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RECKSON ASSOCIATES REALTY CORP

Form 10-Q

August 13, 2003

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 JUNE 30, 2003

COMMISSION FILE NUMBER: 1-13762

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

MARYLAND 11-3233650

(STATE OR OTHER JURISDICTION OF (IRS EMPLOYER IDENTIFICATION NUMBER)
INCORPORATION OR ORGANIZATION)

225 BROADHOLLOW ROAD, MELVILLE, NY 11747

(ADDRESS OF PRINCIPAL EXECUTIVE OFFICE) (ZIP CODE)

(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 .

INDICATE BY CHECK MARK WHETHER THE REGISTRANT IS AN ACCELERATED FILER (AS
DEFINED IN RULE 12B-2 OF THE EXCHANGE ACT).

YES X NO .

THE COMPANY HAS TWO CLASSES OF COMMON STOCK, PAR VALUE \$.01 PAR VALUE PER
SHARE, WITH 48,006,791 AND 9,915,313 SHARES OF CLASS A COMMON STOCK AND CLASS B
COMMON STOCK OUTSTANDING, RESPECTIVELY AS OF AUGUST 11, 2003

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RECKSON ASSOCIATES REALTY CORP.
QUARTERLY REPORT
FOR THE THREE MONTHS ENDED JUNE 30, 2003

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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)

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JUNE 30,
2003

(Unaudited)

ASSETS:

Commercial real estate properties, at cost:

Land	\$ 423,03
Building and improvements	2,448,37
Developments in progress:	
Land	88,38
Development costs	23,74
Furniture, fixtures and equipment	12,57

Less accumulated depreciation (501,12)

Investments in real estate joint ventures	2,494,99
Investments in mortgage notes and notes receivable	5,70
Investments in service companies and affiliate loans and joint ventures	54,60
Cash and cash equivalents	72,44
Tenant receivables	23,99
Deferred rents receivable	7,72
Prepaid expenses and other assets	116,57
Contract and land deposits and pre-acquisition costs	56,02
Deferred leasing and loan costs	20
	68,72

TOTAL ASSETS \$ 2,900,99

LIABILITIES:

Mortgage notes payable	\$ 734,13
Unsecured credit facility	322,00
Senior unsecured notes	499,37
Accrued expenses and other liabilities	82,35
Dividends and distributions payable	31,47

TOTAL LIABILITIES 1,669,33

Minority partners' interests in consolidated partnerships	240,45
Preferred unit interest in the operating partnership	19,66
Limited partners' minority interest in the operating partnership	66,26

Commitments and contingencies -

STOCKHOLDERS' EQUITY:

Preferred Stock, \$.01 par value, 25,000,000 shares authorized	
Series A preferred stock, 8,834,500 shares issued and outstanding	8
Series B preferred stock, 2,000,000 shares issued and outstanding	2
Common Stock, \$.01 par value, 100,000,000 shares authorized	
Class A common stock, 48,000,995 and 48,246,083 shares issued and outstanding, respectively	48
Class B common stock, 9,915,313 shares issued and outstanding	9
Additional paid in capital	973,08
Treasury stock - Class A common, 2,950,400 and 2,698,400 shares, respectively and Class B common, 368,200 shares	(68,49)

Total Stockholders' Equity 905,28

TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY \$ 2,900,99

(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,	
	2003	2002
REVENUES:		
Property operating revenues:		
Base rents	\$ 107,127	\$ 108,867
Tenant escalations and reimbursements	15,377	14,062
	-----	-----
Total property operating revenues	122,504	122,929
Interest income on mortgage notes and notes receivable (including \$1,045, \$1,071, \$2,078 and \$2,130, respectively from related parties)	1,559	1,565
Investment and other income	3,349	284
	-----	-----
TOTAL REVENUES	127,412	124,778
	-----	-----
EXPENSES:		
Property operating expenses	46,568	41,431
Marketing, general and administrative	9,390	7,650
Interest	22,896	22,124
Depreciation and amortization	29,903	27,836
	-----	-----
TOTAL EXPENSES	108,757	99,041
	-----	-----
Income before minority interests, preferred dividends and distributions, equity (loss) in earnings of real estate joint ventures and service companies, gain on sales of depreciable real estate assets and discontinued operations	18,655	25,737
Minority partners' interests in consolidated partnerships	(4,335)	(4,813)
Distributions to preferred unit holders	(274)	(280)
Limited partners' minority interest in the operating partnership	(874)	(1,643)
Equity (loss) in earnings of real estate joint ventures and service companies (including \$0, \$58, \$0 and \$465, respectively from related parties)	(270)	159
Gain on sales of depreciable real estate assets	--	--
	-----	-----
Income before discontinued operations and preferred dividends	12,902	19,160
Discontinued operations (net of limited partners'		

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minority interest):			
Income from discontinued operations		--	132
		-----	-----
Net Income	12,902		19,292
Dividends to preferred shareholders	(5,317)		(5,487)
	-----		-----
Net income allocable to common shareholders	\$ 7,585	\$	13,805
	=====		=====
Net income allocable to:			
Class A common	\$ 5,769	\$	10,548
Class B common	1,816		3,257
	-----		-----
Total	\$ 7,585	\$	13,805
	=====		=====
Basic net income per weighted average common share:			
Class A common	\$.12	\$.21
Gain on sales of depreciable real estate assets	--		--
Discontinued operations	--		--
	-----		-----
Basic net income per Class A common	\$.12	\$.21
	=====		=====
Class B common	\$.18	\$.32
Gain on sales of depreciable real estate assets	--		--
Discontinued operations	--		--
	-----		-----
Basic net income per Class B common	\$.18	\$.32
	=====		=====
Basic weighted average common shares outstanding:			
Class A common	48,000,995		50,775,300
Class B common	9,915,313		10,283,513
Diluted net income per weighted average common share:			
Class A common	\$.12	\$.21
	=====		=====
Class B common	\$.13	\$.22
	=====		=====
Diluted weighted average common shares outstanding:			
Class A common	48,118,172		51,164,788
Class B common	9,915,313		10,283,513

(see accompanying notes to financial statements)

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

		SIX M
		JU

		2003

CASH FLOWS FROM OPERATING ACTIVITIES:		
NET INCOME		\$ 26,882
Adjustments to reconcile net income to net cash provided by operating		

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activities:	
Depreciation and amortization	61,887
Gain on sales of depreciable real estate assets	--
Minority partners' interests in consolidated partnerships	9,025
Limited partners' minority interest in the operating partnership	1,870
(Equity) loss in earnings of real estate joint ventures and service companies	164
Changes in operating assets and liabilities:	
Tenant receivables	6,326
Prepaid expenses and other assets	(6,710)
Deferred rents receivable	(9,207)
Accrued expenses and other liabilities	(9,057)

Net cash provided by operating activities	81,180

CASH FLOWS FROM INVESTING ACTIVITIES:	
Additions to developments in progress	(9,732)
Proceeds from mortgage note receivable repayments	--
Purchase of commercial real estate	(6,505)
Additions to commercial real estate properties	(25,149)
Additions to furniture, fixtures and equipment	(94)
Payment of leasing costs	(8,765)
Distributions from investments in real estate joint ventures	243
Proceeds from sales of real estate	--

Net cash used in investing activities	(50,002)

CASH FLOWS FROM FINANCING ACTIVITIES:	
Proceeds from issuance of common stock net of issuance costs	--
Repurchases of common stock	(4,538)
Principal payments on secured borrowings	(5,878)
Payment of loan and equity issuance costs	(29)
Proceeds from issuance of senior unsecured notes	--
Proceeds from unsecured credit facility	55,000
Repayment of unsecured credit facility	--
Distributions to minority partners in consolidated partnerships	(11,507)
Distributions to limited partners in the operating partnership	(6,177)
Distributions to preferred unit holders	(547)
Dividends to common shareholders	(53,699)
Dividends to preferred shareholders	(10,634)

Net cash used in financing activities	(38,009)

Net (decrease) in cash and cash equivalents	(6,831)
Cash and cash equivalents at beginning of period	30,827

Cash and cash equivalents at end of period	\$ 23,996
	=====

(see accompanying notes to financial statements)

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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 / R&D 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, 2003, the Company's ownership percentage in the Operating Partnership was approximately 89.5%.

2. BASIS OF PRESENTATION

The accompanying consolidated financial statements include the consolidated financial position of the Company and the Operating Partnership at June 30, 2003 and December 31, 2002 and the results of their operations for the three and six months ended June 30, 2003 and 2002, respectively, and, their cash flows for the six months ended June 30, 2003 and 2002, respectively. The Operating Partnership's investments in majority owned and 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. For the periods presented prior to October 1, 2002, the operating results of Reckson Management Group, Inc., RANY Management Group, Inc., Reckson Construction Group New York, Inc. and Reckson Construction Group, Inc. (the "Service Companies"), in which the Operating Partnership owned a 97% non-controlling interest were reflected in the accompanying financial statements on the equity method of accounting. On October 1, 2002, the Operating Partnership acquired the remaining 3% interests in the Service Companies for an aggregate purchase price of approximately \$122,000. As a result, the Operating Partnership commenced consolidating the operations of the Service Companies (see Note 10). All significant intercompany balances and transactions have been eliminated in the consolidated financial statements.

Reckson Construction Group, Inc. and Reckson Construction Group New York, Inc. use the percentage-of-completion method for recording amounts earned on its contracts. This method records amounts earned as revenue in the proportion that actual costs incurred to date bear to the estimate of total costs at contract completion.

Minority partners' interests in consolidated partnerships represent a 49% non-affiliated interest in RT Tri-State LLC, owner of a nine property suburban office portfolio, a 40% non-affiliated interest in Omni Partners, L.P., owner of

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a 579,000 square foot suburban office property and 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 10.5% and 10.0% at June 30, 2003 and 2002, respectively.

The Company follows the guidance provided for under the Financing Accounting Standards Board ("FASB") Statement No. 66 "Accounting for Sales of Real Estate" ("Statement No. 66"), which provides guidance on sales contracts that are accompanied by agreements which require the seller to develop the property in the future. Under Statement No. 66 profit is recognized and allocated to the sale of the land and the later development or construction work on the basis of estimated costs of each activity; the same rate of profit is attributed to each activity. As a result, profits are recognized and reflected over the improvement period on the basis of costs incurred (including land) as a percentage of total costs estimated to be incurred. The Company uses the percentage of completion method, as the future costs of development and profit were reliably estimated (see Note 6).

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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 June 30, 2003 and for the three and six month periods ended June 30, 2003 and 2002 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, 2003. 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, 2002.

The Company intends to qualify as a REIT under Sections 856 through 860 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.

Recent Accounting Pronouncements

In October 2001, the 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

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the Company. The adoption of Statement No. 144 does not have an impact on net income allocable to common shareholders. Statement No. 144 only impacts the presentation of the results of operations and gain on sales of depreciable real estate assets for those properties sold during the period within the consolidated statements of income.

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 from the adoption of Statement No. 123. To determine the fair value of the stock options granted, the Company uses 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.

In December 2002, the FASB issued Statement No. 148, "Accounting for Stock-Based Compensation--Transition and Disclosure" ("Statement No. 148"). Statement No. 148 amends Statement No. 123 to provide alternative methods of transition for an entity that voluntarily adopts the fair value recognition method of recording stock option expense. Statement No. 148 also amends the disclosure provisions of Statement 123 and APB Opinion No. 28. "Interim Financial Reporting" to require disclosure in the summary of significant accounting policies of the effects of an entity's accounting policy with respect to stock options on reported net income and earnings per share in annual and interim financial statements.

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The following table sets forth the Company's pro forma information for its Class A common stockholders for the three and six months ended June 30, 2003 and 2002 (in thousands except earnings per share data):

	THREE MONTHS ENDED JUNE 30,		SIX MONTHS ENDED JUNE 30,	
	2003	2002	2003	2002
Net income as reported	\$ 5,769	\$ 10,548	\$ 12,364	\$ 22,364
Add: Stock option expense included in net income	1	--	3	--
Less: Stock option expense determined under fair value recognition method for all awards .	(54)	(113)	(144)	(113)
Pro forma net income	\$ 5,716	\$ 10,435	\$ 12,223	\$ 22,251
Net income per share as reported:				
Basic	\$.12	\$.21	\$.26	\$.41
Diluted	\$.12	\$.21	\$.26	\$.41

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Pro forma net income per share:

Basic	\$ 12	\$.21	\$.25	\$
	=====	=====	=====	=====
Diluted	\$.12	\$.20	\$.25	\$
	=====	=====	=====	=====

The fair value for those options was estimated at the date of grant using a Black-Scholes option pricing model with the following weighted-average assumptions for the three and six month periods ended June 30, 2003 and 2002:

	THREE MONTHS ENDED JUNE 30,		SIX MONTHS ENDED JUNE 30,	
	2003	2002	2003	2002
Risk free interest rate.....	3.00%	3.00%	3.00%	3.00%
Dividend yield	7.39%	7.46%	7.39%	7.46%
Volatility factor of the expected market price of the Company's Class A common stock.....	.196	.196	.196	.196
Weighted average expected option life (in years)....	5.3	6.3	5.3	6.3

For purposes of pro forma disclosures, the estimated fair value of the options is amortized to expense over the options' vesting period.

