RECKSON ASSOCIATES REALTY CORP
Form 10-Q
August 09, 2004

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, 2004

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 INCORPORATION OR ORGANIZATION)	(IRS EMPLOYER IDENTIFICATION NUMBER)
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 ONE CLASS OF COMMON STOCK, PAR VALUE $.01 PER SHARE, WITH 69,941,988 SHARES OUTSTANDING AS OF AUGUST 6, 2004

RECKSON ASSOCIATES REALTY CORP.
QUARTERLY REPORT

FOR THE THREE MONTHS ENDED JUNE 30, 2004

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PART I - FINANCIAL INFORMATION
ITEM 1 - FINANCIAL STATEMENTS

RECKSON ASSOCIATES REALTY CORP.

CONSOLIDATED BALANCE SHEETS
(DOLLARS IN THOUSANDS, EXCEPT FOR SHARE AMOUNTS)

	JUNE 30, 2004 (UNAUDITED)	DECEMBER 31, 2003
ASSETS:		
Commercial real estate properties, at cost:		
Land	$ 384,137	$ 378,479
Building and improvements	2,608,867	2,211,566
Developments in progress:		
Land	95,600	90,706
Development costs	28,900	68,127
Furniture, fixtures and equipment	11,625	11,338
	3,129,129	2,760,216
Less accumulated depreciation	(515,961)	(464,382)
Investment in real estate, net of accumulated deprecation	2,613,168	2,295,834
Properties and related assets held for sale, net of accumulated depreciation	5,069	52,517
Investments in real estate joint ventures	6,462	5,904
Investments in mortgage notes and notes receivable	68,433	54,986
Investments in service companies and affiliate loans and joint ventures	70,563	71,614
Cash and cash equivalents	82,670	22,330
Tenant receivables	11,661	11,929
Deferred rents receivable	122,672	111,962
Prepaid expenses and other assets	82,523	35,371
Contract and land deposits and pre-acquisition costs	60	20,203
Deferred leasing and loan costs	69,573	64,345
TOTAL ASSETS	$3,132,854	$2,746,995
LIABILITIES:		
Mortgage notes payable	$ 965,561	$ 721,635
Unsecured credit facility	90,000	169,000
Senior unsecured notes	549,132	499,445
Liabilities associated with properties held for sale	311	881
Accrued expenses and other liabilities	120,498	93,885
Dividends and distributions payable	32,994	28,290
TOTAL LIABILITIES	1,758,496	1,513,136
Minority partners' interests in consolidated partnerships	223,405	233,070
Preferred unit interest in the operating partnership	16,581	19,662
Limited partners' minority interest in the operating partnership	46,659	44,518
TOTAL MINORITY INTERESTS	286,645	297,250

Commitments and contingencies	--	--
STOCKHOLDERS' EQUITY:		
Preferred Stock, $.01 par value, 25,000,000 shares authorized		
Series A preferred stock, 8,693,900 and 8,834,500 shares issued and outstanding, respectively	87	88
Series B preferred stock, 0 and 2,000,000 shares issued and outstanding, respectively	--	20
Common Stock, $.01 par value, 100,000,000 shares authorized 67,256,850 and 58,275,367 shares issued and outstanding, respectively	673	583
Retained earnings	7,412	35,757
Additional paid in capital	1,142,832	968,653
Accumulated other comprehensive income	5,201	--
Treasury stock, 3,318,600 shares	(68,492)	(68,492)
TOTAL STOCKHOLDERS' EQUITY	1,087,713	936,609
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$3,132,854	$2,746,995

(see accompanying notes to financial statements)

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

	THREE MONTHS ENDED JUNE 30,	
	2004	2003
REVENUES:		
Property operating revenues:		
Base rents	$ 109,765	$ 94,141
Tenant escalations and reimbursements	17,478	13,907
Total property operating revenues	127,243	108,048
Interest income on mortgage notes and notes receivable (including $539, $1,045, $1,128 and $2,078, respectively from related parties)	1,876	1,539
Investment and other income	1,447	3,349
TOTAL REVENUES	130,566	112,936
EXPENSES:		
Property operating expenses	50,626	42,438
Marketing, general and administrative	7,374	8,795
Interest	24,607	20,145
Depreciation and amortization	29,617	26,983
TOTAL EXPENSES	112,224	98,361
Income before minority interests, preferred dividends and		

