in mortgage notes and notes receivable	
Investments in service companies and affiliate loans and joint ventures	
Cash and cash equivalents	
Tenant receivables	
Deferred rents receivable	
Prepaid expenses and other assets	
Contract and land deposits and pre-acquisition costs	
Deferred leasing and loan costs	
TOTAL ASSETS	
LIABILITIES:	
Mortgage notes payable	
Unsecured credit facility	
Senior unsecured notes	
Accrued expenses and other liabilities	
Dividends and distributions payable	
TOTAL LIABILITIES	
Minority partners' interests in consolidated partnerships	
Preferred unit interest in the operating partnership	
Limited partners' minority interest in the operating partnership	
Commitments and other comments	
STOCKHOLDERS' EQUITY:	
Preferred Stock, \$.01 par value, 25,000,000 shares authorized	
Series A preferred stock, 9,192,000 shares issued and outstanding	
Series B preferred stock, 2,000,000 shares issued and outstanding	
Common Stock, \$.01 par value, 100,000,000 shares authorized	
Class A common stock, 49,806,885 and 45,352,286 shares issued and outstanding,	
respectively	
Class B common stock, 10,283,513 shares issued and outstanding	
Additional paid in capital	
Total Stockholders' Equity	
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	

(SEE ACCOMPANYING NOTES TO FINANCIAL STATEMENTS)

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

	THREE MONTHS ENDED SEPTEMBER 30,	
	2001	2000
	-----	-----
REVENUES:		
Base rents	\$ 111,394	\$ 101,394
Tenant escalations and reimbursements	15,328	15,328
Equity in earnings of real estate joint ventures and service companies....	505	505
Interest income on mortgage notes and notes receivable	1,584	1,584
Gain on sales of real estate	972	972
Investment and other income	3,244	3,244
	-----	-----
Total Revenues	133,027	141,261
	-----	-----
EXPENSES:		
Property operating expenses	44,231	44,231
Marketing, general and administrative	7,679	7,679
Interest	23,510	23,510
Depreciation and amortization	26,528	26,528
	-----	-----
Total Expenses	101,948	101,948
	-----	-----
Income before minority interests, preferred dividends and distributions, valuation reserves on investments in affiliate loans and joint ventures and extraordinary loss.....	31,079	39,313
Minority partners' interests in consolidated partnerships	(3,065)	(3,065)
Distributions to preferred unit holders	(509)	(509)
Valuation reserves on investments in affiliate loans and joint ventures ..	(163,000)	(163,000)
Limited partners' minority interest in the operating partnership	14,657	14,657
	-----	-----
Income (loss) before dividends to preferred shareholders and extraordinary loss	(120,838)	(120,838)
Extraordinary loss on extinguishment of debt, net of limited partners' minority interest share of \$303, \$175, \$303 and \$175, respectively	(2,595)	(2,595)
	-----	-----
Net Income (loss)	(123,433)	(123,433)
Dividends to preferred shareholders	(5,487)	(5,487)
	-----	-----
Net income (loss) available to common shareholders	\$ (128,920)	\$ (128,920)
	=====	=====
 Net Income (loss) available to:		
Class A common	\$ (97,944)	\$ (97,944)
Class B common	(30,976)	(30,976)

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Total	\$ (128,920)	\$ 2
Basic net income (loss) per weighted average common share before extraordinary loss:		
Class A common shareholders	\$ (1.93)	\$
Extraordinary loss per Class A common share	(.04)	
Basic net income (loss) per weighted average Class A common share	\$ (1.97)	\$
Class B common shareholders	\$ (2.95)	\$
Extraordinary loss per Class B common share	(.06)	
Basic net income (loss) per weighted average Class B common share	\$ (3.01)	\$
Basic weighted average common shares outstanding:		
Class A common	49,715,423	45,17
Class B common	10,283,513	10,28
Diluted net income (loss) per weighted average common share:		
Class A common	\$ (1.97)	\$
Class B common	\$ (3.01)	\$
Diluted weighted average common shares outstanding:		
Class A common	49,715,423	49,81
Class B common	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)

CASH FLOWS FROM OPERATING ACTIVITIES:

NET INCOME (LOSS)	
Adjustments to reconcile net income (loss) to net cash provided by operating activities:	
Depreciation and amortization	
Gain on sales of real estate	
Valuation reserves on investments in affiliate loans and joint ventures	
Minority partners' interests in consolidated partnerships	
Extraordinary loss on extinguishment of debts	
Limited partners' minority interest in the operating partnership	
Equity in earnings of real estate joint ventures and service companies	

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Changes in operating assets and liabilities:

Tenant receivables
Real estate tax escrows
Prepaid expenses and other assets
Deferred rents receivable
Accrued expenses and other liabilities

Net cash provided by operating activities

CASH FLOWS FROM INVESTING ACTIVITIES:

Increase in contract deposits and pre-acquisition costs
Additions to developments in progress
Purchases of commercial real estate properties
Proceeds from mortgage note receivable repayments
Investments in affiliate joint ventures
Distribution from a real estate joint venture
Additions to commercial real estate properties
Additions to furniture, fixtures and equipment
Payment of leasing costs
Proceeds from sales of real estate and mortgage redemption

Net cash used in investing activities

CASH FLOWS FROM FINANCING ACTIVITIES:

Proceeds from issuance of common stock net of issuance costs
Proceeds from redemption of KTR preferred securities
Principal payments on secured borrowings
Payment of loan and equity issuance costs
Increase in investments in affiliate loans and service companies
Proceeds from secured borrowings
Proceeds from unsecured credit facility
Repayment of unsecured credit facility and term loan
Contributions by minority partners in consolidated partnerships
Distributions to minority partners in consolidated partnerships
Distributions to limited partners in the operating partnership
Distributions to preferred unit holders
Dividends to common shareholders
Dividends to preferred shareholders

Net cash provided by (used in) financing activities

Net increase in cash and cash equivalents
Cash and cash equivalents at beginning of period

Cash and cash equivalents at end of period

(SEE ACCOMPANYING NOTES TO FINANCIAL STATEMENTS)

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
SEPTEMBER 30, 2001
(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 September 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.

During July 1998, the Company formed Metropolitan Partners, LLC ("Metropolitan") for the purpose of acquiring Tower Realty Trust, Inc. ("Tower"). On May 24, 1999 the Company completed the merger with Tower and acquired three Class A office properties located in New York City totaling approximately 1.6 million square feet and one Class A office property located on Long Island totaling approximately 101,000 square feet. In addition, pursuant to the merger, the Company also acquired certain office properties, a property under development and land located outside the Tri-State Area. All of the assets acquired in the merger located outside the Tri-State Area, other than a 357,000 square foot office property located in Orlando, Florida, have been sold.