In November 2002, the FASB issued Interpretation No. 45, "Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others" ("FIN 45"). FIN 45 significantly changes the current practice in the accounting for, and disclosure of, guarantees. Guarantees and indemnification agreements meeting the characteristics described in FIN 45 are required to be initially recorded as a liability at fair value. FIN 45 also requires a guarantor to make significant new disclosures for virtually all guarantees even if the likelihood of the guarantor having to make payment under the guarantee is remote. The disclosure requirements within FIN 45 are effective for financial statements for annual or interim periods ending after December 15, 2002. The initial recognition and initial measurement provisions are applicable on a prospective basis to guarantees issued or modified after December 31, 2002. The Company adopted FIN 45 on January 1, 2003. The adoption of this interpretation did not have a material effect on the results of operations or the financial position of the Company.

In January 2003, the FASB issued Interpretation No. 46, "Consolidation of Variable Interest Entities" ("FIN 46"), which explains how to identify variable interest entities ("VIE") and how to assess whether to consolidate such entities. The provisions of this interpretation are immediately effective for VIE's formed after January 31, 2003. For VIE's formed prior to January 31, 2003, the provisions of this interpretation apply to the first fiscal year or interim period beginning after June 15, 2003. Management has not yet determined whether any of its consolidated or unconsolidated subsidiaries represent VIE's pursuant to such interpretation. Such determination could result in a change in the Company's consolidation policy related to such entities.

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

3. MORTGAGE NOTES PAYABLE

As of June 30, 2003, the Company had approximately \$734.1 million of fixed rate mortgage notes, which mature at various times between 2004 and 2027. The notes are secured by 21 properties with an aggregate carrying value of approximately \$1.5 billion which are pledged as collateral against the mortgage notes payable. In addition, approximately \$44.6 million of the \$734.1 million is recourse to the Company and certain of the mortgage notes payable are guaranteed by certain limited partners in the Operating Partnership and / or the Company.

The following table sets forth the Company's mortgage notes payable as of June 30, 2003, by scheduled maturity date (dollars in thousands):

Property	Principal Outstanding	Interest Rate	Maturity Date
80 Orville Dr, Islip, NY	2,616	10.10%	February, 20
395 North Service Road, Melville, NY	19,505	6.45%	October, 20
200 Summit Lake Drive, Valhalla, NY	19,160	9.25%	January, 20
1350 Avenue of the Americas, NY, NY	74,235	6.52%	June, 20
Landmark Square, Stamford, CT (a)	44,570	8.02%	October, 20
100 Summit Lake Drive, Valhalla, NY	18,424	8.50%	April, 20
333 Earle Ovington Blvd, Mitchel Field, NY (b)	53,376	7.72%	August, 20
810 Seventh Avenue, NY, NY	82,100	7.73%	August, 20
100 Wall Street, NY, NY	35,577	7.73%	August, 20
6900 Jericho Turnpike, Syosset, NY	7,289	8.07%	July, 20
6800 Jericho Turnpike, Syosset, NY	13,811	8.07%	July, 20
580 White Plains Road, Tarrytown, NY	12,583	7.86%	September, 20
919 Third Ave, NY, NY (c)	245,537	6.867%	August, 20
110 Bi-County Blvd., Farmingdale, NY	3,521	9.125%	November, 20
One Orlando Center, Orlando, FL (d)	38,067	6.82%	November, 20
120 West 45th Street, NY, NY (d)	63,763	6.82%	November, 20
Total/Weighted Average	\$ 734,134	7.26%	

-
- (a) Encompasses six Class A office properties
 - (b) The Company has a 60% general partnership interest in this property and its proportionate share of the aggregate principal amount is approximately \$32.0 million
 - (c) The Company has a 51% membership interest in this property and its proportionate share of the aggregate principal amount is approximately \$125.2 million
 - (d) Subject to interest rate adjustment on November 1, 2004 to the greater of 8.82% per annum or the yield on non-callable U.S. treasury obligations with a term of fifteen years plus 2% per annum.

In addition, the Company has a 60% interest in an unconsolidated joint venture property. The Company's share of the mortgage debt at June 30, 2003 is approximately \$8.2 million. This mortgage note payable bears interest at 8.85% per annum and matures on September 1, 2005 at which time the Company's share of the mortgage debt will be approximately \$6.9 million.

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4. SENIOR UNSECURED NOTES

As of June 30, 2003, the Operating Partnership had outstanding approximately \$499.4 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 by scheduled maturity date (dollars in thousands):

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 semi-annually 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.

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5. UNSECURED CREDIT FACILITY

The Company currently has a three year \$500 million unsecured revolving credit facility (the "Credit Facility") from JPMorgan Chase Bank, as administrative agent, Wells Fargo Bank, National Association, as syndication agent, and Citicorp North America, Inc. and Wachovia Bank, National Association, as co-documentation agents. The Credit Facility matures in December 2005, contains options for a one-year extension subject to a fee of 25 basis points and, upon receiving additional lender commitments, increasing the maximum revolving credit amount to \$750 million. In addition, borrowings under the Credit Facility are currently priced off LIBOR plus 90 basis points and the Credit Facility carries a facility fee of 20 basis points per annum. In the event of a change in the Operating Partnership's unsecured credit rating the interest rates and facility fee are subject to change. The outstanding borrowings under the Credit Facility were \$322.0 million at June 30, 2003.

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, 2003, the Company had availability under the Credit Facility to borrow approximately an additional \$178.0 million, subject to compliance with certain financial covenants.

6. COMMERCIAL REAL ESTATE INVESTMENTS

As of June 30, 2003, the Company owned and operated 75 office properties (inclusive of eleven office properties owned through joint ventures) comprising approximately 13.6 million square feet, 104 industrial / R&D properties comprising approximately 6.9 million square feet and two retail properties comprising approximately 20,000 square feet located in the Tri-State Area.

The Company also owns approximately 313 acres of land in 12 separate parcels of

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which the Company can develop approximately 3.0 million square feet of office space and approximately 400,000 square feet of industrial / R&D space. The Company is currently evaluating alternative land uses for certain of the land holdings to realize the highest economic value. These alternatives may include rezoning certain land parcels from commercial to residential for potential disposition. As of June 30, 2003, the Company had invested approximately \$112.1 million in these development projects. Management has made subjective assessments as to the value and recoverability of these investments based on current and proposed development plans, market comparable land values and alternative use values. As of June 30, 2003, the Company has capitalized approximately \$4.4 million related to real estate taxes, interest and other carrying costs related to these development projects.

During February 2003, the Company, through Reckson Construction Group, Inc., entered into a contract with an affiliate of First Data Corp. to sell a 19.3-acre parcel of land located in Melville, New York and has been retained by the purchaser to develop a build-to-suit 195,000 square foot office building for aggregate consideration of approximately \$47 million. This transaction closed on March 11, 2003 and development of the aforementioned office building has commenced. Net proceeds from the land sale of approximately \$18.3 million were used to establish an escrow account with a qualified intermediary for a future exchange of real property pursuant to Section 1031 of the Code and is included in prepaid expenses and other assets on the accompanying balance sheet. The Code allows for the deferral of taxes related to the gain attributable to the sale of property if such qualified identified replacement property is identified within 45 days and acquired within 180 days from the initial sale. The Company has identified certain properties and interests in properties for purposes of this exchange. In accordance with Statement No. 66, the Company has estimated its pre-tax gain on this land sale and build-to-suit transaction to be approximately \$20.6 million of which \$4.3 million and \$10.1 million has been recognized during the three and six months ended June 30, 2003, respectively and is included in investment and other income on the accompanying statements of income. Approximately \$10.5 million is estimated to be earned in future periods as the development progresses.

On May 22, 2003, the Company, through Reckson Construction Group, Inc., acquired two industrial redevelopment properties in Hauppauge, Long Island encompassing approximately 100,000 square feet for total consideration of approximately \$6.5 million. This acquisition was financed from the sales proceeds being held by the previously referenced qualified intermediary and the properties acquired were identified, qualified replacement properties. If Reckson Construction Group, Inc. is unable to acquire additional qualified replacement properties or interests therein by September 7, 2003, a tax liability of approximately \$5.2 million will result from the gain recognized on the sale proceeds received from the land sale to First Data.

On August 7, 2003, the Company acquired a ten story, 181,800 square foot Class A office property located in Stamford, Connecticut. This acquisition was financed, in part, through an advance under the Credit Facility of \$21.6 million and the issuance of 465,845 Class C common units of limited partnership interest valued at \$24.00 per unit.

The Company holds a \$17.0 million interest in a note receivable which bears interest at 12% per annum and is secured by a minority partnership interest in Omni Partners, L.P., owner of the Omni, a 579,000 square foot Class A office property located in Uniondale, NY (the "Omni Note"). The Company currently owns a 60% majority partnership interest in Omni Partnership, L.P. and on March 14,

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2007 may exercise an option to acquire the remaining 40% interest for a price based on 90% of the fair market value of the property. The Company also holds three other notes receivable aggregating \$36.5 million which bear interest at rates ranging from 10.5% to 12% per annum and are secured in part by a minority partner's preferred unit interest in the Operating Partnership, certain interest in real property and a personal guarantee (the "Other Notes" and collectively with the Omni Note, the "Note Receivable Investments"). As of June 30, 2003, 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. Based on these assessments, the Company's management believes there is no impairment to the carrying value related to the Company's Note Receivable Investments. The Company also owns a 355,000 square foot office building in Orlando, Florida. This non-core real estate holding was acquired in May 1999 in connection with the Company's initial New York City portfolio acquisition. This property is cross collateralized under a \$102 million mortgage note along with one of the Company's New York City buildings.

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"), which it manages. The remaining 40% interest is owned by JAH Realities, L.P. Jon Halpern, the CEO and a director of HQ Global Workplaces, is a partner in JAH Realities, L.P. As of June 30, 2003, the 520JV had total assets of \$20.1 million, a mortgage note payable of \$12.3 million and other liabilities of \$503,000. The Company's allocable share of the 520JV mortgage note payable is approximately \$8.2 million. This mortgage note payable bears interest at 8.85% per annum and matures on September 1, 2005. During the three months ended June 30, 2003, HQ Global Workplaces, a tenant of the 520JV surrendered approximately one-third of their premises. As a result, the 520JV incurred a write-off of \$633,000 relating to its deferred rents receivable and incurred a net loss of approximately \$497,000 and \$362,000 for the three and six months ended June 30, 2003, respectively. The operating agreement of the 520JV requires joint decisions from all members on all significant operating and capital decisions including sale of the property, refinancing of the property's mortgage debt, development and approval of leasing strategy and leasing of rentable space. As a result of the decision-making participation relative to the operations of the property, the Company accounts for the 520JV under the equity method of accounting. In accordance with the equity method of accounting the Company's proportionate share of the 520JV loss was approximately \$270,000 and \$164,000 for the three and six months ended June 30, 2003, respectively.

During September 2000, the Company formed a joint venture (the "Tri-State JV") with Teachers Insurance and Annuity Association ("TIAA") and contributed nine 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. The Company is responsible for managing the day-to-day operations and business affairs of the Tri-State JV and has substantial rights in making decisions affecting the properties such as leasing, marketing and financing. The minority member has certain rights primarily intended to protect its investment. For purposes of its financial statements the Company consolidates the Tri-State JV.

On December 21, 2001, the Company formed a joint venture with the New York State Teachers' Retirement Systems ("NYSTRS") (the "919JV") 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. The Company is responsible for managing the day-to-day operations and business affairs of the 919JV and has substantial rights in making decisions affecting the property such as developing a budget, leasing and marketing. The minority member has certain rights primarily intended

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to protect its investment. For purposes of its financial statements the Company consolidates the 919JV.

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 June 2003, 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	July 7, 2003	July 18, 2003	June 30, 2003
Class B common stock	\$.6471	July 15, 2003	July 31, 2003	July 31, 2003
Series A preferred stock	\$.476563	July 15, 2003	July 31, 2003	July 31, 2003
Series B preferred stock	\$.553125	July 15, 2003	July 31, 2003	July 31, 2003

On June 30, 2003, the Company had issued and outstanding 9,915,313 shares of Class B Exchangeable Common Stock, par value \$.01 per share (the "Class B common stock"). 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.

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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, 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 at which time the Company anticipates that it will exercise its option to redeem all of its Class B common stock outstanding.

The Board of Directors of the Company has authorized the purchase of up to five million shares of the Company's Class A common stock and / or its Class B 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. During the six months ended June 30, 2003, under this buy-back program, the Company purchased 252,000 shares of Class A common stock at an average price of \$18.01 per Class A share for an aggregate purchase price of approximately \$4.5 million.

The following table sets forth the Company's historical activity under its current common stock buy-back program (dollars in thousands except per share data):

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	SHARES PURCHASED -----	AVERAGE PRICE PER SHARE -----	AGGREGATE PURCHASE PRICE -----
Current program:			
Class A common	2,950,400	\$ 21.30	\$ 62,830
Class B Common	368,200	\$ 22.90	8,432
	-----		-----
	3,318,600		\$ 71,262
	=====		=====

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 June 30, 2003, the Company had issued and outstanding 8,834,500 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 June 3, 2003 to and including June 2, 2004, at \$25.50 per share and (ii) on or after June 3, 2004 and thereafter, at \$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.