distributions, equity (loss) in earnings of real estate joint ventures and discontinued operations	18,342	14,575
Minority partners' interests in consolidated partnerships	(4,422)	(4,062
Distributions to preferred unit holders	(227)	(274
Limited partners' minority interest in the operating partnership	(506)	(482
Equity (loss) in earnings of real estate joint ventures	294	(270
Income before discontinued operations and preferred dividends	13,481	9,487
Discontinued operations (net of limited partners' and minority interests):		
Gain on sales of real estate	3,639	--
Income from discontinued operations	95	3,415
Net Income	17,215	12,902
Dividends to preferred shareholders	(4,172)	(5,317
Net income allocable to common shareholders	$ 13,043	$ 7,585
Net income allocable to:		
Common shareholders	$ 13,043	$ 5,769
Class B common shareholders	--	1,816
Total	$ 13,043	$ 7,585
Basic net income per weighted average common share:		
Income from continuing operations	$ .13	$ .07
Discontinued operations	.06	.05
Basic net income per common share	$ .19	$ .12
Class B common - income from continuing operations	$ --	$ .10
Discontinued operations	--	.08
Basic net income per Class B common share	$ --	$ .18
Basic weighted average common shares outstanding:		
Common stock	66,892,096	48,000,995
Class B common stock	--	9,915,313
Diluted net income per weighted average common share:		
Common share	$ .19	$ .12
Class B common share	$ --	$ .13
Diluted weighted average common shares outstanding:		
Common stock	67,326,754	48,118,172
Class B common stock	--	9,915,313

(see accompanying notes to financial statements)

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

	SIX
	2004
CASH FLOWS FROM OPERATING ACTIVITIES:	
NET INCOME	$ 37,
Adjustments to reconcile net income to net cash provided by operating activities:	
Gain on sales of real estate	(11,
Depreciation and amortization (including discontinued operations)	59,
Minority partners' interests in consolidated partnerships	13,
Limited partners' minority interest in the operating partnership	1,
(Equity) loss in earnings of real estate joint ventures	(
Changes in operating assets and liabilities:	
Tenant receivables	
Prepaid expenses and other assets	(8,
Deferred rents receivable	(8,
Accrued expenses and other liabilities	(5,
Net cash provided by operating activities	76,
CASH FLOWS FROM INVESTING ACTIVITIES:	
Additions to developments in progress	(12,
Purchase of commercial real estate	(72,
Additions to commercial real estate properties	(17,
Additions to furniture, fixtures and equipment	(
Payment of leasing costs	(8,
Distributions (contributions) from investments in real estate joint ventures	(
Additions to mortgage notes and notes receivable	(15,
Repayments of mortgage notes and notes receivable	2,
Proceeds from sales of real estate	57,
Net cash used in investing activities	(68,
CASH FLOWS FROM FINANCING ACTIVITIES:	
Proceeds from issuance of common stock net of issuance costs	149,
Proceeds from options exercised	27,
Repurchases of common stock	-
Principal payments on secured borrowings	(6,
Payment of loan and equity issuance costs	(2,
Proceeds from issuance of senior unsecured notes	150,
Repayment of senior unsecured notes	(100,
Proceeds from unsecured credit facility	90,
Repayment of unsecured credit facility	(169,
Distributions to minority partners in consolidated partnerships	(22,
Distributions to limited partners in the operating partnership	(2,
Distributions to preferred unit holders	(
Dividends to common shareholders	(52,
Dividends to preferred shareholders	(9,
Net cash provided by (used in) financing activities	51,
Net increase (decrease) in cash and cash equivalents	59,
Cash and cash equivalents at beginning of period	22,
Cash and cash equivalents at end of period	$ 82,

(see accompanying notes to financial statements)

RECKSON ASSOCIATES REALTY CORP.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2004
(UNAUDITED)

1. ORGANIZATION AND FORMATION OF THE COMPANY

Reckson Associates Realty Corp. (the "Company") is a self-administered and self managed real estate investment trust ("REIT") engaged in the ownership, management, operation, leasing and development of commercial real estate properties, principally office and to a lesser extent industrial buildings and also owns land for future development (collectively, the "Properties") located in the New York City 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. At June 30, 2004, the Company's ownership percentage in the Operating Partnership was approximately 94.8%. 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 Reckson Management Group, Inc. and Reckson Construction Group, Inc.