2. BASIS OF PRESENTATION

The accompanying consolidated financial statements include the consolidated financial position of the Company and the Operating Partnership at September 30, 2001 and December 31, 2000 and the results of their operations for the three and nine months ended September 30, 2001 and 2000, respectively, and, their cash flows for nine months ended September 30, 2001 and 2000, respectively. The Operating Partnership's investments in Omni Partners, L. P. ("Omni"), the Tri-State JV and certain joint venture properties are reflected in the accompanying financial statements on a consolidated basis with a reduction for the minority partners' interest. The operating results of the service companies currently conducted by Reckson Management Group, Inc., RANY Management Group, Inc. and Reckson Construction Group, Inc. are reflected in the accompanying financial statements on the equity method of accounting. The Operating Partnership also invests in real estate joint ventures where it may own less than a controlling interest. Such investments are also 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.

The minority interests at September 30, 2001 represent an approximate 11.3% limited partnership interest in the Operating Partnership, a 49% interest in the

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Tri-State JV and a 40% interest in Omni.

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 financial statements as of September 30, 2001 and for the three and nine month periods ended September 30, 2001 and 2000 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, 2001. 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, 2000.

The Company intends to qualify as a REIT under Section 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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Financial Accounting Standards Board's ("FASB") Statement No. 133, "Accounting for Derivative Instruments and Hedging Activities," ("SFAS 133") which became effective January 1, 2001 requires the Company to recognize all derivatives on the balance sheet at fair value. Derivatives that are not hedges must 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 accumulated other comprehensive income ("OCI") 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 January 1, 2001, the carrying value of the Company's derivatives equaled their fair value and as a result no cumulative effect changes were recorded. Additionally, as of June 30, 2001, the fair value of the Company's derivatives equaled approximately \$3.7 million and was reflected in other assets and OCI on the Company's balance sheet. On July 18, 2001, the mortgage note payable to which these derivatives relate to was funded (see Note 3) and their fair value at that time was approximately \$676,000 less than their carrying value. This amount is being amortized to interest expense over the term of the mortgage note to which it relates.

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

3. MORTGAGE NOTES PAYABLE

As of September 30, 2001, the Company had approximately \$762.5 million of fixed rate mortgage notes which mature at various times between 2002 and 2027. The notes are secured by 23 properties and have a weighted average interest rate of

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approximately 7.3%.

On June 1, 2001, the Company refinanced a \$70 million variable rate mortgage note, which secured the property located at 1350 Avenue of the Americas, with a five year, \$75 million fixed rate mortgage note which bears interest at 6.52% per annum. Net proceeds of approximately \$3.4 million were used for working capital purposes.

On July 18, 2001, the Company refinanced a \$200 million variable rate mortgage note, which secured the property located at 919 Third Avenue, with a ten year, \$250 million fixed rate mortgage note which bears interest at 6.867% per annum. As a result, certain deferred loan costs incurred in connection with the existing mortgage note were written off. Such amount is reflected as an extraordinary loss in the accompanying consolidated statements of operations. Net proceeds of approximately \$47 million were used primarily to repay maturing fixed rate debt and the Company's unsecured credit facility.

On July 24, 2001, the Company repaid a mortgage note in the amount of approximately \$15.5 million which was secured by the property located at 50 Charles Lindbergh Blvd., Mitchel Field, NY.

On October 30, 2001, the Company repaid a mortgage note in the amount of approximately \$6.4 million which was secured by the property located at 200 Broadhollow Road, Melville, NY.

4. SENIOR UNSECURED NOTES

As of September 30, 2001, the Operating Partnership had outstanding approximately \$449.4 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 (dollars in thousands):

ISSUANCE -----	FACE AMOUNT -----	COUPON RATE -----	TERM -----	MATURITY -----
August 27, 1997	\$ 150,000	7.20%	10 years	August 28, 2007
March 26, 1999	\$ 100,000	7.40%	5 years	March 15, 2004
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 were issued at an aggregate discount of \$738,000. Such discount is being amortized over the term of the Senior Unsecured Notes to which they relate.

5. UNSECURED CREDIT FACILITY

As of September 30, 2001, the Company had a three year \$575 million unsecured

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revolving credit facility (the "Credit Facility") from The Chase Manhattan 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 September 30, 2001, the Company had availability under the Credit Facility to borrow an additional \$328.4 million (of which, approximately \$38.8 million has been allocated for outstanding undrawn letters of credit).

6. COMMERCIAL REAL ESTATE INVESTMENTS

As of September 30, 2001, the Company owned and operated 78 office properties (inclusive of ten office properties owned through joint ventures) comprising approximately 13.9 million square feet, 103 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 a 357,000 square foot office building located in Orlando, Florida and approximately 271 acres of land in 12 separate parcels of which the Company can develop approximately 2.4 million square feet of office space and approximately 224,000 square feet of industrial space. The Company also has invested approximately \$17.0 million 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, New York and \$36.5 million under three notes which are secured by a minority partners' preferred interest in the Operating Partnership.

On September 28, 2000, the Company formed the Tri-State JV with TIAA and contributed eight Class A suburban office properties aggregating approximately 1.5 million square feet to the Tri-State JV in exchange for approximately \$136 million and a 51% majority ownership interest in the Tri-State JV.

During the three months ended September 30, 2001, the Company sold four office properties aggregating approximately 580,000 square feet and one 26,000 square foot industrial property for approximately \$73.6 million. In addition, the Company sold its preferred interest in Keystone Property Trust for \$35.7 million. As a result of these sales, the Company realized a net gain of approximately \$972,000. Net proceeds from the sales were used primarily to repay borrowings under the Credit Facility.

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.

During the nine months ended September 30, 2001, approximately 11,553 preferred units of the Operating Partnership, with a liquidation preference value of approximately \$11.6 million, were exchanged for 456,351 OP Units at an average price of \$25.32 per OP Unit. In addition, 509,545 OP Units were exchanged for an equal number of shares of the Company's Class A common stock.

Metropolitan is 100% owned by the Company; a minority partner owned an \$85 million preferred equity investment in Metropolitan which accrued distributions at a rate of 7.5% per annum for a two-year period (May 24, 1999 through May 30, 2001). On May 31, 2001, the minority partner, at its election, converted its preferred equity investment into 3,453,881 shares of the Company's Class A common stock based on a conversion price of \$24.61 per share.

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The Company currently has issued and outstanding 10,283,513 shares of Class B Exchangeable Common Stock, par value \$.01 per share (the "Class B common stock"). The shares of Class B common stock currently receive an annual dividend of \$2.5968 per share, which is subject to adjustment annually.