On August 7, 2003, in conjunction with the Company's acquisition of a Class A office property located in Stamford, Connecticut (see Note 6), the Company issued 465,845 Class C common units of limited partnership interest. The Class C units will receive an annual distribution of \$1.87 per unit, which amount will increase or decrease pro-rata based upon changes in the dividend paid on the Company's Class A common stock.

The Company had historically structured long term incentive programs ("LTIP") using restricted stock and stock loans. In July 2002, as a result of certain provisions of the Sarbanes Oxley legislation, the Company discontinued the use of stock loans in its LTIP. In connection with LTIP grants made prior to the enactment of the Sarbanes Oxley legislation the Company made stock loans to certain executive and senior officers to purchase 1,372,393 shares of its Class A common stock at market prices ranging from \$18.44 per share to \$27.13 per share. The stock loans were set to bear interest at the mid-term Applicable Federal Rate and were secured by the shares purchased. Such stock loans (including accrued interest) vest and are ratably forgiven each year on the anniversary of the grant date based upon vesting periods ranging from four to ten years based on continued service and in part on attaining certain annual performance measures. These stock loans had an initial aggregate weighted average vesting period of approximately nine years. Approximately \$2.2 million of compensation expense was recorded for each of the six month periods ended June 30, 2003 and 2002, respectively, related to these LTIP. Such amounts have been included in marketing, general and administrative expenses on the accompanying consolidated statements of income.

The outstanding stock loan balances due from executive and senior officers aggregated approximately \$13.0 million and \$17.0 million at June 30, 2003 and December 31, 2002, respectively, and have been included as a reduction of additional paid in capital on the accompanying consolidated balance sheets. Other outstanding loans to executive and senior officers at June 30, 2003 amounted to approximately \$1.0 million related to life insurance contracts and approximately \$2.0 million primarily related to tax payment advances on stock compensation awards made to non-executive officers.

In November 2002 and March 2003 an award of rights was granted to certain executive officers of the Company (the "2002 Rights" and "2003 Rights", respectively and collectively, the "Rights"). Each Right represents the right to receive, upon vesting, one share of Class A common stock if shares are then available for grant under one of the Company's stock option plans or, if shares are not so available, an amount of cash equivalent to the value of such stock on the vesting date. The 2002 Rights will vest in four equal annual installments beginning on November 14, 2003 (and shall be fully vested on November 14, 2006). The 2003 Rights will be earned as of March 13, 2005 and will vest in three equal annual installments beginning on March 13, 2005 (and shall be fully vested on March 13, 2007). Dividends on the shares will be held by the Company until such shares become vested, and will be distributed thereafter to the applicable officer. The 2002 Rights also entitle the holder thereof to cash payments in respect of taxes payable by the holder resulting from the Rights. The 2002 Rights aggregate 190,524 shares of the Company's Class A common stock and the 2003 Rights aggregate 60,760 shares of Class A common stock. During the three and six months ended June 30, 2003, the Company recorded approximately \$209,000 and \$425,000 of compensation expense, respectively, related to the Rights. Such amounts have been included in marketing, general and administrative expenses on the accompanying consolidated statements of income.

In March 2003, the Company established a new LTIP for its executive and senior officers. The four-year plan has a core award which provides for annual stock based compensation based upon continued service and in part based on attaining certain annual performance measures. The plan also has a special outperformance award which provides for compensation to be earned at the end of a four year period if the Company attains certain four year cumulative performance measures. Amounts earned under the special outperformance award may be paid in cash or stock at the discretion of the Compensation Committee of the Board. Performance measures are based on total shareholder returns on a relative and absolute basis. On March 13, 2003, the Company made available 1,384,102 shares of its Class A common stock under its existing stock option plans in connection with the core award of this LTIP for twelve of its executive and senior officers. During May 2003, two of the Company's executive officers waived these awards under this LTIP in their entirety, which aggregated 277,778 shares or 20% of the core awards granted. In addition, the special outperformance awards of the LTIP were amended to increase the per share base price above which the four year cumulative return is measured from \$18.00 to \$22.40. With respect to the core award of this LTIP, the Company recorded approximately \$1.3 million and \$1.5 million of compensation expense for the three and six months ended June 30, 2003, respectively. Such amounts have been included in marketing, general and administrative expenses on the accompanying consolidated statements of income. Further, no provision will be made for the special outperformance award of this LTIP until such time as achieving the requisite performance measures is determined to be probable.

Basic net income per share on the Company's Class A common stock was calculated using the weighted average number of shares outstanding of 48,000,995 and

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50,775,300 for the three months ended June 30, 2003 and 2002, respectively, and 48,100,418 and 50,396,326 for the six months ended June 30, 2003 and 2002, 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 9,915,313 and 10,283,513 for the three and six months ended June 30, 2003 and 2002, respectively.

On May 29, 2003, the Board of Directors appointed Mr. Peter Quick as Lead Director and Chairman of the Nominating/Governance Committee. The Nominating/Governance Committee as well as the Audit Committee and Compensation Committee are comprised solely of independent directors.

In addition, in May 2003, the Company revised its policy with respect to compensation of its independent directors to provide that a substantial portion of the independent director's compensation shall be in the form of Class A common stock of the Company. Such common stock may not be sold until such time as the director is no longer a member of the Company's Board.

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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 A common stock (in thousands except for earnings per share data):

	Three Months Ended June 30,	
	2003	2002
Numerator:		
Income before discontinued operations, dividends to preferred shareholders and (income) allocated to Class B shareholders	\$ 12,902	\$ 19,160
Discontinued operations (net of share applicable to limited partners and Class B shareholders)	--	101
Dividends to preferred shareholders	(5,317)	(5,487)
(Income) allocated to Class B common shareholders	(1,816)	(3,226)
	\$ 5,769	\$ 10,548
	=====	=====
Denominator:		
Denominator for basic earnings per share - weighted average Class A common shares	48,001	50,775
Effect of dilutive securities:		
Common stock equivalents	117	390
	48,118	51,165
	=====	=====
Basic earnings per weighted average common share:		
Class A common	\$.12	\$.21

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Gain on sales of depreciable real estate assets	--	--
Discontinued operations	--	--
	-----	-----
Net income per Class A common share	\$.12	\$.21
	=====	=====
Diluted earnings per weighted average common share:		
Class A common	\$.12	\$.21
Gain on sales of depreciable real estate assets	--	--
Discontinued operations	--	--
	-----	-----
Diluted net income per Class A common share	\$.12	\$.21
	=====	=====

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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 Mont Jun
	2003	2002	2003
	-----	-----	-----
Numerator:			
Income before discontinued operations, dividends to preferred shareholders and (income) allocated to Class A shareholders	\$ 12,902	\$ 19,160	\$ 26,882
Discontinued operations (net of share applicable to limited partners and Class A shareholders)	--	31	--
Dividends to preferred shareholders	(5,317)	(5,487)	(10,634)
(Income) allocated to Class A common shareholders	(5,769)	(10,447)	(12,364)
	-----	-----	-----
Numerator for basic earnings per Class B common share	1,816	3,257	3,884
Add back:			
Income allocated to Class A common shareholders	5,769	10,548	12,364
Limited partner's minority interest in the operating partnership	874	1,663	1,870
	-----	-----	-----
Numerator for diluted earnings per Class B common share	\$ 8,459	\$ 15,468	\$ 18,118
	=====	=====	=====
Denominator:			
Denominator for basic earnings per share-weighted average Class B common shares	9,915	10,284	9,915
Effect of dilutive securities:			
Weighted average Class A common shares outstanding ...	48,001	50,775	48,100
Weighted average OP Units outstanding	7,276	7,500	7,276
Common stock equivalents	117	390	118
	-----	-----	-----
Denominator for diluted earnings per Class B common share-			

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adjusted weighted average shares and assumed conversions .	65,309	68,949	65,409
	=====	=====	=====
Basic earnings per weighted average common share:			
Class B common	\$.18	\$.32	\$.39
Gain on sales of depreciable real estate assets	--	--	--
Discontinued operations	--	--	--
	-----	-----	-----
Net income per Class B common share	\$.18	\$.32	\$.39
	=====	=====	=====
Diluted earnings per weighted average common share:			
Class B common	\$.13	\$.22	\$.28
Gain on sales of depreciable real estate assets	--	--	--
Discontinued operations	--	--	--
	-----	-----	-----
Diluted net income per Class B common share	\$.13	\$.22	\$.28
	=====	=====	=====

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

	SIX MONTHS ENDED JUNE 30,	
	2003	2002
	-----	-----
Cash paid during the period for interest.....	\$47,304	\$45,817
	=====	=====
Interest capitalized during the period.....	\$ 3,675	\$ 4,406
	=====	=====

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9. SEGMENT DISCLOSURE

The Company owns all of the interests in its real estate properties directly or indirectly 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 / R&D 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 (ii) the operating performance of the office property located in Orlando, Florida (iii) the operating performance of those properties reflected as discontinued operations in the Company's consolidated statements of income and (iv) the operating results of the Service Companies as part of its Core Portfolio's property operating performance for purposes of its component disclosure set forth below.

The following table sets forth the components of the Company's revenues and expenses and other related disclosures for the three months ended June 30, 2003 and 2002 (in thousands):

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	Three months ended			
	June 30, 2003			
	Core Portfolio	Other	CONSOLIDATED TOTALS	Core Portfolio
REVENUES:				
Base rents, tenant escalations and reimbursements	\$ 120,497	\$ 2,007	\$ 122,504	\$ 120,819
Other income (loss)	1,117	3,791	4,908	141
Total Revenues	121,614	5,798	127,412	120,960
EXPENSES:				
Property operating expenses	45,556	1,012	46,568	39,882
Marketing, general and administrative	4,582	4,808	9,390	4,628
Interest	12,805	10,091	22,896	12,990
Depreciation and amortization	28,373	1,530	29,903	25,636
Total Expenses	91,316	17,441	108,757	83,136
Income (loss) before minority interests, preferred dividends and distributions, equity (loss) in earnings of real estate joint ventures and service companies, gain on sales of depreciable real estate assets and discontinued operations	\$ 30,298	\$ (11,643)	\$ 18,655	\$ 37,824
Total Assets	\$2,673,194	\$ 227,800	\$2,900,994	\$2,693,174

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The following table sets forth the components of the Company's revenues and expenses and other related disclosures for the six months ended June 30, 2003 and 2002 (in thousands):

	Six months ended			
	June 30, 2003			
	Core Portfolio	Other	CONSOLIDATED TOTALS	Core Portfolio
REVENUES:				

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Base rents, tenant				
escalations and reimbursements	\$242,338	\$ 3,607	\$245,945	\$240,216
Other income (loss)	1,877	10,350	12,227	556
	-----	-----	-----	-----
Total Revenues	244,215	13,957	258,172	240,772
	-----	-----	-----	-----
EXPENSES:				
Property operating expenses	92,546	1,856	94,402	80,985
Marketing, general and administrative	9,248	8,401	17,649	9,188
Interest	25,564	20,182	45,746	25,954
Depreciation and amortization	58,758	3,129	61,887	50,027
	-----	-----	-----	-----
Total Expenses	186,116	33,568	219,684	166,154
	-----	-----	-----	-----
Income (loss) before minority				
interests, preferred dividends				
and distributions, equity (loss)				
in earnings of real estate joint				
ventures and service companies,				
gain on sales of depreciable real				
estate assets and discontinued				
operations	\$ 58,099	\$ (19,611)	\$ 38,488	\$ 74,618
	=====	=====	=====	=====

10. RELATED PARTY TRANSACTIONS

In connection with the IPO, the Company was granted ten year options to acquire ten properties (the "Option Properties") which are either owned by certain Rechler family members who are also executive officers of the Company, or in which the Rechler family members own a non-controlling minority interest at a price based upon an agreed upon formula. In years prior to 2001, one Option Property was sold by the Rechler family members to a third party and four of the Option Properties were acquired by the Company for an aggregate purchase price of approximately \$35 million, which included the issuance of approximately 475,000 OP Units valued at approximately \$8.8 million. Currently, certain Rechler family members retain their equity interests in the five remaining Option Properties (the "Remaining Option Properties") which were not contributed to the Company as part of the IPO. Such options provide the Company the right to acquire fee interest in two of the Remaining Option Properties and the Rechler's minority interests in three Remaining Option Properties. During May 2003, the Independent Directors approved the exercise by the Company of its option to acquire the Rechler's fee interest in two of the Remaining Option Properties (225 Broad Hollow Road and 593 Acorn Street) and to provide customary tax protection from the sale or disposition of these properties by the Company for a five-year period. In addition, the Rechler family members agreed to extend the term of the three remaining unexercised options for an additional two years. Both of the properties are located on Long Island and aggregate approximately 228,000 square feet. Aggregate consideration to acquire the two Remaining Option Properties is approximately \$22.1 million which includes the assumption of approximately \$19.0 million of mortgage notes payable, of which the Company anticipates to prepay or retire approximately \$6.1 million, and the issuance of approximately 145,000 OP Units. The Company anticipated acquiring these two Remaining Option Properties in July 2003 but has since determined to defer such purchases while it evaluates the effect on the Company of exercising these options in relation to certain other acquisition and disposition opportunities that have arisen.