2. BASIS OF PRESENTATION

The accompanying consolidated financial statements include the consolidated financial position of the Company, the Operating Partnership and the Service Companies (as defined below) at June 30, 2004 and December 31, 2003 and the results of their operations for the three and six months ended June 30, 2004 and 2003, respectively, and, their cash flows for the six months ended June 30, 2004 and 2003, 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 under the equity method of accounting. The Service Companies which provide management, development and construction services to the Company and the Operating Partnership are Reckson Management Group, Inc., RANY Management Group, Inc., Reckson Construction Group New York, Inc., Reckson Construction Group, Inc. and Reckson Construction & Development LLC (the "Service Companies"). All significant intercompany balances and transactions have been eliminated in the consolidated financial statements.

Reckson Construction Group, Inc., Reckson Construction Group New York, Inc. and Reckson Construction & Development LLC use the percentage-of-completion method for recording amounts earned on their 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 seven property suburban office portfolio, a 40% non-affiliated interest in Omni Partners, L.P., owner of 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 5.2% and 10.5% at June 30, 2004 and 2003, 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 are reliably estimated.

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 not make the information presented misleading. The unaudited financial statements as of June 30, 2004 and for the three and six month periods ended June 30, 2004 and 2003 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, 2004. 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, 2003.

The Company intends to continue 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.

The Company considers highly liquid investments with maturity of six months or less when purchased to be cash equivalents. Cash balances at June 30, 2004 include approximately $46.5 million of the remaining net proceeds received during the six month period ended June 30, 2004 relating to property sales, issuance of the Company's equity (see Note 7) and the Operating Partnership's January 2004 issuance of senior unsecured notes (see Note 4).

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

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 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 or held for sale during the period within the consolidated statements of income.

On July 1, 2001 and January 1, 2002, the Company adopted FASB Statement No.141, "Business Combinations" and FASB Statement No. 142, "Goodwill and Other Intangibles", respectively. As part of the acquisition of real estate assets, the fair value of the real estate acquired is allocated to the acquired tangible assets, consisting of land, building and building improvements, and identified intangible assets and liabilities, consisting of the value of above-market and below-market leases, other value of in-place leases, and value of tenant relationships, based in each case on their fair values. The Company assesses fair value based on estimated cash flow projections that utilize appropriate discount and capitalization rates and available market information. Estimates of future cash flows are based on a number of factors including the historical operating results, known trends, and market/economic conditions that may affect the property. If the Company incorrectly estimates the values at acquisition or the undiscounted cash flows, initial allocation of purchase price and future impairment charges may be different.

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. To determine the fair value of the stock options granted, the Company uses a Black-Scholes option pricing model. Prior to the adoption of Statement No. 123, 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.

The following table sets forth the Company's pro forma information for its common stockholders for the three and six month periods ended June 30, 2004 and 2003 (in thousands except earnings per share data):

	THREE MONTHS ENDED JUNE 30, 2004	THREE MONTHS ENDED JUNE 30, 2003	SIX MONTHS JUNE 3 2004	
Net income as reported	$ 13,043	$ 5,769	$ 29,007	$
Add: Stock option expense included in net income ...	1	1	3	
Less: Stock option expense determined under fair value recognition method for all awards	(104)	(54)	(196)	
Pro forma net income	$ 12,940	$ 5,716	$ 28,814	$
Net income per share as reported:				
Basic	$ .19	$ .12	$ .45	$
Diluted	$ .19	$ .12	$ .45	$
Pro forma net income per share:				
Basic	$ .19	$ .12	$ .45	$
Diluted	$ .19	$ .12	$ .45	$

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:

	THREE MONTHS ENDED JUNE 30, 2004	THREE MONTHS ENDED JUNE 30, 2003	SIX MON ENDED JUN 2004
Risk free interest rate	3.00%	3.00%	3.00%
Dividend yield	7.07%	7.39%	7.07%
Volatility factor of the expected market price of the Company's common stock	.200	.196	.200
Weighted average expected option life (in years) ...	4.0	5.3	4.0