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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, par value \$.01 per share, of the Company 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.

During September 2001, the Board of Directors of the Company declared the following dividends on the Company's securities:

SECURITY -----	DIVIDEND / DISTRIBUTION -----	RECORD DATE ----	PAYMENT DATE ----	THREE MONTH ENDED -----
Class A common stock	\$.4246	October 5, 2001	October 17, 2001	September 30,
Class B common stock	\$.6492	October 12, 2001	October 31, 2001	October 31,
Series A preferred stock	\$.4766	October 12, 2001	October 31, 2001	October 31,
Series B preferred stock	\$.553125	October 12, 2001	October 31, 2001	October 31,

The Board of Directors of the Company has authorized the purchase of up to three million shares of the Company's Class B common stock. In addition, the Board of Directors has also authorized the purchase of up to an additional three million shares of the Company's Class B common stock and/or its Class A common stock. The buy-back program 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. As of September 30, 2001, 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 16,704 shares of Class A common stock at an average price of \$22.01 per Class A share for an aggregate purchase price of approximately \$30.7 million.

Basic net income (loss) per share on the Company's Class A common stock was calculated using the weighted average number of shares outstanding of 49,715,423 and 45,178,451 for the three months ended September 30, 2001 and 2000, respectively, and 47,489,129 and 42,311,751 for the nine months ended September 30, 2001 and 2000, respectively.

Basic net income (loss) 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 months ended September 30, 2001 and 2000 and 10,283,513 and 10,283,541 for the nine months ended September 30, 2001 and 2000, respectively.

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

Numerator:	THREE MONTHS SEPTEMBER 2001
	----- 2001 -----
Income (loss) before dividends to preferred shareholders, extraordinary loss and (income) loss allocated to Class B shareholders	\$ (120,838)
Dividends to preferred shareholders	(5,487)
Extraordinary loss (net of share applicable to limited partners and Class B shareholders)	(1,971)
(Income) loss allocated to Class B common shareholders	30,352

Numerator for basic earnings per Class A common share	(97,944)
Add back:	
Minority partner's preferred interest in a consolidated partnership	--
Preferred units of limited partnership interest	--

Numerator for diluted earnings per Class A common share	\$ (97,944)
	=====
Denominator:	
Denominator for basic earnings per share- weighted average Class A common shares	49,715
Effect of dilutive securities:	
Common stock equivalents.....	--
Minority partner's preferred interest in a consolidated Partnership	--
Preferred units of limited partnership interest	--

Denominator for diluted earnings per Class A common share - adjusted weighted average shares and assumed conversions	49,715
	=====
Basic earnings per Class A common share:	
Income (loss) before extraordinary loss	\$ (1.93)
Extraordinary loss	(.04)

Net income (loss) per Class A common share	\$ (1.97)
	=====
Diluted earnings per Class A common share:	

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Income (loss) before extraordinary loss	\$	(1.93)
Extraordinary loss		(.04)

Diluted net income (loss) per Class A common share	\$	(1.97)
		=====

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

	THREE MONTHS EN SEPTEMBER 30	
	2001	2000
	-----	-----
Numerator:		
Income (loss) before dividends to preferred shareholders, extraordinary loss and (income) loss allocated to Class A shareholders	\$ (120,838)	\$
Dividends to preferred shareholders	(5,487)	
Extraordinary loss (net of share applicable to limited partners and Class A common shareholders)	(624)	
(Income) loss allocated to Class A common shareholders	95,973	(
	-----	-----
Numerator for basic earnings per Class B common share	(30,976)	
Add back:		
Income allocated to Class A common shareholders	--	
Limited partner's minority interest in the operating partnership.....	--	
Minority partner's preferred interest in a consolidated partnership	--	
Preferred units of limited partnership interest	--	
	-----	-----
Numerator for diluted earnings per Class B common share	\$ (30,976)	\$
	=====	=====

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Denominator:

Denominator for basic earnings per share- weighted average Class B common shares	10,284
--	--------

Effect of dilutive securities:

Weighted average Class A common shares outstanding	--
Weighted average OP Units outstanding	--
Minority partner's preferred interest in a consolidated partnership ...	--
Preferred units of limited partnership interest	--
Common stock equivalents.....	--

Denominator for diluted earnings per Class B common share-adjusted weighted average shares and assumed conversions	10,284	=====
--	--------	-------

Basic earnings per Class B common share:

Income (loss) before extraordinary loss	\$ (2.95)	\$
Extraordinary loss	(.06)	
	-----	-----
Net income (loss) per Class B common share	\$ (3.01)	\$
	=====	=====

Diluted earnings per Class B common share:

Income (loss) before extraordinary loss	\$ (2.95)	\$
Extraordinary loss	(.06)	
	-----	-----
Diluted net income (loss) per Class B common share	\$ (3.01)	\$
	=====	=====

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

Cash paid during the period for interest.....	\$ 8	=====
Interest capitalized during the period	\$	=====

9. SEGMENT DISCLOSURE

The Company owns all of the interests in its real estate properties by or through the Operating Partnership. The Company's portfolio consists of Class A

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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 because of their final authority over resource allocation, decisions and performance assessment.

In addition, 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.

The accounting policies of the reportable segments are the same as those described in the summary of significant accounting policies.

The following table sets forth the components of the Company's revenues and expenses and other related disclosures for the three months ended September 30, 2001 and 2000 (in thousands):

	Three months ended			
	September 30, 2001			
	Core Portfolio	Other	CONSOLIDATED TOTALS	Core Portfolio
REVENUES:				
Base rents, tenant escalations and reimbursements ...	\$ 124,544	\$ 2,178	\$ 126,722	\$ 113,54
Equity in earnings of real estate joint ventures and service companies	--	505	505	-
Other income (loss)	6,714	(914)	5,800	19
Total Revenues	131,258	1,769	133,027	113,73
EXPENSES:				
Property operating expenses	43,320	911	44,231	40,66
Marketing, general and administrative ..	5,583	2,096	7,679	5,40
Interest	13,033	10,477	23,510	9,62
Depreciation and amortization	24,393	2,135	26,528	21,28
Total Expenses	86,329	15,619	101,948	76,97
Income (loss) before minority interests, preferred dividends and distributions, valuation reserves and extraordinary loss	\$ 44,929	\$ (13,850)	\$ 31,079	\$ 36,76
Total assets	\$2,631,077	\$ 230,574	\$2,861,651	\$2,547,70