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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 the Service Companies in which, as of September 30, 2002, the Operating Partnership owned a 97% non-controlling interest. An entity which is substantially owned by certain Rechler family members who are also executive officers of the Company owned a 3% controlling interest in the Service Companies. In order to minimize the potential for corporate conflicts of interests which became possible as a result of changes to the Code that permit REITs to own 100% of taxable REIT subsidiaries, the Independent Directors of the Company approved the purchase by the Operating Partnership of the remaining 3% interests in the Service Companies. On October 1, 2002, the Operating Partnership acquired such 3% interests in the Service Companies for an aggregate purchase price of approximately \$122,000. Such amount was less than the total amount of capital contributed by the Rechler family members. As a result of the acquisition of the remaining interests in the Service Companies, the Operating Partnership commenced consolidating the operations of the Service Companies. During the six months ended June 30, 2003, Reckson Construction Group, Inc. billed approximately \$231,000, of market rate services and Reckson Management Group, Inc. billed approximately \$140,000 of market rate management fees to the Remaining Option Properties. In addition, for the six months ended June 30, 2003, Reckson Construction Group, Inc. performed market rate services, aggregating approximately \$124,000, for a property in which certain executive officers of the Company maintain an equity interest.

Reckson Management Group, Inc. leases 43,713 square feet of office and storage space at a Remaining Option Property located at 225 Broad Hollow Road, Melville, New York for its corporate offices at an annual base rent of approximately \$1.2 million. Reckson Management Group, Inc. also leases 10,722 square feet of warehouse space used for equipment, materials and inventory storage at a Remaining Option Property located at 593 Acorn Street, 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 \$431,500. Reckson Strategic Venture Partners, LLC ("RSVP") leased 5,144 square feet in one of the Company's joint venture properties at an annual base rent of approximately \$176,000. On June 15, 2003, this lease was mutually terminated and RSVP vacated the premises.

During 1997, the Company formed FrontLine Capital Group, formerly Reckson Service Industries, Inc. ("FrontLine") and 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 / R&D 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, 2003 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

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represents loans made to FrontLine under the RSVP Facility. As of June 30, 2003 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 charged off for tax purposes \$70 million of the aforementioned reserve directly related to the FrontLine Facility, including accrued interest. On February 14, 2002, the Company charged off for tax purposes 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.

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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, 2003. Such amount has been reflected in investments in service companies and affiliate loans and joint ventures on the Company's consolidated balance sheet.

On or about April 29, 2003, RSVP entered into agreements regarding the restructuring of its capital structure and arrangements with its management. In connection with such restructuring, RSVP transferred \$41 million in cash which comprised certain un-invested capital and proceeds from the sale of certain of the privatization assets and the assets that comprised its parking investments valued at approximately \$28.5 million to the preferred equity holders in RSVP. In addition, RSVP agreed to redeem the preferred equity holders' interests for

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an additional \$95.8 million in cash, subject to a financing contingency. Funds required for RSVP to complete the redemption transaction are anticipated to be available from sales of the remaining privatization assets, sales of the medical office assets and proceeds from a third party financing. RSVP also agreed to restructure its relationship with its current managing directors, conditioned upon the redemption of the preferred equity interests, whereby a management company formed by the managing directors will be retained to manage RSVP. RSVP will enter into a management agreement that will provide for an annual base management fee, and disposition fees equal to 2% of the net proceeds received by RSVP on asset sales. (The base fee and disposition fees together being subject to a maximum amount over the term of the agreement of \$7.5 million.) In addition, the managing directors will retain a subordinate residual interest in RSVP's assets. The management agreement will have a three-year term, subject to early termination in the event of the disposition of all of the assets of RSVP. As a result of this new arrangement, the employment contracts of the managing directors will be terminated. RSVP is currently negotiating with a lender to provide a portion of the proceeds needed to complete the restructuring transaction. There can be no assurance that any of the foregoing pending transactions will be completed. In the event that the redemption of the preferred does not close, all parties rights shall remain unaffected, including the rights relating to a dispute between common and preferred members over certain provisions of the RSVP operating agreement.

Both the FrontLine Facility and the RSVP Facility terminated on June 15, 2003, are unsecured and advances thereunder 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. 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.

Scott H. Rechler, who serves as Co-Chief Executive Officer and a director of the Company, serves as CEO and Chairman of the Board of Directors of FrontLine and is its sole board member. Scott H. Rechler also serves as a member of the management committee of RSVP.

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 eight (formerly eleven) executive office centers in the Company's properties, two of which are held through joint ventures. The leases under which these office centers operate expire between 2008 and 2011, encompass approximately 160,600 square feet and have current contractual annual base rents of approximately \$3.8 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, the Bankruptcy Court has (i) granted HQ's petition to reject three of its leases with the Company, one of which is held through the 919JV and (ii) modify the terms of the lease, which is held through the 520JV. Two of the three rejected leases were held through wholly owned entities, aggregated approximately 23,900 square feet and were rejected in March 2002. The Company has since re-leased 100% of the space related to these two rejected leases. The third rejected lease held through the 919JV aggregated approximately 31,000 square feet and was to provide for contractual base rents of approximately \$1.9 million for the 2003 calendar year. With respect to the

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lease held through the 520JV, HQ surrendered approximately 10,500 square feet, or one-third of the total leased premises, to the Company. The restructured lease provides for initial base rent of \$23.25 per foot and is scheduled to expire in 2011. Of the surrendered space, approximately 6,500 square feet has been released at \$18.50 per foot to an existing tenant in the 520JV and is scheduled to expire in 2010. Pursuant to the bankruptcy filing, HQ has been paying current rental charges under its leases with the Company, other than under the three rejected leases. The Company is in negotiation to restructure two of the leases and leave the terms of the remaining five 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 currently established reserves of approximately \$428,000 (net of minority partners' interests and including the Company's share of unconsolidated joint venture interest), or 85%, of the amounts due from HQ as of June 30, 2003.

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WorldCom/MCI and its affiliates ("WorldCom"), a telecommunications company, which leased approximately 527,000 square feet in thirteen 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 Bankruptcy Court granted WorldCom's petition to reject four of its leases with the Company. The four rejected leases aggregated approximately 282,000 square feet and were to provide for contractual base rents of approximately \$7.2 million for the 2003 calendar year. All of WorldCom's leases are current on base rental charges through August 31, 2003, other than under the four rejected leases and the Company currently holds approximately \$300,000 in security deposits relating to the non-rejected leases. The Company has reached an agreement with WorldCom to restructure the remaining WorldCom leases, which is subject to approval of the Bankruptcy Court. There can be no assurance as to whether any deal will be consummated with WorldCom or if WorldCom will affirm or reject any or all of its remaining leases with the Company.

As of June 30, 2003, WorldCom occupied approximately 245,000 square feet of office space with aggregate annual base rental revenues of approximately \$4.1 million, or 1.1% of the Company's total 2003 annualized rental revenue based on base rental revenue earned on a consolidated basis.

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

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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. Many of the forward-looking statements can be identified by the use of words such as "believes", "may", "expects", "anticipates", "intends" or similar expressions. 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 / R&D 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 re-lease space in a timely manner at current or anticipated rental rate levels; the availability of financing to us or our tenants; financial condition of 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; liability for uninsured losses or environmental matters; 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 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

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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.

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 three and six months ended June 30, 2003, the Company incurred approximately \$1.6 million and \$3.6 million of bad debt expense, respectively, related to tenant receivables and deferred rents receivable which accordingly reduced total revenues and reported net income during the period.

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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.

Reckson Construction Group, Inc. and Reckson Construction Group New York, Inc. use the percentage-of-completion method for recording amounts earned on its contracts. This method records amounts earned as revenue in the proportion that actual costs incurred to date bear to the estimate of total costs at contract completion.

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 and the Company having no substantial continuing involvement with the buyer.

The Company follows the guidance provided for under the Financing Accounting Standards Board ("FASB") Statement No. 66 "Accounting for Sales of Real Estate" ("Statement No. 66"), which provides guidance on sales contracts that are accompanied by agreements which require the seller to develop the property in the future. Under Statement No. 66 profit is recognized and allocated to the sale of the land and the later development or construction work on the basis of estimated costs of each activity; the same rate of profit is attributed to each activity. As a result, profits are recognized and reflected over the improvement period on the basis of costs incurred (including land) as a percentage of total costs estimated to be incurred. The Company uses the percentage of completion method, as the future costs of development and profit were reliably estimated.

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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 ordinary maintenance and repairs are expensed 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 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 FASB Statement No. 144, "Accounting for the Impairment or Disposal of Long Lived Assets."

OVERVIEW AND BACKGROUND

The Company is a self-administered and self-managed real estate investment trust ("REIT") specializing in the ownership, operation, acquisition, leasing, financing, management and development of office and industrial / R&D 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").

As of June 30, 2003, the Company owned and operated 75 office properties (inclusive of eleven office properties owned through joint ventures) comprising approximately 13.6 million square feet, 104 industrial / R&D properties

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comprising approximately 6.9 million square feet and two retail properties comprising approximately 20,000 square feet located in the Tri-State Area.

The Company also owns approximately 313 acres of land in 12 separate parcels of which the Company can develop approximately 3.0 million square feet of office space and approximately 400,000 square feet of industrial / R&D space. The Company is currently evaluating alternative land uses for certain of the land holdings to realize the highest economic value. These alternatives may include rezoning certain land parcels from commercial to residential for potential disposition. As of June 30, 2003, the Company had invested approximately \$112.1 million in these development projects. Management has made subjective assessments as to the value and recoverability of these investments based on current and proposed development plans, market comparable land values and alternative use values. As of June 30, 2003, the Company has capitalized approximately \$2.4 million related to real estate taxes, interest and other carrying costs related to these development projects.

During February 2003, the Company, through Reckson Construction Group, Inc., entered into a contract with an affiliate of First Data Corp. to sell a 19.3-acre parcel of land located in Melville, New York and has been retained by the purchaser to develop a build-to-suit 195,000 square foot office building for aggregate consideration of approximately \$47 million. This transaction closed on March 11, 2003 and development of the aforementioned office building has commenced. Net proceeds from the land sale of approximately \$18.3 million were used to establish an escrow account with a qualified intermediary for a future exchange of real property pursuant to Section 1031 of the Internal Revenue Code of 1986, as amended (the "Code") and is included in prepaid expenses and other assets on the Company's balance sheet. The Code allows for the deferral of taxes related to the gain attributable to the sale of property if such qualified identified replacement property is identified within 45 days and acquired within 180 days from the initial sale. The Company has identified certain properties and interests in properties for purposes of this exchange. In accordance with Statement No. 66, the Company has estimated its pre-tax gain on this land sale and build-to-suit transaction to be approximately \$20.6 million of which \$4.3 million and \$10.1million has been recognized during the three and six months ended June 30, 2003, respectively and is included in investment and other income on the Company's statements of income. Approximately \$10.5 million is estimated to be earned in future periods as the development progresses.

On May 22, 2003, the Company, through Reckson Construction Group, Inc., acquired two industrial redevelopment properties in Hauppauge, Long Island and the properties acquired were identified qualified replace encompassing approximately 100,000 square feet for total consideration of approximately \$6.5 million. This acquisition was financed from the sales proceeds being held by the previously referenced qualified intermediary and the properties acquired were identified, qualified replacement properties. If Reckson Construction Group, Inc. is unable to acquire additional qualified replacement properties or interests therein by September 7, 2003, a tax liability of approximately \$5.2 million will result from the gain recognized on the sale proceeds received from the land sale to First Data.

On August 7, 2003, the Company acquired a ten story, 181,800 square foot Class A office property located in Stamford, Connecticut. This acquisition was financed, in part, through an advance under the Credit Facility of \$21.6 million and the issuance of 465,845 Class C common units of limited partnership interest valued at \$24.00 per unit.

The Company holds a \$17.0 million interest in a note receivable, which bears interest at 12% per annum and is secured by a minority partnership interest in Omni Partners, L.P., owner of the Omni, a 579,000 square foot Class A office property located in Uniondale, NY (the "Omni Note"). The Company currently owns a 60% majority partnership interest in Omni Partnership, L.P. and on March 14,

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2007 may exercise an option to acquire the remaining 40% interest for a price based on 90% of the fair market value of the property. The Company also holds three other notes receivable aggregating \$36.5 million which bear interest at rates ranging from 10.5% to 12% per annum and are secured in part by a minority partner's preferred unit interest in the Operating Partnership, certain interest in real property and a personal guarantee (the "Other Notes" and collectively with the Omni Note, the "Note Receivable Investments"). As of June 30, 2003, 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. Based on these assessments, the Company's management believes there is no impairment to the carrying value related to the Company's Note Receivable Investments. The Company also owns a 355,000 square foot office building in Orlando, Florida. This non-core real estate holding was acquired in May 1999 in connection with the Company's initial New York City portfolio acquisition. This property is cross collateralized under a \$102 million mortgage note along with one of the Company's New York City buildings.