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 ("VIEs") and how to assess whether to consolidate such entities. The initial determination of whether an entity qualifies as a VIE shall be made as of the date at which a primary beneficiary becomes involved with the entity and reconsidered as of the date of a triggering event, as defined. The provisions of this interpretation are immediately effective for VIEs formed after January 31, 2003. In December 2003 the FASB issued FIN 46R, deferring the effective date until the period ending March 31, 2004 for interests held by public companies in VIEs created before February 1, 2003, which were non-special purpose entities. The Company adopted FIN 46R during the period ended March 31, 2004. The Company has determined that its consolidated and unconsolidated subsidiaries do not represent VIEs requiring consolidation pursuant to such interpretation. The Company will continue to monitor any changes in circumstances relating to certain of its consolidated and unconsolidated joint ventures which could result in a change in the Company's consolidation policy.

In May 2003, the FASB issued Statement No. 150, "Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity" ("Statement No. 150"). Statement No. 150 is effective for financial instruments entered into or modified after May 15, 2003, and otherwise is effective at the beginning of the first interim period beginning after June 15, 2003. It is to be implemented by reporting the cumulative effect of a change in an accounting principle for financial instruments created before the issuance date of the statement and still existing at the beginning of the interim period of adoption. The adoption of Statement No. 150 did not have a material effect on the Company's financial position or results of operations.

3. MORTGAGE NOTES PAYABLE

As of June 30, 2004, the Company had approximately $965.6 million of mortgage notes payable, which mature at various times between 2004 and 2027. The notes are secured by 20 properties with an aggregate carrying value of approximately $1.84 billion which are pledged as collateral against the mortgage notes payable. In addition, approximately $43.5 million of the $965.6 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, 2004, by scheduled maturity date (dollars in thousands):

Property	Principal Outstanding	Interest Rate	Maturity Date	Amor Term

1185 Avenue of the Americas, NY, NY	$ 250,000	4.95%	August, 2004	Inter
395 North Service Road, Melville, NY	19,097	6.45%	October, 2005	$34 p
200 Summit Lake Drive, Valhalla, NY	18,704	9.25%	January, 2006	
1350 Avenue of the Americas, NY, NY	73,431	6.52%	June, 2006	
Landmark Square, Stamford, CT (a)	43,465	8.02%	October, 2006	
100 Summit Lake Drive, Valhalla, NY	16,981	8.50%	April, 2007	
333 Earle Ovington Blvd, Mitchel Field, NY(b)	52,343	7.72%	August, 2007	
810 Seventh Avenue, NY, NY (e)	80,498	7.73%	August, 2009	
100 Wall Street, NY, NY (e)	34,883	7.73%	August, 2009	
6900 Jericho Turnpike, Syosset, NY	7,165	8.07%	July, 2010	
6800 Jericho Turnpike, Syosset, NY	13,576	8.07%	July, 2010	
580 White Plains Road, Tarrytown, NY	12,365	7.86%	September, 2010	
919 Third Ave, NY, NY (c)	242,904	6.87%	August, 2011	
One Orlando Center, Orlando, FL (d)	37,439	6.82%	November, 2027	
120 West 45th Street, NY, NY (d)	62,710	6.82%	November, 2027	
Total/Weighted Average	$ 965,561	6.65%		

(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 $31.4 million.

(c) The Company has a 51% membership interest in this property and its proportionate share of the aggregate principal amount is approximately $123.9 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. The Company has the ability to pre-pay the loan at that time. In addition, these properties are cross-collateralized.

(e) These properties are cross-collateralized.

(f) Such rate is based on the greater of one month LIBOR or 2.15% plus a weighted average spread of approximately 2.80%. An interest rate hedge agreement was acquired to limit exposure to increases in LIBOR above 5.825%.

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, 2004 is approximately $7.6 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.

On March 19, 2004, the Company entered into two anticipatory interest rate hedge instruments, which are scheduled to coincide with an August 2004 debt maturity, totaling $100 million, to protect itself against potentially rising interest rates. At June 30, 2004, the fair value of these instruments exceeded their carrying value by approximately $5.2 million. Such amount has been reflected as accumulated other comprehensive income with a corresponding increase to prepaid expenses and other assets on the accompanying balance sheet. In addition, on

July 1, 2004, the Company entered into an additional anticipatory interest rate hedge instrument totaling $12.5 million to coincide with the aforementioned August 2004 debt maturity.