9. SEGMENT DISCLOSURE (CONTINUED)

The following table sets forth the components of the Company's revenues and expenses and other related disclosures for the nine months ended September 30, 2001 and 2000 (in thousands):

	Nine months ended			
	September 30, 2001			Core Portfol
	Core Portfolio	Other	CONSOLIDATED TOTALS	Core Portfol
REVENUES:				
Base rents, tenant escalations and Reimbursements	\$368,296	\$ 7,214	\$375,510	\$325,218
Equity in earnings of real estate joint ventures and service companies	--	1,704	1,704	--
Other income	9,192	9,894	19,086	855
Total Revenues	377,488	18,812	396,300	326,073
EXPENSES:				
Property operating expenses	123,754	2,345	126,099	113,963
Marketing, general and administrative ...	15,653	7,934	23,587	15,434
Interest	38,088	32,615	70,703	28,218
Depreciation and amortization	71,024	6,197	77,221	60,670
Total Expenses	248,519	49,091	297,610	218,285
Income (loss) before minority interests, preferred dividends and distributions, valuation reserves and extraordinary loss	\$128,969	\$ (30,279)	\$ 98,690	\$107,788

10. INVESTMENTS IN AFFILIATE LOANS AND JOINT VENTURES

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 generally outside of 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. As of September 30, 2001, the Company had 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 September 30, 2001, 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 September 30, 2001, interest accrued (net of reserves) under the FrontLine Facility and RSVP Facility was approximately \$ 19.6 million.

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. At September 30, 2001, the Company noted a significant deterioration in FrontLine's operations and financial condition. Based on the Company's assessment of value and recoverability and considering the findings and recommendations of the committee and its financial advisor, the Company has included in its consolidated statements of operations for the three and nine months ended September 30, 2001, a \$163 million valuation reserve charge, inclusive of costs, relating to its investments in the FrontLine Loans and joint ventures with RSVP. The Company has also discontinued the accrual of interest income with respect to the FrontLine Loans.

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 GAAP equity in earnings on those investments, is approximately \$65.0 million. Such amount has been reflected in investments in service companies and affiliate loans and joint ventures on the accompanying balance sheet.

Both the FrontLine Facility and the RSVP Facility have a term of five years, are unsecured and advances under each are recourse obligations of FrontLine. Notwithstanding the valuation reserve, under the terms of the credit facilities, interest accrues 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 are outstanding for more than one year increasing annually at a rate of

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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.

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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; changes in operating costs, including utility 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.

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 September 30,

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2001, the Company owned and operated 78 office properties (inclusive of ten office properties which are owned through joint ventures) comprising approximately 13.9 million square feet, 103 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 a 357,000 square foot office building located in Orlando, Florida and approximately 271 acres of land in 12 separate parcels of which the Company can develop approximately 2.4 million square feet of office space and approximately 224,000 square feet of industrial space. The Company also has invested approximately \$17.0 million 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, New York and \$36.5 million under three notes which are secured by a minority partners' preferred interest in the Operating Partnership.

During July 1998, the Company formed Metropolitan Partners, LLC ("Metropolitan") for the purpose of acquiring Tower Realty Trust, Inc. ("Tower"). On May 24, 1999 the Company completed the merger with Tower and acquired three Class A office properties located in New York City totaling approximately 1.6 million square feet and one Class A office property located on Long Island totaling approximately 101,000 square feet. In addition, pursuant to the merger, the Company also acquired certain office properties, a property under development and land located outside the Tri-State Area. All of the assets acquired in the merger located outside the Tri-State Area, other than a 357,000 square foot office property located in Orlando, Florida, have been sold.

On September 28, 2000, the Company formed a joint venture (the "Tri-State JV") with Teachers Insurance and Annuity Association and contributed eight Class A suburban office properties aggregating approximately 1.5 million square feet to the Tri-State JV in exchange for approximately \$136 million and a 51% majority ownership interest in the Tri-State JV.

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 generally outside of 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. As of September 30, 2001, the Company had 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 September 30, 2001, approximately \$109.1 million had been funded through the RSVP Commitment, of which \$59.8 million represents investments by the Company in RSVP-controlled

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(REIT-qualified) joint ventures and \$49.3 million represents loans made to FrontLine under the RSVP Facility. As of September 30, 2001, interest accrued (net of reserves) under the FrontLine Facility and RSVP Facility was approximately \$ 19.6 million.

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. At September 30, 2001, the Company noted a significant deterioration in FrontLine's operations and financial condition. Based on the Company's assessment of value and recoverability and considering the findings and recommendations of the committee and its financial advisor, the Company has included in its consolidated statements of operations for the three and nine months ended September 30, 2001, a \$163 million valuation reserve charge, inclusive of costs, relating to its investments in the FrontLine Loans and joint ventures with RSVP. The Company has also discontinued the accrual of interest income with respect to the FrontLine Loans.

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 GAAP equity in earnings on those investments, is approximately \$65.0 million. Such amount has been reflected in investments in service companies and affiliate loans and joint ventures on the accompanying balance sheet.

Both the FrontLine Facility and the RSVP Facility have a term of five years, are unsecured and advances under each are recourse obligations of FrontLine. Notwithstanding the valuation reserve, under the terms of the credit facilities, interest accrues 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 are 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.

The market capitalization of the Company at September 30, 2001 was approximately \$3.4 billion. The Company's 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 \$24.15 per share/unit (based on the closing price of the Company's Class A common stock on September 28, 2001), (ii) the market value of the Company's Class B common stock of \$25.51 per share (based on the closing price of the Company's Class B common stock on September 28, 2001), (iii) the liquidation preference value of the Company's Series A preferred 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 \$1.4 billion (including its share of joint venture debt and net of minority partners' interests share of joint venture debt) of debt outstanding at September 30, 2001. As a result, the Company's total debt to total market capitalization ratio at September 30, 2001 equaled approximately 42.4%.

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RESULTS OF OPERATIONS

Three months ended September 30, 2001 as compared to the three months ended September 30, 2000.