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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"), which it manages - the remaining 40% interest is owned by JAH Realities L.P. Jon Halpern, the CEO and a director of HQ Global Workplaces, is a partner in JAH Realities, L.P. As of June 30, 2003, the 520JV had total assets of \$20.1 million, a mortgage note payable of \$12.3 million and other liabilities of \$503,000. The Company's allocable share of the 520JV mortgage note payable is approximately \$8.2 million. This mortgage note payable bears interest at 8.85% per annum and matures on September 1, 2005. During the three months ended June 30, 2003, HQ Global Workplaces, a tenant of the 520JV surrendered approximately one-third of their premises. As a result, the 520JV incurred a write-off of \$633,000 relating to its deferred rents receivable and incurred a net loss of approximately \$497,000 and \$362,000 for the three and six months ended June 30, 2003, respectively. The operating agreement of the 520JV requires joint decisions from all members on all significant operating and capital decisions including sale of the property, refinancing of the property's mortgage debt, development and approval of leasing strategy and leasing of rentable space. As a result of the decision-making participation relative to the operations of the property, the Company accounts for the 520JV under the equity method of accounting. In accordance with the equity method of accounting the Company's proportionate share of the 520JV loss was approximately \$270,000 and \$164,000 for the three and six months ended June 30, 2003, respectively.

In connection with the IPO, the Company was granted ten year options to acquire ten properties (the "Option Properties") which are either owned by certain Rechler family members who are also executive officers of the Company, or in which the Rechler family members own a non-controlling minority interest at a price based upon an agreed upon formula. In years prior to 2001, one Option Property was sold by the Rechler family members to a third party and four of the Option Properties were acquired by the Company for an aggregate purchase price of approximately \$35 million, which included the issuance of approximately 475,000 OP Units valued at approximately \$8.8 million. Currently, certain Rechler family members retain their equity interests in the five remaining Option Properties (the "Remaining Option Properties") which were not contributed to the Company as part of the IPO. Such options provide the Company the right to acquire fee interest in two of the Remaining Option Properties and the Rechler's minority interests in three Remaining Option Properties. During May 2003, the Independent Directors approved the exercise by the Company of its option to

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acquire the Rechler's fee interest in two of the Remaining Option Properties (225 Broad Hollow Road and 593 Acorn Street) and to provide customary tax protection from the sale or disposition of these properties by the Company for a five-year period. In addition, the Rechler family members agreed to extend the term of the three remaining unexercised options for an additional two years. Both of the properties are located on Long Island and aggregate approximately 228,000 square feet. Aggregate consideration to acquire the two Remaining Option Properties is approximately \$22.1 million which includes the assumption of approximately \$19.0 million of mortgage notes payable, of which the Company anticipates to prepay or retire approximately \$6.1 million, and the issuance of approximately 145,000 OP Units. The Company anticipated acquiring these two Remaining Option Properties in July 2003 but has since determined to defer such purchases while it evaluates the effect on the Company of exercising these options in relation to certain other acquisition and disposition opportunities that have arisen.

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 the Service Companies in which, as of September 30, 2002 the Operating Partnership owned a 97% non-controlling interest. An entity which is substantially owned by certain Rechler family members who are also executive officers of the Company owned a 3% controlling interest in the Service Companies. In order to minimize the potential for corporate conflicts of interests which became possible as a result of changes to the Code that permit REITs to own 100% of taxable REIT subsidiaries, the Independent Directors of the Company approved the purchase by the Operating Partnership of the remaining 3% interests in the Service Companies. On October 1, 2002, the Operating Partnership acquired such 3% interests in the Service Companies for an aggregate purchase price of approximately \$122,000. Such amount was less than the total amount of capital contributed by the Rechler family members. As a result of the acquisition of the remaining interests in the Service Companies, the Operating Partnership commenced consolidating the operations of the Service Companies. During the six months ended June 30, 2003, Reckson Construction Group, Inc. billed approximately \$231,000 of market rate services and Reckson Management Group, Inc. billed approximately \$140,000 of market rate management fees to the Remaining Option Properties. In addition, for the six months ended June 30, 2003, Reckson Construction Group, Inc. performed market rate services, aggregating approximately \$124,000, for a property in which certain executive officers of the Company maintain an equity interest.

Reckson Management Group, Inc. leases 43,713 square feet of office and storage space at a Remaining Option Property located at 225 Broad Hollow Road, Melville, New York for its corporate offices at an annual base rent of approximately \$1.2 million. Reckson Management Group, Inc. also leases 10,722 square feet of warehouse space used for equipment, materials and inventory storage at a Remaining Option Property located at 593 Acorn Street, 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 \$431,500. Reckson Strategic Venture Partners, LLC ("RSVP") leased 5,144 square feet in one of the Company's joint venture properties at an annual base rent of approximately \$176,000. On June 15, 2003, this lease was mutually terminated and RSVP vacated the premises.

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 nine 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. The Company is responsible for managing the day-to-day operations and business affairs of the Tri-State JV and has substantial rights in making decisions affecting the properties such as leasing, marketing and financing. The minority member has certain rights primarily intended to protect its investment. For purposes of its financial statements the Company consolidates the Tri-State JV.

On December 21, 2001, the Company formed a joint venture with the New York State Teachers' Retirement Systems ("NYSTRS") (the "919JV") 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. The Company is responsible for managing the day-to-day operations and business affairs of the 919JV and has substantial rights in making decisions affecting the property such as developing a budget, leasing and marketing. The minority member has certain rights primarily intended to protect its investment. For purposes of its financial statements the Company consolidates the 919JV.

The total market capitalization of the Company at June 30, 2003 was approximately \$3.1 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 \$20.86 per share/unit (based on the closing price of the Company's Class A common stock on June 30, 2003), (ii) the market value of the Company's Class B common stock of \$21.30 per share (based on the closing price of the Company's Class B common stock on June 30, 2003), (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 \$1.4 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, 2003. As a result, the Company's total debt to total market capitalization ratio at June 30, 2003 equaled approximately 46.2%.

During 1997, the Company formed FrontLine Capital Group, formerly Reckson Service Industries, Inc. ("FrontLine") and 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 / R&D 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, 2003, approximately \$109.1 million had been funded

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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, 2003, 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.

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
	=====	=====	=====

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Included in these investments is approximately \$9.6 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.

In connection with the proposed restructuring of RSVP, the Company and the second largest creditor of FrontLine, have agreed to adjust certain allocations to account for the overhead expenses incurred by RSVP. Such adjustment is not expected to have a material effect on the Company's potential recovery as a creditor of FrontLine.

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

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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 for tax purposes \$70 million of the aforementioned reserve directly related to the FrontLine Facility, including accrued interest. On February 14, 2002, the Company charged off for tax purposes 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, 2003. Such amount has been reflected in investments in service companies and affiliate loans and joint ventures on the Company's consolidated balance sheet.

On or about April 29, 2003, RSVP entered into agreements regarding the restructuring of its capital structure and arrangements with its management. In connection with such restructuring, RSVP transferred \$41 million in cash which comprised certain un-invested capital and proceeds from the sale of certain of the privatization assets and the assets that comprised its parking investments valued at approximately \$28.5 million to the preferred equity holders in RSVP. In addition, RSVP agreed to redeem the preferred equity holders' interests for an additional \$95.8 million in cash, subject to a financing contingency. Funds required for RSVP to complete the redemption transaction are anticipated to be available from sales of the remaining privatization assets, sales of the medical office assets and proceeds from a third party financing. RSVP also agreed to restructure its relationship with its current managing directors, conditioned upon the redemption of the preferred equity interests, whereby a management company formed by the managing directors will be retained to manage RSVP. RSVP will enter into a management agreement that will provide for an annual base management fee, and disposition fees equal to 2% of the net proceeds received by RSVP on asset sales. (The base fee and disposition fees together being subject to a maximum amount over the term of the agreement of \$7.5 million.) In addition, the managing directors will retain a subordinate residual interest in RSVP's assets. The management agreement will have a three-year term, subject to early termination in the event of the disposition of all of the assets of RSVP. As a result of this new arrangement, the employment contracts of the managing directors will be terminated. RSVP is currently negotiating with a lender to provide a portion of the proceeds needed to complete the restructuring transaction. There can be no assurance that any of the foregoing pending transactions will be completed. In the event that the redemption of the preferred does not close, all parties rights shall remain unaffected, including the rights relating to a dispute between common and preferred members over certain provisions of the RSVP operating agreement.

Both the FrontLine Facility and the RSVP Facility terminated on June 15, 2003, are unsecured and advances thereunder 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

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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.

Scott H. Rechler, who serves as Co-Chief Executive Officer and a director of the Company, serves as CEO and Chairman of the Board of Directors of FrontLine and is its sole board member. Scott H. Rechler also serves as a member of the management committee of RSVP.

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RESULTS OF OPERATIONS

Three months ended June 30, 2003 as compared to the three months ended June 30, 2002:

Property operating revenues which include base rents and tenant escalations and reimbursements ("Property Operating Revenues") decreased by approximately \$425,000 for the three months ended June 30, 2003 as compared to the 2002 period. The change in Property Operating Revenues is attributable to a decrease in certain property occupancy rates and decreases in rental rates in certain "same store" properties amounting to approximately \$3.0 million. These decreases were offset by built-in rent increases and escalation increases in certain of our leases of approximately \$2.6 million.

Investment and other income increased by \$3.1 million. This increase is primarily attributable to the gain recognized on the First Data land sale and build-to-suit transaction of approximately \$4.3 million. This increase in investment and other income was offset by decreases in income generated by the Service Companies.

Property operating expenses, real estate taxes and ground rents ("Property Expenses") increased by \$5.1 million or 12.4% for the three months ended June 30, 2003 as compared to the 2002 period. This increase includes a \$3.2 million increase in property operating expenses and a \$1.9 million increase in real estate taxes. Included in the \$3.2 million of property operating expense increase is \$1.0 million attributable to increases in insurance costs. The insurance cost increase is primarily attributable to the added cost of terrorism insurance for our properties and a significant increase in our liability insurance costs. The increase in insurance costs were caused by implications of the events which occurred on September 11, 2001. The increase in real estate taxes are attributable to the significant increase levied by certain municipalities, particularly in New York City and Nassau County, New York which are experiencing severe fiscal budget issues. Also included in the property operating expense increase is approximately 892,000 of increased utility and snow removal costs which resulted in part to energy rate increases and continued inclement weather in the Northeast during the Spring months.

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, 2003 and 2002 were 62.0% and 66.3%, respectively. The decrease in Gross Operating Margins is primarily attributable to decreases in average occupancy of the portfolio and also as a result of increased Property Expenses specifically relating to insurance costs, real estate taxes and utilities and snow removal costs.

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Marketing, general and administrative expenses increased by approximately \$1.7 million for the three months ended June 30, 2003 as compared to the 2002 period. The increase is in part attributable to increased compensation costs including compensation costs associated with the Company's long term incentive programs which commenced in March 2003 and amounted to approximately \$1.3 million for the three months ended June 30, 2003. The Company also incurred an increase of property related marketing costs to lease space which amounted to approximately \$300,000 and increased costs related to director and officer's insurance and director fees of \$347,000 for the three months ended June 30, 2003. Marketing, general and administrative expenses, as a percentage of total revenues were, 7.4% for the three months ended June 30, 2003 as compared to 6.1% for the 2002 period. The Company capitalized approximately \$1.3 million of marketing, general and administrative expenses for each of the three-month periods ended June 30, 2003 and 2002. These costs relate to leasing, construction and development activities, which are performed by the Company and its subsidiaries.

Interest expense increased by approximately \$772,000 for the three months ended June 30, 2003 as compared to the 2002 period. The increase includes \$637,000 of interest on the Operating Partnership's \$50 million, five-year senior unsecured notes issued on June 17, 2002. In addition, the increase includes approximately \$346,000, which is attributable to an increase in the weighted average balance outstanding on the Company's unsecured credit facility. The weighted average balance outstanding was \$319.9 million for the three months ended June 30, 2003 as compared to \$218.1 million for the three months ended June 30, 2002. These increases were offset by a decrease of approximately \$221,000 in mortgage note payable interest expense.

Six months ended June 30, 2003 as compared to the six months ended June 30, 2002:

Property Operating Revenues increased by approximately \$1.3 million for the six months ended June 30, 2003 as compared to the 2002 period. The change in Property Operating Revenues is attributable to built-in rent increases and escalation increases in certain of our leases of approximately \$6.3 million and \$3.4 million attributable to lease up of newly developed and redeveloped properties. These increases were offset by approximately \$8.4 million related to decreases in certain property occupancy rates, decreases in rental rates and increases in bad debts related to tenant receivables and deferred rents receivable.

Investment and other income increased by \$8.3 million. This increase is primarily attributable to the gain recognized on the First Data land sale and build-to-suit transaction of approximately \$10.1 million. This increase in investment and other income was offset by decreases in income generated by the Service Companies.