4. SENIOR UNSECURED NOTES

On January 22, 2004, the Operating Partnership issued $150 million of seven-year 5.15% (5.196% effective rate) senior unsecured notes. Prior to the issuance of these notes the Company entered into several anticipatory interest rate hedge instruments to protect itself against potentially rising interest rates. At the time the notes were issued the Company incurred a net cost of approximately $980,000 to settle these instruments. Such costs are being amortized over the term of the notes. Net proceeds of approximately $148 million received from this issuance were used to repay outstanding borrowings under the Credit Facility (as defined below) and to invest in short-term liquid investments.

On March 15, 2004, the Company repaid $100 million of the Operating Partnership's 7.4% senior unsecured notes at maturity.

As of June 30, 2004, the Operating Partnership had outstanding approximately $549.1 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
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
January 22, 2004	150,000	5.15%	7 years	January 15, 2011
	$ 550,000			

Interest on the Senior Unsecured Notes are payable semi-annually with principal and unpaid interest due on the scheduled maturity dates. In addition, certain of the Senior Unsecured Notes were issued at discounts aggregating approximately $1.2 million. Such discounts are being amortized over the term of the Senior Unsecured Notes to which they relate.

5. UNSECURED CREDIT FACILITY

As of June 30, 2004, the Company had a $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 was scheduled to mature in December 2005, contained 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. As of June 30, 2004, based on a pricing grid of the Operating Partnership's unsecured debt ratings, borrowings under the Credit Facility were priced off LIBOR plus 90 basis points and the Credit Facility carried a facility fee of 20 basis points per annum. In the event of a change in the Operating Partnership's unsecured credit ratings the interest rates and facility fee are subject to change. At June 30, 2004, the outstanding borrowings under the Credit Facility aggregated $90 million and carried a weighted average interest rate of 2.18%.

In August 2004, the Company amended and extended the Credit Facility to mature in August 2007 with similar terms and conditions as existed prior to the amendment and extension.

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, 2004, the Company had availability under the Credit Facility to borrow approximately an additional $410 million, subject to compliance with certain financial covenants.

In connection with the acquisition of certain properties, contributing partners of such properties have provided guarantees on indebtedness of the Company. As a result, the Company maintains certain outstanding balances on its Credit Facility.

In accordance with the provisions of FASB Statement No. 144, the Company allocated approximately $2.6 million and $5.2 million of its unsecured corporate interest expense to discontinued operations for the three and six month periods ended June 30, 2003.

6. COMMERCIAL REAL ESTATE INVESTMENTS

As of June 30, 2004, the Company owned and operated 76 office properties (inclusive of nine office properties owned through joint ventures) comprising approximately 14.4 million square feet and 9 industrial / R&D properties comprising approximately 955,000 square feet located in the Tri-State Area.

In June, 2004 the Company entered into a contract to sell a 92,000 square foot industrial property located in Westchester for approximately $7.5 million. The Company's basis in this property is approximately $4.8 million and is included in properties and related assets held for sale on the accompanying balance sheet.

As of June 30, 2004, the Company also owned approximately 313 acres of land in 12 separate parcels of which the Company can, based on current estimates, develop approximately 3.0 million square feet of office 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 use for potential disposition. As of June 30, 2004, the Company had invested approximately $124.5 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. In addition, during the three and six month periods ended June 30, 2004, the Company has capitalized approximately $2.3 million and $5.1 million, respectively related to real estate taxes, interest and other carrying costs related to these development projects. In October 2003, the Company entered into a contract to sell a 113 acre land parcel located in New Jersey. The contract provides for a sales price ranging from $18 million to $36 million. The sale is contingent upon obtaining zoning for residential use of the land and other customary approvals. The proceeds ultimately received from such sale will be based upon the number of residential units permitted by the rezoning. The cost basis of the land parcel at June 30, 2004 was approximately $5.7 million. The closing is scheduled to occur upon the rezoning, which is anticipated to occur within 12 to 24 months. However, there can be no assurances such rezoning will occur. During February 2004, a 3.9 acre land parcel located on Long Island was condemned by the Town of Oyster Bay. As consideration for the condemnation the Company anticipates it will initially receive approximately $1.8 million. The Company's cost basis in this land parcel was approximately $1.4 million. The Company is currently contesting this valuation and seeking payment of additional consideration from the Town of Oyster Bay but there can be no assurances that the Company will be successful in obtaining any such additional consideration. In July 2004, the Company commenced the ground-up development of a 277,000 square foot Class A office building with a total anticipated investment cost of approximately $60 million. This development is located within the Company's existing 404,000 square foot executive office park in Melville, NY.