The Company's total revenues decreased by \$7.3 million or 5.2% for the three months ended September 30, 2001 as compared to the 2000 period. Property operating revenues, which include base rents and tenant escalations and reimbursements ("Property Operating Revenues") increased by \$11.0 million or 9.5% for the three months ended September 30, 2001 as compared to the 2000 period. The increase in Property Operating Revenues is primarily attributable to increases in rental rates in our "same store" properties amounting to \$7.9 million. In addition, \$3.9 million of the increase was generated by lease up of newly developed and redeveloped properties. These increases in Property Operating Revenues was offset by \$1.9 million of revenues from properties that were sold during the three months ended September 30, 2001. The Company's base rent reflects the positive impact of the straight-line rent adjustment of \$9.7 million for the three months ended September 30, 2001 as compared to \$12.2 million for the 2000 period. Included in the \$9.7 million straight-line rent adjustment is \$5.9 million attributable to 919 Third Avenue as compared to \$8.2 million for the 2000 period. This amount is primarily attributable to the free rent period, which is effective through February 28, 2002, contained in the lease of the largest tenant in the building. Other revenues (excluding Property Operating Revenues) decreased by \$18.2 million or 74.3% for the three months ended September 30, 2001 as compared to the 2000 period. This decrease is primarily attributable to \$15.2 million in gain on sales of real estate recognized in the 2000 period as compared to \$972,000 recognized in the 2001 period. In addition, this decrease includes \$4.5 million of interest income accrued during the 2000 period relating to the FrontLine Loans with no such comparable accrual for the 2001 period.

Property operating expenses, real estate taxes and ground rents ("Property Expenses") increased by \$3.0 million or 7.2% for the three months ended September 30, 2001 as compared to the 2000 period. This increase is primarily due to an increase of \$1.8 million in our "same-store" properties of which \$1.2 million is attributable to an increase in real estate taxes. Additionally, there were increased expenses of \$950,000 due to higher occupancy levels at our developed and redeveloped properties.

Gross Operating Margins (defined as Property Operating Revenues less Property Expenses, taken as a percentage of Property Operating Revenues) for the three months ended September 30, 2001 and 2000 were 65.1% and 64.4%, respectively. The increase in Gross Operating Margins is primarily attributable to an increase in rental rates.

Marketing, general and administrative expenses increased by approximately \$749,000 for the three months ended September 30, 2001 as compared to the 2000 period. The increase was primarily attributable to increased costs relating to marketing the Company in its Tri-State Area markets and amortization of deferred compensation costs. Marketing, general and administrative expenses, as a percentage of total revenues, excluding gain on sales of real estate, were 5.8% for the three months ended September 30, 2001 as compared to 5.5% for the 2000 period.

Interest expense decreased by approximately \$1.1 million for the three months ended September 30, 2001 as compared to the 2000 period. The decrease was primarily attributable to a decrease in interest expense on the Company's variable rate debt due to lower interest rates.

Income (loss) before dividends to preferred shareholders and extraordinary loss decreased by approximately \$158 million for the three months ended September 30, 2001 as compared to the 2000 period. The decrease is primarily attributable to

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the \$163 million valuation reserve on investment in affiliate loans and joint ventures as further described in Overview and Background.

Nine months ended September 30, 2001 as compared to the nine months ended September 30, 2000.

The Company's total revenues increased by \$12.9 million or 3.4% for the nine months ended September 30, 2001 as compared to the 2000 period. Property Operating Revenues increased by \$43.4 million or 13.1% for the nine months ended September 30, 2001 as compared to the 2000 period. The increase in Property Operating Revenues is primarily attributable to increases in rental rates in our "same store" properties amounting to \$20.1 million. In addition, \$10.1 million of the increase was generated by lease up of newly developed and redeveloped properties. The Company's base rent reflects the positive impact of the straight-line rent adjustment of \$31.7 million for the nine months ended September 30, 2001 as compared to \$25.0 million for the 2000 period. Included in the \$31.7 million straight-line rent adjustment is \$20.3 million attributable to 919 Third Avenue, as compared to \$13.6 million for the 2000 period. This amount is primarily attributable to the free rent period, which is effective through February 28, 2002 contained in the lease of the largest tenant in the building. Other revenues (excluding Property Operating Revenues) decreased by \$30.5 million or 59.5% for the nine months ended September 30, 2001 as compared to the 2000 period. This decrease is primarily attributable to \$21.9 million in gain on sales of real estate recognized in the 2000 period as compared to \$972,000 recognized in the 2001 period. In addition, this decrease includes \$13.0 million of interest income accrued during the 2000 period relating to the FrontLine Loans as compared to \$6.1 million for the 2001 period.

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Property Expenses increased by \$10.3 million or 8.9% for the nine months ended September 30, 2001 as compared to the 2000 period. This increase is primarily due to an increase of \$6.0 million in our "same store" properties which consists of a \$3.2 million increase in property operating expenses and a \$2.8 million increase in real estate taxes. Additionally, there were increased expenses of \$2.4 million due to higher occupancy levels at our developed and redeveloped properties.

Gross Operating Margins for the nine months ended September 30, 2001 and 2000 were 66.4% and 65.1%, respectively. The increase in Gross Operating Margins is primarily attributable to an increase in rental rates.

Marketing general and administrative expenses increased by \$3.4 million for the nine months ended September 30, 2001 as compared to the 2000 period. The increase was primarily attributable to legal and professional fees incurred in connection with certain cancelled acquisition transactions, increases in certain tenant and community relation costs and amortization of deferred compensation costs. Marketing general and administrative expenses, as a percentage of total revenues, excluding gain on sales of real estate, were 6.0% for the nine months ended September 30, 2001 as compared to 5.6% for the 2000 period.

Interest expense decreased by approximately \$2.0 million for the nine months ended September 30, 2001 as compared to the 2000 period. The decrease was primarily attributable to a decrease in interest expense on the Company's variable rate debt due to lower interest rates.

Income (loss) before dividends to preferred shareholders and extraordinary loss

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decreased by approximately \$160 million for the nine months ended September 30, 2001 as compared to the 2000 period. The decrease is primarily attributable to the \$163 million valuation reserve on investment in affiliate loans and joint ventures as further described in Overview and Background.

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LIQUIDITY AND CAPITAL RESOURCES

As of September 30, 2001, the Company had a three year \$575 million unsecured revolving credit facility (the "Credit Facility") from The Chase Manhattan 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 September 30, 2001, the Company had availability under the Credit Facility to borrow an additional \$328.4 million (of which, approximately \$38.8 million has been allocated for outstanding undrawn letters of credit).

On June 1, 2001, the Company refinanced a \$70 million short term variable rate mortgage note with a five year \$75 million fixed rate mortgage note, which bears interest at 6.52% per annum. In addition, on July 18, 2001, the Company refinanced a \$200 million short term variable rate mortgage note with a ten year \$250 million fixed rate mortgage note, which bears interest at 6.867% per annum. The net proceeds of approximately \$50.4 million received by the Company as a result of these refinancings was used to repay maturing fixed rate debt, the Credit Facility and for working capital purposes.

On July 24, 2001, the Company repaid a mortgage note in the amount of approximately \$15.5 million from a portion of the proceeds received from the secured debt financing of 919 Third Avenue. In addition, on October 30, 2001, the Company repaid a mortgage note in the amount of approximately \$6.4 million through a draw under the Company's Credit Facility.