Property Operating Expenses increased by \$11.1 million or 13.3% for the six months ended June 30, 2003 as compared to the 2002 period. This increase includes a \$7.5 million increase in property operating expenses and a \$3.6 million increase in real estate taxes. Included in the \$7.5 million of property operating expense increase is \$2.4 million attributable to increases in insurance costs. The insurance cost increase is primarily attributable to the added cost of terrorism insurance for our properties and a significant increase in our liability insurance costs. The increase in insurance costs were caused by implications of the events which occurred on September 11, 2001. The increase in real estate taxes are attributable to the significant increase levied by certain

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municipalities, particularly in New York City and Nassau County, New York which are experiencing severe fiscal budget issues. Also included in the property operating expense increase is approximately \$3.3 million of increased utility and snow removal costs which resulted in part to rate increases and continued inclement weather in Northeast during the Spring months. To a lesser extent, cleaning costs increased by approximately \$550,000 due to inflationary/contractual increases and property related marketing costs increased by approximately \$334,000 resulting from a decrease in overall occupancy.

Gross Operating Margins (defined as Property Operating Revenues less Property Expenses, taken as a percentage of Property Operating Revenues) for the six months ended June 30, 2003 and 2002 were 61.6% and 65.9%, respectively. The decrease in Gross Operating Margins is primarily attributable to decreases in average occupancy of the portfolio and also as a result of increased Property Expenses specifically relating to insurance costs, real estate taxes and utilities and snow removal costs.

Marketing, general and administrative expenses increased by approximately \$2.9 million for the six months ended June 30, 2003 as compared to the 2002 period. The increase is in part attributable to increased compensation costs including compensation costs associated with the Company's long term incentive programs which commenced in March 2003 and amounted to approximately \$1.5 million for the six months ended June 30, 2003. Marketing, general and administrative expenses, as a percentage of total revenues were, 6.8% for the six months ended June 30, 2003 as compared to 5.9% for the 2002 period. The Company capitalized approximately \$2.4 million of marketing, general and administrative expenses for the six months ended June 30, 2003 as compared to \$2.6 million for the 2002 period. These costs relate to leasing, construction and development activities, which are performed by the Company and its subsidiaries.

Interest expense increased by approximately \$2.6 million for the six months ended June 30, 2003 as compared to the 2002 period. The increase includes \$1.4 million of interest on the Operating Partnership's \$50 million, five-year senior unsecured notes issued on June 17, 2002. The increase is also affected by the reduction in capitalized interest expense of \$731,000 attributable to a decrease in the level of development projects. In addition, the increase includes approximately \$879,000 which is attributable to an increase in the weighted average balance outstanding on the Company's unsecured credit facility. The weighted average balance outstanding was \$303.0 million for the six months ended June 30, 2003 as compared to \$211.8 million for the six months ended June 30, 2002. These increases were offset by a decrease of approximately \$431,000 in mortgage note payable interest expense.

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LIQUIDITY AND CAPITAL RESOURCES

Historically, rental revenue has been the principal source of funds to pay operating expenses, debt service and non-incremental capital expenditures, excluding incremental 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 its unsecured credit facility described below. The credit facility contains several financial covenants with which the Company must be in compliance in order to borrow funds thereunder. During certain quarterly periods, the Company may incur significant leasing costs as a result of increased market demands from tenants and high levels of leasing transactions that result from the re-tenanting of scheduled expirations

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or early terminations of leases. As a result, during these periods the Company's cash flow from operating activities may not be sufficient to pay 100% of the quarterly dividends due on its common stock. To meet the short-term funding requirements relating to these leasing costs, the Company may use proceeds of property sales or borrowings under its credit facility. 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, when valuations for commercial real estate properties are high, the Company will seek to sell certain land inventory to realize value and profit created. The Company will then seek opportunities to reinvest the capital realized from these dispositions back into value-added assets in the Company's core Tri-State Area markets, as well as pursue its stock repurchase program. The Company will refinance existing mortgage indebtedness, senior unsecured notes or indebtedness under its 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, equity offerings and proceeds from sales of land, will be adequate to meet the capital and liquidity requirements of the Company in both the short and long-term.

As a result of current economic conditions, certain tenants have either not 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 coverage for acts of terrorism in all risk policies. In November 2002, the Terrorism Risk Insurance Act of 2002 was signed into law which, among other things, requires insurance companies to offer coverage for losses resulting from defined "acts of terrorism" through 2004. 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 \$300 million per occurrence. 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.

The terrorist attacks of September 11, 2001, in New York City may adversely effect the value of the Company's New York City properties and its ability to generate cash flow. There may be a decrease in demand in metropolitan areas that are considered at risk for future terrorist attacks, and this decrease may reduce the Company's revenues from property rentals.

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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.

The Company currently has a three year \$500 million unsecured revolving credit facility (the "Credit Facility") from JPMorgan Chase Bank, as administrative agent, Wells Fargo Bank, National Association, as syndication agent, and Citicorp North America, Inc. and Wachovia Bank, National Association, as co-documentation agents. The Credit Facility matures in December 2005, contains options for a one-year extension subject to a fee of 25 basis points and, upon receiving additional lender commitments, increasing the maximum revolving credit amount to \$750 million. In addition, borrowings under the Credit Facility are currently priced off LIBOR plus 90 basis points and the Credit Facility carries a facility fee of 20 basis points per annum. In the event of a change in the Operating Partnership's unsecured credit rating the interest rates and facility fee are subject to change. The outstanding borrowings under the Credit Facility were \$322.0 million at June 30, 2003.

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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, 2003, the Company had availability under the Credit Facility to borrow approximately an additional \$178.0 million, subject to compliance with certain financial covenants.

The Company continues to seek opportunities to acquire real estate assets in its markets. The Company has historically sought to acquire properties where it could use its real estate expertise to create additional value subsequent to acquisition. As a result of increased market values for the Company's commercial real estate assets, the Company has sold certain non-core assets or interests in assets where significant value has been created. During 2000, 2001 and 2002, the Company has sold assets or interests in assets with aggregate sales prices of approximately \$499.8 million. The Company has used the proceeds from these sales primarily to pay down borrowings under the Credit Facility, repurchase its outstanding stock and for general corporate purposes. In addition, during the quarterly period ended March 31, 2003, the Company through Reckson Construction Group, Inc. entered into a sale of a 19.3 acre land parcel and build-to-suit 195,000 square foot office building for aggregate consideration of approximately \$47.0 million.

On June 30, 2003, the Company had issued and outstanding 9,915,313 shares of Class B Exchangeable Common Stock, par value \$.01 per share (the "Class B common stock"). 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. The Class B common stock currently receives an annual dividend of \$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 at which time the Company anticipates that it will exercise its option to redeem all of its Class B common stock outstanding.

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The Board of Directors of the Company has authorized the purchase of up to five million shares of the Company's Class A common stock and / or its Class B 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. During the six months ended June 30, 2003, under this buy-back program, the Company purchased 252,000 shares of Class A common stock at an average price of \$18.01 per Class A share for an aggregate purchase price of approximately \$4.5 million.

The following table sets forth the Company's historical activity under its current common stock buy-back program (dollars in thousands except per share data):

	SHARES PURCHASED	AVERAGE PRICE PER SHARE	AGGREGATE PURCHASE PRICE
	-----	-----	-----
Current program:			
Class A common	2,950,400	\$ 21.30	\$ 62,830
Class B Common	368,200	\$ 22.90	8,432
	-----		-----
	3,318,600		\$ 71,262
	=====		=====

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 June 30, 2003, the Company had issued and outstanding 8,834,500 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 June 3, 2003 to and including June 2, 2004, at \$25.50 per share and (ii) on or after June 3, 2004 and thereafter, at \$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.

On August 7, 2003, in conjunction with the Company's acquisition of a Class A office property located in Stamford, Connecticut the Company issued 465,845 Class C common units of limited partnership interest. The Class C units will receive an annual distribution of \$1.87 per unit, which amount will increase or decrease pro-rata based upon changes in the dividend paid on the Company's Class A common stock.

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

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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 from the adoption of Statement No. 123. To determine the fair value of the stock options granted, the Company uses 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. During the three and six months ended June 30, 2003, the Company recorded approximately \$1,300 and \$2,700, respectively of expense related to the fair value of stock options issued. Such amounts have been included in marketing, general and administrative expenses in the Company's consolidated statements of income.

The Company's indebtedness at June 30, 2003 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 \$322.0 million outstanding under the Credit Facility, approximately \$499.4 million of senior unsecured notes and approximately \$600.7 million of mortgage indebtedness. Based on the Company's total market capitalization of approximately \$3.1 billion at June 30, 2003 (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 46.2% 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 eight (formerly eleven) executive office centers in the Company's properties, two of which are held through joint ventures. The leases under which these office centers operate expire between 2008 and 2011, encompass approximately 160,600 square feet and have current contractual annual base rents of approximately \$3.8 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, the Bankruptcy Court has (i) granted HQ's petition to reject three of its leases with the Company, one of which is held through the 919JV and (ii) modify the terms of the lease, which is held through the 520JV. Two of the three rejected leases were held through wholly owned entities, aggregated approximately 23,900 square feet and were rejected in March 2002. The Company has since re-leased 100% of the space related to these two rejected leases. The third rejected lease held through the 919JV aggregated approximately 31,000 square feet and was to provide for contractual base rents of approximately \$1.9 million for the 2003 calendar year. With respect to the lease held through the 520JV, HQ surrendered approximately 10,500 square feet, or one-third of the total leased premises, to the Company. The restructured lease provides for initial base rent of \$23.25 per foot and is scheduled to expire in 2011. Of the surrendered space, approximately 6,500 square feet has been released at \$18.50 per foot to an existing tenant in the 520JV and is scheduled to expire in 2010. Pursuant to the bankruptcy filing, HQ has been paying current rental charges under its leases with the Company, other than under the three rejected leases. The Company is in negotiation to restructure two of the leases and leave the terms of the remaining five 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 currently established reserves of approximately \$428,000 (net of minority partners' interests and including the Company's share of unconsolidated

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joint venture interest), or 85%, of the amounts due from HQ as of June 30, 2003.

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WorldCom/MCI and its affiliates ("WorldCom"), a telecommunications company, which leased approximately 527,000 square feet in thirteen 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 Bankruptcy Court granted WorldCom's petition to reject four of its leases with the Company. The four rejected leases aggregated approximately 282,000 square feet and were to provide for contractual base rents of approximately \$7.2 million for the 2003 calendar year. All of WorldCom's leases are current on base rental charges through August 31, 2003, other than under the four rejected leases and the Company currently holds approximately \$300,000 in security deposits relating to the non-rejected leases. The Company has reached an agreement with WorldCom to restructure the remaining WorldCom leases, which is subject to approval of the Bankruptcy Court. There can be no assurance as to whether any deal will be consummated with WorldCom or if WorldCom will affirm or reject any or all of its remaining leases with the Company.

As of June 30, 2003, WorldCom occupied approximately 245,000 square feet of office space with aggregate annual base rental revenues of approximately \$4.1 million, or 1.1% of the Company's total 2003 annualized rental revenue based on base rental revenue earned on a consolidated basis.

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, 2003 (in thousands):

	MATURITY DATE					
	2003	2004	2005	2006	2007	THE
Mortgage notes payable (1)	\$ 6,421	\$ 13,169	\$ 14,167	\$ 13,785	\$ 11,305	\$
Mortgage notes payable (2) (3)	--	2,616	18,553	129,920	60,539	
Senior unsecured notes	--	100,000	--	--	200,000	
Unsecured credit facility	--	--	322,000	--	--	
Land lease obligations	1,357	2,811	2,814	2,795	2,735	
Operating leases	690	1,313	1,359	1,407	1,455	
Air rights lease obligations	188	379	379	379	379	
	<u>\$ 8,656</u>	<u>\$ 120,288</u>	<u>\$ 359,272</u>	<u>\$ 148,286</u>	<u>\$ 276,413</u>	<u>\$</u>

(1) Scheduled principal amortization payments

(2) Principal payments due at maturity

(3) In addition, the Company has a 60% interest in an unconsolidated joint venture property. The Company's share of the mortgage debt at June 30,

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2003 is approximately \$8.2 million. This mortgage note bears interest at 8.85% per annum and matures on September 1, 2005 at which time the Company's share of the mortgage debt will be approximately \$6.9 million

Certain of the mortgage notes payable are guaranteed by certain limited 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, 2003, the Company had approximately \$950,000 in outstanding undrawn standby letters of credit issued under the Credit Facility. In addition, approximately \$44.6 million, or 6.1%, of the Company's mortgage debt is recourse to the Company.

Other Matters

Eight of the Company's office 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. These limitations expire between the remainder of 2003 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.

On May 29, 2003, the Board of Directors appointed Mr. Peter Quick as Lead Director and Chairman of the Nominating/Governance Committee. The Nominating/Governance Committee as well as the Audit Committee and Compensation Committee are comprised solely of independent directors.

In addition, in May 2003, the Company revised its policy with respect to compensation of its independent directors to provide that a substantial portion of the independent director's compensation shall be in the form of Class A common stock of the Company. Such common stock may not be sold until such time as the director is no longer a member of the Company's Board.