During the nine months ended September 30, 2001, approximately 11,553 preferred units of limited partnership interest in the Operating Partnership, with a liquidation preference value of approximately \$11.6 million, were exchanged for 456,351 OP Units at an average price of \$25.32 per OP Unit. In addition, 509,545 OP Units were exchanged for an equal number of shares of the Company's Class A common stock.

During the three months ended September 30, 2001, the Company sold four office properties aggregating approximately 580,000 square feet and one 26,000 square foot industrial property for approximately \$73.6 million. In addition, the Company sold its preferred interest in Keystone Property Trust for \$35.7 million. As a result of these sales, the Company realized a net gain of approximately \$972,000. Net proceeds from the sales were used primarily to repay borrowings under the Credit Facility.

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Metropolitan is 100% owned by the Company; a minority partner owned an \$85 million preferred equity investment in Metropolitan which accrued distributions at a rate of 7.5% per annum for a two-year period (May 24, 1999 through May 30, 2001). On May 31, 2001, the minority partner, at its election, converted its preferred equity investment into 3,453,881 shares of the Company's Class A common stock based on a conversion price of \$24.61 per share.

The Company currently has issued and outstanding 10,283,513 shares of Class B Exchangeable Common Stock, par value \$.01 per share (the "Class B common stock"). The shares of Class B common stock currently receive an annual dividend of \$2.5968 per share, which is subject to adjustment annually.

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, par value \$.01 per share, of the Company 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 three million shares of the Company's Class B common stock. In addition, the Board of Directors has also authorized the purchase of up to an additional three million shares of the Company's Class B common stock and/or its Class A common stock. The buy-back program 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. As of September 30, 2001, 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 16,704 shares of Class A common stock at an average price of \$22.01 per Class A share for an aggregate purchase price of approximately \$30.7 million.

The Company's indebtedness at September 30, 2001 totaled approximately \$1.4 billion (including its share of joint venture debt and net of minority partners' interests share of joint venture debt) and was comprised of \$246.6 million outstanding under the Credit Facility, approximately \$449.4 million of senior unsecured notes and approximately \$748.4 million of mortgage indebtedness. Based on the Company's total market capitalization of approximately \$3.4 billion at September 30, 2001 (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 \$1.4 billion of debt), the Company's debt represented approximately 42.4% of its total market capitalization.

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 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. 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

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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.

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.

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.

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

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 ("GAAP") 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. FFO for the three and nine months ended September 30, 2001 excludes \$163 million of valuation reserves on investments in affiliate loans and joint ventures.

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):

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	Three Months September	
	2001	

Net income (loss) available to common shareholders	\$ (128,920)	\$
Adjustments for basic funds from operations:		
Add:		
Limited partners' minority interest in the operating partnership	--	
Real estate depreciation and amortization	26,340	
Minority partners' interests in consolidated partnerships	3,065	
Valuation reserves on investments in affiliate loans and joint ventures ..	163,000	
Extraordinary loss (net of limited partners' minority interest)	2,595	
Less:		
Limited partners' minority interest in the operating partnership	14,657	
Gain on sales of real estate	972	
Amounts distributable to minority partners in consolidated partnerships ..	4,206	

Basic Funds From Operations ("FFO")	46,245	
Add:		
Dividends and distributions on dilutive shares and units	5,996	

Diluted FFO	\$ 52,241	\$
	=====	
Basic FFO calculations:		
Weighted average common shares outstanding	59,999	
Weighted average units of limited partnership interest outstanding	7,652	

Basic weighted average common shares and units outstanding	67,651	
	=====	
Basic FFO per weighted average common share or unit	\$.68	\$
Basic weighted average dividends or distributions per share or unit	\$.46	\$
Basic FFO payout ratio	67.1%	
Diluted FFO calculations:		
Basic weighted average common shares and units outstanding	67,651	
Adjustments for dilutive FFO weighted average shares and units outstanding:		
Add:		
Weighted average common stock equivalents	441	
Weighted average shares of Series A Preferred Stock	8,060	
Weighted average shares of Series B Preferred Stock	1,919	
Weighted average shares of minority partners preferred interest	--	
Weighted average units of preferred limited partnership interest	1,056	

Dilutive FFO weighted average shares and units outstanding	79,127	
	=====	
Diluted FFO per weighted average share or unit	\$.66	\$
Diluted weighted average dividends or distributions per share or unit	\$.45	\$
Diluted FFO payout ratio	68.7%	

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

	Three Months September ----- 2001 -----
Basic Funds From Operations	\$ 46,245
Adjustments for basic cash available for distribution:	
Less:	
Straight line rents (Note a)	9,730
Non-incremental capitalized tenant improvements and leasing commissions	3,105
Non-incremental capitalized improvements	1,996

Basic Cash Available for Distribution ("CAD")	31,414
Add:	
Dividends and distributions on dilutive shares and units	260

Diluted CAD	\$ 31,674
	=====
Basic CAD calculations:	
Weighted average common shares outstanding	59,999
Weighted average units of limited partnership interest outstanding	7,652

Basic weighted average common shares and units outstanding	67,651
	=====
Basic CAD per weighted average common share or unit	\$.46
Basic weighted average dividends or distributions per share or unit	\$.46
Basic CAD payout ratio	98.8%
Diluted CAD calculations:	
Basic weighted average common shares and units outstanding	67,651
Adjustments for dilutive CAD weighted average shares and units outstanding:	
Add:	
Weighted average common stock equivalents	441
Weighted average shares of Series A Preferred Stock	--
Weighted average shares of Series B Preferred Stock	--
Weighted average shares of minority partners'preferred interest	--
Weighted average units of preferred limited partnership interest	566

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Dilutive CAD weighted average shares and units outstanding	----- 68,658 =====
Diluted CAD per weighted average share or unit	\$.46
Diluted weighted average dividends or distributions per share or unit	\$.46
Diluted CAD payout ratio	99.3%

Notes:

(a) Includes straight-line rental income attributable to the property located at 919 Third Avenue, New York, N. Y. of \$5,939, \$8,175, \$20,323 and \$13,560, respectively.

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.

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 reflects 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 September 30, 2001 (dollars in thousands):

For the Year Ended December 31,

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	2001	2002	2003	2004	2005	Thereafte
Long term debt:						
Fixed rate	\$ 2,629	\$ 20,047	\$ 12,550	\$116,099	\$ 33,004	\$1,028,19
Weighted average						
Interest rate	7.55%	7.65%	7.50%	7.47%	6.92%	7.3
Variable rate	\$ --	\$ --	\$246,600	\$ --	\$ --	\$ --
Weighted average						
Interest rate	--	--	4.56%	--	--	--

(1) Includes unamortized issuance discounts of \$557,000 on the 5 and 10-year senior unsecured notes issued on March 26, 1999 which are due at maturity.

In addition, the Company has assessed the market risk for its variable rate debt, which is based upon LIBOR, and believes that a one percent increase in the LIBOR rate would have an approximate \$2.5 million annual increase in interest expense based on approximately \$246.6 million of variable rate debt outstanding at September 30, 2001.

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 September 30, 2001 (dollars in thousands):

	For the Year Ended December 31,					
	2001	2002	2003	2004	2005	Thereaf
Mortgage notes and						
notes receivable:						
Fixed rate.....	\$ 4	\$ 1,165	\$ --	\$ 36,500	\$ --	\$ 16,9
Weighted average						
Interest rate.....	9.00%	9.00%	--	10.23%	--	11.

(2) Excludes interest receivables aggregating approximately \$1,062,000.

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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 nine month period ended September 30, 2001 and the historical average of such capital expenditures, tenant improvements and leasing commissions for the years 1997 through 2000.

NON-INCREMENTAL REVENUE GENERATING CAPITAL EXPENDITURES				
	1997	1998	1999	2000
Suburban Office Properties				
Total	\$1,108,675	\$2,004,976	\$2,298,899	\$3,289,116
Per Square Foot	0.22	0.23	0.23	0.33
CBD Office Properties				
Total	N/A	N/A	N/A	\$946,718
Per Square Foot	N/A	N/A	N/A	0.38
Industrial Properties				
Total	\$733,233	\$1,205,266	\$1,048,688	\$813,431
Per Square Foot	0.15	0.12	0.11	0.11

NON-INCREMENTAL REVENUE GENERATING TENANT IMPROVEMENTS AND LEASING COMMISSIONS				
	1997	1998	1999	
Long Island Office Properties				
Tenant Improvements	\$ 784,044	\$1,140,251	\$1,009,357	\$2,133,652
Per Square Foot Improved	7.00	3.98	4.73	
Leasing Commissions	\$ 415,822	\$ 418,191	\$ 551,762	\$1,385,775
Per Square Foot Leased	4.83	1.46	2.59	
Total Per Square Foot	\$ 11.83	\$ 5.44	\$ 7.32	\$
Westchester Office Properties				
Tenant Improvements	\$1,211,665	\$ 711,160	\$1,316,611	\$3,239,436
Per Square Foot Improved	8.90	4.45	5.62	
Leasing Commissions	\$ 366,257	\$ 286,150	\$ 457,730	\$1,109,937
Per Square Foot Leased	2.69	1.79	1.96	
Total Per Square Foot	\$ 11.59	\$ 6.24	\$ 7.58	\$

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=====				
Connecticut Office Properties				
Tenant Improvements	\$1,022,421	\$ 202,880	\$ 179,043	\$
Per Square Foot Improved	13.39	5.92	4.88	
Leasing Commissions	\$ 256,615	\$ 151,063	\$ 110,252	\$
Per Square Foot Leased	3.36	4.41	3.00	

Total Per Square Foot	\$ 16.75	\$ 10.33	\$ 7.88	\$
=====				
New Jersey Office Properties				
Tenant Improvements	N/A	\$ 654,877	\$ 454,054	\$1
Per Square Foot Improved	N/A	3.78	2.29	
Leasing Commissions	N/A	\$ 396,127	\$ 787,065	\$1
Per Square Foot Leased	N/A	2.08	3.96	

Total Per Square Foot	N/A	\$ 5.86	\$ 6.25	\$
=====				
New York City Office Properties				
Tenant Improvements	N/A	N/A	N/A	\$
Per Square Foot Improved	N/A	N/A	N/A	
Leasing Commissions	N/A	N/A	N/A	\$
Per Square Foot Leased	N/A	N/A	N/A	

Total Per Square Foot	N/A	N/A	N/A	\$
=====				
Industrial Properties				
Tenant Improvements	\$ 230,466	\$ 283,842	\$ 375,646	\$
Per Square Foot Improved	0.55	0.76	0.25	
Leasing Commissions	\$ 81,013	\$ 200,154	\$ 835,108	\$
Per Square Foot Leased	0.19	0.44	0.56	

Total Per Square Foot	\$ 0.75	\$ 1.20	\$ 0.81	\$
=====				

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Nine months ended
September 30, 2001

Long Island Office Properties	
Tenant Improvements	\$ 702,596
Per Square Foot Improved	3.87
Leasing Commissions	\$ 699,507
Per Square Foot Leased	3.86

Total Per Square Foot	\$ 7.73
=====	

Westchester Office Properties	
Tenant Improvements	\$1,683,578
Per Square Foot Improved	7.50
Leasing Commissions	\$ 39,295
Per Square Foot Leased	0.14

Total Per Square Foot	\$ 7.64
=====	

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Connecticut Office Properties	
Tenant Improvements	\$ 213,909
Per Square Foot Improved	2.38
Leasing Commissions	\$ 182,516
Per Square Foot Leased	2.03

Total Per Square Foot	\$ 4.41
	=====

New Jersey Office Properties	
Tenant Improvements	\$1,140,108
Per Square Foot Improved	2.93
Leasing Commissions	\$1,591,484
Per Square Foot Leased	4.09

Total Per Square Foot	\$ 7.02
	=====

New York City Office Properties	
Tenant Improvements	\$ 738,800
Per Square Foot Improved	16.87
Leasing Commissions	\$1,026,398
Per Square Foot Leased	23.44

Total Per Square Foot	40.31
	=====

Industrial Properties	
Tenant Improvements	\$ 34,650
Per Square Foot Improved	0.08
Leasing Commissions	\$ 50,055
Per Square Foot Leased	0.11

Total Per Square Foot	0.19
	=====

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LEASE EXPIRATIONS

The following table sets forth scheduled lease expirations for executed leases as of September 30, 2001:

LONG ISLAND OFFICE PROPERTIES (EXCLUDING OMNI):

Year of Lease Expiration	Number of Leases	Total Rentable Square Feet Expiring	% of Total Rentable Square Feet Expiring	Per Square Foot S/L Rent (1)
-----	-----	-----	-----	-----
2001	10	58,954	1.9%	\$ 22.39
2002	30	137,384	4.5%	\$ 22.63
2003	48	324,908	10.7%	\$ 23.69
2004	40	249,801	8.2%	\$ 23.47