The Company had historically structured long term incentive programs ("LTIP") using restricted stock and stock loans. In July 2002, as a result of certain provisions of the Sarbanes Oxley legislation, the Company discontinued the use of stock loans in its LTIP. In connection with LTIP grants made prior to the enactment of the Sarbanes Oxley legislation the Company made stock loans to certain executive and senior officers to purchase 1,372,393 shares of its Class A common stock at market prices ranging from \$18.44 per share to \$27.13 per share. The stock loans were set to bear interest at the mid-term Applicable Federal Rate and were secured by the shares purchased. Such stock loans (including accrued interest) vest and are ratably forgiven each year on the anniversary of the grant date based upon vesting periods ranging from four to ten years based on continued service and in part on attaining certain annual

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performance measures. These stock loans had an initial aggregate weighted average vesting period of approximately nine years. Approximately \$2.2 million of compensation expense was recorded for each of the six month periods ended June 30, 2003 and 2002, respectively, related to these LTIP. Such amounts have been included in marketing, general and administrative expenses on the Company's consolidated statements of income.

The outstanding stock loan balances due from executive and senior officers aggregated approximately \$13.0 million and \$17.0 million at June 30, 2003 and December 31, 2002, respectively, and have been included as a reduction of additional paid in capital on the Company's consolidated balance sheets. Other outstanding loans to executive and senior officers at June 30, 2003 amounted to approximately \$1.0 million related to life insurance contracts and approximately \$2.0 million primarily related to tax payment advances on stock compensation awards made to non-executive officers.

In November 2002 and March 2003 an award of rights was granted to certain executive officers of the Company (the "2002 Rights" and "2003 Rights", respectively and collectively, the "Rights"). Each Right represents the right to receive, upon vesting, one share of Class A common stock if shares are then available for grant under one of the Company's stock option plans or, if shares are not so available, an amount of cash equivalent to the value of such stock on the vesting date. The 2002 Rights will vest in four equal annual installments beginning on November 14, 2003 (and shall be fully vested on November 14, 2006). The 2003 Rights will be earned as of March 13, 2005 and will vest in three equal annual installments beginning on March 13, 2005 (and shall be fully vested on March 13, 2007). Dividends on the shares will be held by the Company until such shares become vested, and will be distributed thereafter to the applicable officer. The 2002 Rights also entitle the holder thereof to cash payments in respect of taxes payable by the holder resulting from the Rights. The 2002 Rights aggregate 190,524 shares of the Company's Class A common stock and the 2003 Rights aggregate 60,760 shares of Class A common stock. During the three and six months ended June 30, 2003, the Company recorded approximately \$209,000 and \$425,000 of compensation expense, respectively, related to the Rights. Such amounts have been included in marketing, general and administrative expenses on the Company's consolidated statements of income.

In March 2003, the Company established a new LTIP for its executive and senior officers. The four-year plan has a core award which provides for annual stock based compensation based upon continued service and in part based on attaining certain annual performance measures. The plan also has a special outperformance award which provides for compensation to be earned at the end of a four year period if the Company attains certain four year cumulative performance measures. Amounts earned under the special outperformance award may be paid in cash or stock at the discretion of the Compensation Committee of the Board. Performance measures are based on total shareholder returns on a relative and absolute basis. On March 13, 2003, the Company made available 1,384,102 shares of its Class A common stock under its existing stock option plans in connection with the core award of this LTIP for twelve of its executive and senior officers. During May 2003, two of the Company's executive officers waived these awards under this LTIP in their entirety, which aggregated 277,778 shares or 20% of the core awards granted. In addition, the special outperformance awards of the LTIP were amended to increase the per share base price above which the four year cumulative return is measured from \$18.00 to \$22.40. With respect to the core award of this LTIP, the Company recorded approximately \$1.3 million and \$1.5 million of compensation expense for the three and six months ended June 30, 2003, respectively. Such amounts have been included in marketing, general and administrative expenses on the Company's consolidated statements of income. Further, no provision will be made for the special outperformance award of this LTIP until such time as achieving the requisite performance measures is determined to be probable.

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Under various Federal, state and local laws, ordinances and regulations, an owner of real estate is liable for the costs of removal or remediation of certain hazardous or toxic substances on or in such property. These laws often impose such liability without regard to whether the owner knew of, or was responsible for, the presence of such hazardous or toxic substances. The cost of any required remediation and the owner's liability therefore as to any property is generally not limited under such enactments and could exceed the value of the property and/or the aggregate assets of the owner. The presence of such substances, or the failure to properly remediate such substances, may adversely affect the owner's ability to sell or rent such property or to borrow using such property as collateral. Persons who arrange for the disposal or treatment of hazardous or toxic substances may also be liable for the costs of removal or remediation of such substances at a disposal or treatment facility, whether or not such facility is owned or operated by such person. Certain environmental laws govern the removal, encapsulation or disturbance of asbestos-containing materials ("ACMs") when such materials are in poor condition, or in the event of renovation or demolition. Such laws impose liability for release of ACMs into the air and third parties may seek recovery from owners or operators of real properties for personal injury associated with ACMs. In connection with the ownership (direct or indirect), operation, management and development of real properties, the Company may be considered an owner or operator of such properties or as having arranged for the disposal or treatment of hazardous or toxic substances and, therefore, potentially liable for removal or remediation costs, as well as certain other related costs, including governmental fines and injuries to persons and property.

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All of the Company's office and industrial / R&D properties have been subjected to a Phase I or similar environmental audit after April 1, 1994 (which involved general inspections without soil sampling, ground water analysis or radon testing and, for the Company's properties constructed in 1978 or earlier, survey inspections to ascertain the existence of ACMs were conducted) completed by independent environmental consultant companies (except for 35 Pinelawn Road which was originally developed by Reckson, the predecessor to the Company, and subjected to a Phase 1 in April 1992). These environmental audits have not revealed any environmental liability that would have a material adverse effect on the Company's business.

FUNDS FROM OPERATIONS

The Company believes that Funds from Operations ("FFO") is a widely recognized and appropriate measure of performance of an equity REIT. Although FFO is a non-GAAP financial measure, the Company believes it provides useful information to shareholders, potential investors and management. The Company computes FFO in accordance with the standards established by the National Association of Real Estate Investment Trusts ("NAREIT"). FFO is defined by NAREIT as net income or loss, excluding gains or losses from debt restructuring and sales of depreciable properties plus real estate depreciation and amortization, and after adjustments for unconsolidated partnerships and joint ventures. FFO does not represent cash generated from operating activities in accordance with 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 six month periods ended June 30, 2003 includes a gain from the sale of land in the amount of \$2.2 million and \$7.7 million, respectively.

Since all companies and analysts do not calculate FFO in a similar fashion, the

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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):

	THREE MONTHS ENDED JUNE 30,		SIX MONTH JUNE
	2003	2002	2003
Net income allocable to common shareholders	\$ 7,585	\$13,805	\$16,248
Adjustments for basic funds from operations:			
Add:			
Limited partners' minority interest in the operating partnership	874	1,663	1,870
Real estate depreciation and amortization	29,127	27,041	60,454
Minority partners' interests in consolidated partnerships	4,335	4,813	9,025
Less:			
Gain on sales of depreciable real estate assets	--	--	--
Amounts distributable to minority partners in consolidated partnerships	6,769	6,329	13,576
Basic Funds From Operations ("FFO")	35,152	40,993	74,021
Add:			
Dividends and distributions on dilutive shares and units	273	5,767	8,968
Diluted FFO	\$35,425	\$46,760	\$82,989
Weighted average common shares outstanding	57,916	61,059	58,016
Weighted average units of limited partnership interest outstanding	7,276	7,500	7,276
Basic weighted average common shares and units outstanding	65,192	68,559	65,292
Adjustments for dilutive FFO weighted average shares and units outstanding:			
Add:			
Weighted average common stock equivalents	117	390	118
Weighted average shares of Series A Preferred Stock ...	--	8,060	7,747
Weighted average shares of Series B Preferred Stock ...	--	1,919	--
Weighted average shares of preferred limited partnership interest	661	661	661
Dilutive FFO weighted average shares and units outstanding	65,970	79,589	73,818

INFLATION

The office leases generally provide for fixed base rent increases or indexed escalations. In addition, the office leases provide for separate escalations of

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real estate taxes, operating expenses and electric costs over a base amount. The industrial / R&D 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. As a result of the impact of the events of September 11, 2001, the Company has realized increased insurance costs, particularly relating to property and terrorism insurance, and security costs. The Company has included these costs as part of its escalatable expenses. The Company has billed these escalatable expense items to its tenants consistent with the terms of the underlying leases and believes they are collectible. 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.

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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, 2003, 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 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 June 30, 2003 (dollars in thousands):

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	For the Year Ended December 31,					
	2003	2004	2005	2006	2007	Thereaft
Long term debt:						
Fixed rate.....	\$ 6,421	\$ 115,785	\$ 32,720	\$ 143,705	\$ 271,844	\$ 663,6
Weighted average interest rate.....	7.50%	7.47%	6.92%	7.38%	7.14%	7.
Variable rate.....	\$ --	\$ --	\$ 322,000	\$ --	\$ --	\$
Weighted average interest rate.....	--	--%	2.12%	--	--	

(1) Includes aggregate unamortized issuance discounts of approximately \$626,000 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 \$3.2 million annual increase in interest expense based on \$322.0 million of variable rate debt outstanding at June 30, 2003.

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, 2003 (dollars in thousands):

	For the Year Ended December 31,					
	2003	2004	2005	2006	2007	Therea
Mortgage notes and notes receivable:						
Fixed rate.....	\$ --	\$ --	\$ 36,500	\$ --	\$ --	\$ 16,
Weighted average interest rate.....	--	--	11.32%	--	--	12.

(1) Excludes interest receivables aggregating approximately \$1.1 million dollars.

ITEM 4. CONTROLS AND PROCEDURES

We maintain disclosure controls and procedures designed to ensure that information required to be disclosed in our filings under the Securities Exchange Act of 1934 is reported within the time periods specified in the SEC's rules and forms. In this regard, the Company has formed a Disclosure Committee

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currently comprised of all of the Company's executive officers as well as certain other employees with knowledge of information that may be considered in the SEC reporting process. The Committee has responsibility for the development and assessment of the financial and non-financial information to be included in the reports filed by the Company with the SEC and assists the Company's Co-Chief Executive Officers and Chief Financial Officer in connection with their certifications contained in the Company's SEC reports. The Committee meets regularly and reports to the Audit Committee on a quarterly or more frequent basis. Our principal executive and financial officers have evaluated, with the participation of the Company's management, our disclosure controls and procedures as of the end of the period covered by this Quarterly Report on Form 10-Q. Based upon the evaluation, our principal executive and financial officers concluded that such disclosure controls and procedures are effective.

There were no changes in our internal control over financial reporting that occurred during our most recent fiscal quarter that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

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The following table sets forth the Company's schedule of its top 25 tenants based on base rental revenue as of June 30, 2003:

TENANT NAME (1)	TENANT TYPE	TOTAL SQUARE FEET	PERCENT OF PRO-RATA SHARE OF ANNUALIZED BASE RENTAL REVENUE	PERCENT OF ANNUAL RENTAL
* DEBEVOISE & PLIMPTON	Office	465,420	3.3%	5
* AMERICAN EXPRESS	Office	238,342	2.0%	1
BELL ATLANTIC	Office	210,426	1.6%	1
* SCHULTE ROTH & ZABEL	Office	238,052	1.4%	2
DUN & BRADSTREET CORP.	Office	123,000	1.2%	1
* FUJI PHOTO FILM USA	Office	186,484	1.2%	1
* WORLDCOM/MCI	Office	244,870	1.1%	1
UNITED DISTILLERS	Office	137,918	1.1%	1
T.D. WATERHOUSE	Office	103,381	1.0%	0
* PRUDENTIAL	Office	127,153	0.9%	0
* BANQUE NATIONALE DE PARIS	Office	145,834	0.9%	1
* HQ GLOBAL	Office/Industrial	160,637	0.9%	0
* KRAMER LEVIN NESSEN KAMIN	Office	158,144	0.9%	1
HELLER EHRMAN WHITE	Office	64,526	0.9%	0
VYTRA HEALTHCARE	Office	105,613	0.8%	0
P.R. NEWSWIRE ASSOCIATES	Office	67,000	0.8%	0
HOFFMANN-LA ROCHE INC.	Office	120,736	0.7%	0
LABORATORY CORP OF AMERICA	Office	108,000	0.7%	0
* STATE FARM	Office/Industrial	184,013	0.7%	1
EMI ENTERTAINMENT WORLD	Office	65,844	0.7%	0
ESTEE LAUDER	Industrial	374,578	0.7%	0
* DRAFT WORLDWIDE INC.	Office	124,008	0.7%	1
PRACTICING LAW INSTITUTE	Office	77,500	0.7%	0
LOCKHEED MARTIN CORP.	Office	123,554	0.7%	0
D.E.SHAW	Office	70,104	0.6%	0

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(1) Ranked by pro-rata share of annualized based rental revenue adjusted for pro rata share of joint venture interests and to reflect WorldCom/MCI and HQ Global leases rejected to date.

* Part or all of space occupied by tenant is in a 51% or more owned joint venture building.