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2005	48	411,949	13.5%	\$ 24.07
2006	31	142,090	4.7%	\$ 26.29
2007 and thereafter	83	1,723,657	56.5%	--
	---	-----	-----	
Total	290	3,048,743	100.0%	
	===	=====	=====	

OMNI:

Year of Lease Expiration	Number of Leases	Total Rentable Square Feet Expiring	% of Total Rentable Square Feet Expiring	Per Square Foot S/L Rent (1)
-----	-----	-----	-----	-----
2001	1	5,290	0.9%	\$ 30.83
2002	4	53,127	9.3%	\$ 34.55
2003	4	58,018	10.1%	\$ 30.22
2004	4	112,414	19.6%	\$ 26.14
2005	6	59,115	10.3%	\$ 27.91
2006	1	9,749	1.7%	\$ 35.21
2007 and thereafter	10	276,259	48.1%	--
	---	-----	-----	
Total	30	573,972	100.0%	
	===	=====	=====	

INDUSTRIAL PROPERTIES:

Year of Lease Expiration	Number of Leases	Total Rentable Square Feet Expiring	% of Total Rentable Square Feet Expiring	Per Square Foot S/L Rent (1)
-----	-----	-----	-----	-----
2001	7	74,427	1.5%	\$ 5.75
2002	26	252,635	4.9%	\$ 6.49
2003	28	733,434	14.4%	\$ 5.35
2004	32	620,553	12.2%	\$ 6.24
2005	22	427,994	8.4%	\$ 5.93
2006	37	933,793	18.3%	\$ 6.42
2007 and thereafter	44	2,056,442	40.3%	--
	---	-----	-----	
Total	196	5,099,278	100.0%	
	===	=====	=====	

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LEASE EXPIRATIONS

RESEARCH AND DEVELOPMENT PROPERTIES:

Year of Lease Expiration -----	Number of Leases -----	Total Rentable Square Feet Expiring -----	% of Total Rentable Square Feet Expiring -----	Per Square Foot S/L Rent (1) -----
2001	5	262,946	21.1%	\$ 5.59
2002	3	118,620	9.5%	\$ 10.19
2003	4	37,938	3.0%	\$ 9.20
2004	9	99,218	8.0%	\$ 13.86
2005	4	357,440	28.7%	\$ 8.70
2006	5	80,261	6.5%	\$ 18.06
2007 and thereafter	13	288,400	23.2%	--
	---	-----	-----	
Total	43	1,244,823	100.0%	
	===	=====	=====	

WESTCHESTER OFFICE PROPERTIES:

Year of Lease Expiration -----	Number of Leases -----	Total Rentable Square Feet Expiring -----	% of Total Rentable Square Feet Expiring -----	Per Square Foot S/L Rent (1) -----
2001	4	14,463	0.4%	\$ 22.07
2002	48	430,153	14.3%	\$ 21.34
2003	49	240,857	8.0%	\$ 22.68
2004	32	169,158	5.6%	\$ 21.37
2005	45	387,247	12.9%	\$ 25.00
2006	36	719,583	23.9%	\$ 22.79
2007 and thereafter	44	1,049,933	34.9%	--
	---	-----	-----	
Total	258	3,011,394	100.0%	
	===	=====	=====	

STAMFORD OFFICE PROPERTIES:

Year of Lease Expiration	Number of Leases	Total Rentable Square Feet Expiring	% of Total Rentable Square Feet Expiring	Per Square Foot S/L Rent (1)
--------------------------------	---------------------	---	--	------------------------------------

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Year	Number of Leases	Total Rentable Square Feet	% of Total Rentable Square Feet	Per Square Foot S/L Rent (1)
2001	9	18,656	1.8%	\$ 27.67
2002	18	88,704	8.5%	\$ 27.44
2003	17	120,969	11.6%	\$ 31.00
2004	21	228,220	21.9%	\$ 21.81
2005	19	121,885	11.7%	\$ 26.66
2006	21	281,437	26.9%	\$ 25.65
2007 and thereafter	16	183,932	17.6%	--

Total	121	1,043,803	100.0%	
=====				

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LEASE EXPIRATIONS

NEW JERSEY OFFICE PROPERTIES:

Year of Lease Expiration	Number of Leases	Total Rentable Square Feet Expiring	% of Total Rentable Square Feet Expiring	Per Square Foot S/L Rent (1)
2001	7	38,621	2.1%	\$ 16.76
2002	20	160,092	8.8%	\$ 20.02
2003	17	317,607	17.6%	\$ 28.05
2004	28	200,726	11.1%	\$ 22.96
2005	24	272,316	15.1%	\$ 23.66
2006	16	194,327	10.7%	\$ 24.23
2007 and thereafter	17	625,055	34.6%	--

Total	129	1,808,744	100.0%	
=====				

NEW YORK CITY OFFICE

Year of Lease Expiration	Number of Leases	Total Rentable Square Feet Expiring	% of Total Rentable Square Feet Expiring	Per Square Foot S/L Rent (1)
2001	5	17,703	0.5%	\$ 28.48
2002	22	193,034	5.7%	\$ 32.47
2003	7	114,987	3.4%	\$ 32.10
2004	19	218,239	6.5%	\$ 36.46
2005	34	446,606	13.3%	\$ 36.05

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2006	49	343,986	10.2%	\$ 29.92
2007 and thereafter	77	2,034,112	60.4%	--
	---	-----	-----	
 Total	 213	 3,368,667	 100.0%	
	===	=====	=====	

(1) Per square foot rental rate represents annualized straight line rent as of the lease expiration date.

(2) Per square foot rental rate represents annualized base rent as of the lease expiration date plus non-recoverable operating expense pass-throughs.

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PART II - OTHER INFORMATION

Item 1. Legal Proceedings - None

Item 2. Changes in Securities and use of proceeds

During the three months ended September 30, 2001, the Registrant issued 156,667 shares of its Class A common stock, par value \$0.01 per share, in exchange for an equal number of units of limited partnership interest of the Operating Partnership. This transaction was 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 - None

Item 5. Other information - None

Item 6. Exhibits and Reports on Form 8-K

a) Exhibits

10.1 Amended and restated 1995 stock option plan of the Registrant

10.2 Amended and restated 1997 stock option plan of the Registrant

b) During the three months ended September 30, 2001, the Registrant filed the following reports on Form 8-K:

On August 8, 2001, the Registrant submitted a report on Form 8-K under Item 9 thereof in order to submit its second quarter presentation in satisfaction of the requirements of Regulation FD.

On August 9, 2001, 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 June 30, 2001 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.

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By: /s/ Scott H. Rechler

/s/ Michael Maturo

Scott H. Rechler, Co-Chief Executive Officer

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

Date: November 12, 2001