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

The following table sets forth annual and per square foot non-incremental revenue-generating capital expenditures in which the Company paid or accrued, during the respective periods, to retain revenues attributable to existing leased space for the years 1999 through 2002 and for the six month period ended June 30, 2003 for the Company's office and industrial / R&D properties other than One Orlando Center in Orlando, FL:

	1999	2000	2001	2002	Average 1999-2002

Suburban Office Properties					
Total	\$2,298,899	\$3,289,116	\$4,606,069	\$5,283,674	\$3,869,440
Per Square Foot	\$0.23	\$0.33	\$0.45	\$0.53	\$0.39
NYC Office Properties					
Total	N/A	\$946,718	\$1,584,501	\$1,939,111	\$1,490,110
Per Square Foot	N/A	0.38	0.45	\$0.56	0.46
Industrial Properties					
Total	\$1,048,688	\$813,431	\$711,666	\$1,881,627	\$1,113,853
Per Square Foot	\$0.11	\$0.11	\$0.11	\$0.28	\$0.15
TOTAL PORTFOLIO					

Total	\$3,347,587	\$5,049,265	\$6,902,236	\$9,104,413	
Per Square Foot	\$0.17	\$0.25	\$0.34	\$0.45	

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The following table sets forth annual and per square foot non-incremental revenue-generating tenant improvement costs and leasing commissions in which the Company committed to perform, during the respective periods, to retain revenues attributable to existing leased space for the years 1999 through 2002 and for the six month period ended June 30, 2003 for the Company's office and industrial / R&D properties other than One Orlando Center in Orlando, FL:

	1999	2000	2001	2002	Average 1999-2002	Y 20

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Long Island Office						
Properties						
Tenant Improvements	\$1,009,357	\$2,853,706	\$2,722,457	\$1,917,466	\$2,125,747	\$2,444,444
Per Square Foot Improved	\$ 4.73	\$ 6.99	\$ 8.47	\$ 7.81	\$ 7.00	\$ 7.00
Leasing Commissions	\$ 551,762	\$2,208,604	\$1,444,412	\$1,026,970	\$1,307,937	\$2,000,000
Per Square Foot Leased	\$ 2.59	\$ 4.96	\$ 4.49	\$ 4.18	\$ 4.06	\$ 4.06
Total Per Square Foot	\$ 7.32	\$ 11.95	\$ 12.96	\$ 11.99	\$ 11.06	\$ 11.06
Westchester Office						
Properties						
Tenant Improvements	\$1,316,611	\$1,860,027	\$2,584,728	\$6,391,589(1)	\$3,038,239	\$8,000,000
Per Square Foot Improved	\$ 5.62	\$ 5.72	\$ 5.91	\$ 15.05	\$ 8.08	\$ 8.08
Leasing Commissions	\$ 457,730	\$ 412,226	\$1,263,012	\$1,975,850	\$1,027,204	\$2,000,000
Per Square Foot Leased	\$ 1.96	\$ 3.00	\$ 2.89	\$ 4.65	\$ 3.13	\$ 3.13
Total Per Square Foot	\$ 7.58	\$ 8.72	\$ 8.80	\$ 19.70	\$ 11.20	\$ 11.20
Connecticut Office						
Properties						
Tenant Improvements	\$ 179,043	\$ 385,531	\$ 213,909	\$ 491,435	\$ 317,480	\$ 317,480
Per Square Foot Improved	\$ 4.88	\$ 4.19	\$ 1.46	\$ 3.81	\$ 3.58	\$ 3.58
Leasing Commissions	\$ 110,252	\$ 453,435	\$ 209,322	\$ 307,023	\$ 270,008	\$ 270,008
Per Square Foot Leased	\$ 3.00	\$ 4.92	\$ 1.43	\$ 2.38	\$ 2.93	\$ 2.93
Total Per Square Foot	\$ 7.88	\$ 9.11	\$ 2.89	\$ 6.19	\$ 6.52	\$ 6.52
New Jersey Office						
Properties						
Tenant Improvements	\$ 454,054	\$1,580,323	\$1,146,385	\$ 2,842,521	\$1,505,821	\$3,444,444
Per Square Foot Improved	\$ 2.29	\$ 6.71	\$ 2.92	\$ 10.76	\$ 5.67	\$ 5.67
Leasing Commissions	\$ 787,065	\$1,031,950	\$1,602,962	\$1,037,012	\$1,114,747	\$1,777,777
Per Square Foot Leased	\$ 3.96	\$ 4.44	\$ 4.08	\$ 3.92	\$ 4.10	\$ 4.10
Total Per Square Foot	\$ 6.25	\$ 11.15	\$ 7.00	\$ 14.68	\$ 9.77	\$ 9.77
New York City Office						
Properties						
Tenant Improvements	N/A	\$ 65,267	\$ 788,930	\$ 4,350,106	\$1,734,768	\$2,000,000
Per Square Foot Improved	N/A	\$ 1.79	\$ 15.69	\$ 18.39	\$ 11.96	\$ 11.96
Leasing Commissions	N/A	\$ 418,185	\$1,098,829	\$ 2,019,837	\$1,178,950	\$ 7,000,000
Per Square Foot Leased	N/A	\$ 11.50	\$ 21.86	\$ 8.54	\$ 13.97	\$ 13.97
Total Per Square Foot	N/A	\$ 13.29	\$ 37.55	\$ 26.93	\$ 25.92	\$ 25.92
Industrial Properties						
Tenant Improvements	\$ 375,646	\$ 650,216	\$1,366,488	\$ 1,850,812	\$1,060,791	\$ 9,000,000
Per Square Foot Improved	\$ 0.25	\$ 0.95	\$ 1.65	\$ 1.97	\$ 1.20	\$ 1.20
Leasing Commissions	\$ 835,108	\$ 436,506	\$ 354,572	\$ 890,688	\$ 629,218	\$ 4,000,000
Per Square Foot Leased	\$ 0.56	\$ 0.64	\$ 0.43	\$ 0.95	\$ 0.64	\$ 0.64
Total Per Square Foot	\$ 0.81	\$ 1.59	\$ 2.08	\$ 2.92	\$ 1.85	\$ 1.85
TOTAL PORTFOLIO						
Tenant Improvements	\$3,334,711	\$7,395,070	\$8,822,897	\$17,843,929	\$9,782,844	\$9,782,844
Per Square Foot Improved	\$ 1.53	\$ 4.15	\$ 4.05	\$ 7.96	\$ 4.75	\$ 4.75
Leasing Commissions	\$2,741,917	\$4,960,906	\$5,973,109	\$ 7,257,379	\$5,528,065	\$5,528,065
Per Square Foot Leased	\$ 1.26	\$ 3.05	\$ 2.75	\$ 3.24	\$ 2.66	\$ 2.66

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Total Per Square Foot \$ 2.79 \$ 7.20 \$ 6.80 \$ 11.20 \$ 7.41 \$

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NOTES:

- (1) Excludes tenant improvements and leasing commissions related to a 163,880 square foot leasing transaction with Fuji Photo Film U.S.A. Leasing commissions on this transaction amounted to \$5.33 per square foot and tenant improvement allowance amounted to \$40.88 per square foot.
- (2) Excludes \$644,445 of deferred leasing costs attributable to space marketed but not yet leased.

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The following table sets forth the Company's components of its paid or accrued non-incremental and incremental revenue-generating capital expenditures, tenant improvements and leasing costs for the six months ended June 30, 2003 as reported on its "Statements of Cash Flows - Investment Activities" contained in its consolidated financial statements (in thousands):

	June 30, 2003

Capital expenditures:	
Non-incremental	\$ 4,297
Incremental	899
Tenant improvements:	
Non-incremental	19,901
Incremental	52

Additions to commercial real estate properties	\$25,149
	=====
Leasing costs:	
Non-incremental	\$ 6,554
Incremental	2,211

Payment of deferred leasing costs	\$ 8,765
	=====
Acquisition and development costs	\$16,237
	=====

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The following table sets forth the Company's lease expiration table at July 1, 2003 for its Total Portfolio of properties, its Office Portfolio and its Industrial / R&D Portfolio.

LEASE EXPIRATION SCHEDULE

TOTAL PORTFOLIO				
Year of Expiration	Number of Leases Expiring	Square Feet Expiring	% of Total Portfolio Sq Ft	Cumulative % of Total Portfolio Sq Ft
2003	75	704,082	3.4%	3.4%
2004	183	1,511,741	7.4%	10.8%
2005	220	2,345,589	11.5%	22.3%
2006	226	2,636,183	12.9%	35.2%
2007	138	1,473,608	7.2%	42.4%
2008	127	1,591,864	7.8%	50.1%
2009 and thereafter	315	8,540,939	41.8%	91.8%
Total/Weighted Average	1,284	18,804,006	91.8%	--
Total Portfolio Square Feet		20,474,097		

OFFICE PORTFOLIO

Year of Expiration	Number of Leases Expiring	Square Feet Expiring	% of Total Office Sq Ft	Cumulative % of Total Portfolio Sq Ft
2003	68	591,719	4.4%	4.4%
2004	145	945,855	7.0%	11.3%
2005	187	1,639,436	12.1%	23.4%
2006	171	1,557,869	11.5%	34.9%
2007	107	1,114,656	8.2%	43.1%
2008	94	893,876	6.6%	49.7%
2009 and thereafter	256	5,675,221	41.8%	91.6%
Total/Weighted Average	1,028	12,418,632	91.6%	--
Total Office Portfolio Square Feet		13,565,420		

INDUSTRIAL/R&D PORTFOLIO

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Year of Expiration	Number of Leases Expiring	Square Feet Expiring	% of Total Industrial/R&D Sq Ft	Cumulative % of Total Portfolio Sq Ft
2003	7	112,363	1.6%	1.6%
2004	38	565,886	8.2%	9.8%
2005	33	706,153	10.2%	20.0%
2006	55	1,078,314	15.6%	35.6%
2007	31	358,952	5.2%	40.8%
2008	33	697,988	10.1%	50.9%
2009 and thereafter	59	2,865,718	41.5%	92.4%
Total/Weighted Average	256	6,385,374	92.4%	--
Total Industrial/R&D Portfolio Square Feet		6,908,677		--

(a) Excludes the 355,000 square foot office property located in Orlando, Florida

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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.

Item 2. Changes in Securities and Use of Proceeds - None

Item 3. Defaults Upon Senior Securities - None

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

On May 29, 2003, 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 three nominees as Class II directors to serve until the 2006 annual meeting of stockholders and until their respective successors are duly elected and qualified, (2) the election of one nominee as a Class III director to serve until the 2004 annual meeting of stockholders and until a respective successor is duly elected and qualified and (3) to ratify the selection of Ernst & Young, LLP as the independent auditors of the Company for the fiscal year ending December 31, 2003. The four nominees were elected and the auditors were ratified. The results of the voting are set for below:

Election of Directors	Votes Cast For	Withheld	Votes Cast Ag
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Donald Rechler	40,881,623	10,528,385	N/A
Mitchell Rechler	40,881,623	10,528,385	N/A
Ronald Menaker	41,731,002	9,679,006	N/A
Peter Quick	41,731,002	9,679,006	N/A
Ratification of Auditors -----	50,428,370	N/A	902,254

Item 5. Other information - None

Item 6. Exhibits and Reports on Form 8-K

a) Exhibits

- 10.04 Supplement to the Amended and Restated Agreement of Limited Partnership of Reckson operating Partnership, L.P. establishing the Series C common units of limited partnership interest.
- 10.1 Reckson Associates Realty Corp. amended and restated 1995 Stock Option Plan
- 10.2 Reckson Associates Realty Corp. amended and restated 1997 Stock Option Plan
- 10.3 Reckson Associates Realty Corp. amended and restated 2002 Stock Option Plan
- 31.1 Certification of Donald J. Rechler, Co-Chief Executive Officer of the Registrant, pursuant to Rule 13a - 14(a)/15(d) - 14(a).
- 31.2 Certification of Scott H. Rechler, Co-Chief Executive Officer of the Registrant, pursuant to Rule 13a - 14(a)/15(d) - 14(a).
- 31.3 Certification of Michael Maturo, Executive Vice President, Treasurer and Chief Financial Officer of the Registrant, pursuant to Rule 13a - 14(a)/15(d) - 14(a).
- 32.1 Certification of Donald J. Rechler, Co-Chief Executive Officer of the Registrant, pursuant to Section 1350 of Chapter 63 of Title 18 of the United States Code.
- 32.2 Certification of Scott H. Rechler, Co-Chief Executive Officer of the Registrant, pursuant to Section 1350 of Chapter 63 of Title 18 of the United States Code.
- 32.3 Certification of Michael Maturo, Executive Vice President, Treasurer and Chief Financial Officer of the Registrant, pursuant to Section 1350 of Chapter 63 of Title 18 of the United States Code.

b) During the three months ended June 30, 2003, the Registrant filed the following reports on Form 8-K:

On May 7, 2003, the Registrant submitted a report on Form 8-K under Items 7 and 9 thereof in order to file a press release announcing its consolidated financial results for the quarter ended March 31, 2003.

On May 28, 2003, the Registrant submitted a report on Form 8-K

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under Item 5 thereof in order to describe certain amendments to its Long Term Incentive Plan.

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SIGNATURES

Pursuant to the requirements of the Securities 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

Scott H. Rechler, Co-Chief
Executive Officer

By: /s/ Michael Maturo

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

By /s/ Donald J. Rechler

Donald J. Rechler, Co-Chief
Executive Officer

DATE: August 8, 2003

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