In November 2003, the Company disposed of all but three of its 95 property, 5.9 million square foot, Long Island industrial building portfolio to members of the Rechler family (the "Disposition") for approximately $315.5 million, comprised of $225.1 million in cash and debt assumption and 3,932,111 OP Units valued at approximately $90.4 million. Approximately $204 million of cash sales proceeds from the Disposition were used to repay borrowings under the Credit Facility. For information concerning certain litigation pertaining to this transaction see Part II-Other Information; Item 1. Legal Proceedings of this Form 10-Q.

In January 2004, the Company sold a 104,000 square foot office property located on Long Island for approximately $18.5 million. Net proceeds from the sale were used to repay borrowings under the Credit Facility. As a result, the Company recorded a net gain of approximately $5.2 million, net of limited partners' minority interest. In accordance with FASB Statement No. 144, such gain has been reflected in discontinued operations on the accompanying consolidated statements of income.

In January 2004, the Company acquired 1185 Avenue of the Americas, a 42-story, 1.1 million square foot Class A office tower, located between 46th and 47th Streets in New York, NY for $321 million. In connection with this acquisition, the Company assumed a $202 million mortgage and $48 million of mezzanine debt. The balance of the purchase price was paid through an advance under the Credit Facility. The floating rate mortgage and mezzanine debt both mature in August 2004 and presently have a weighted average interest rate of 4.95%. Such rate is based on the greater of one month LIBOR or 2.15% plus a weighted average spread of approximately 2.80%. An interest rate hedge agreement was acquired to limit exposure to increases in LIBOR above 5.825%. The property is also encumbered by a ground lease which has a remaining term of approximately 40 years with rent scheduled to be re-set at the end of 2005 and then remain constant for the balance of the term. Pursuant to the terms of the ground lease, the Company and the ground lessor have commenced arbitration proceedings relating to the re-setting of the ground lease. There can be no assurances as to the outcome of the rent re-set process. In accordance with FASB Statement No. 141, "Business Combinations", the Company allocated and recorded net deferred intangible lease income of approximately $14.2 million, representing the net value of acquired above and below market leases, assumed lease origination costs and other value of in-place leases. The net value of the above and below market leases is amortized over the remaining terms of the respective leases to rental income which amounted to approximately $2.0 million and $3.8 million for the three and six month periods ended June 30, 2004 . In addition, amortization expense on the value of lease origination costs was approximately $746,000 and $1.3 million for the three and six month periods ended June 30, 2004. At acquisition, there were 31 in-place leases aggregating approximately one million square feet with a weighted average remaining lease term of approximately 6 years.

In April 2004, the Company sold a 175,000 square foot office building located on Long Island for approximately $30 million, of which the Company owned a 51% interest, and a wholly owned 9,000 square foot retail property for approximately $2.8 million. In addition, the Company completed the sale on two of the remaining three properties from the Disposition for approximately $5.8 million. Proceeds from the sale 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 (a "Section 1031 Exchange"). A Section 1031 Exchange allows for the deferral of taxes related to the gain attributable to the sale of property if qualified replacement property is identified within 45 days and such qualified replacement property is then acquired within 180 days from the initial sale. There can be no assurances that the Company will meet the requirements of Section 1031 by identifying and acquiring qualified replacement properties in the required time frame, in which case the Company would incur the tax liability on the capital gain realized of approximately $1.5 million. The disposition of the other industrial property, which is subject to certain environmental issues, is conditioned upon the approval of the buyer's lender, which has not been obtained. As a result, the Company will not dispose of this property as part of the Disposition. Management believes that the cost to remediate the environmental issues will not have a material adverse effect on the Company, but there can be no assurance in this regard.

In July 2004, the Company acquired a 141,000 square foot Class A office property, located in Chatham Township, NJ for approximately $22.7 million. The Company made this acquisition through available cash-on-hand.

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 was 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 been completed. In accordance with FASB Statement No. 66, the Company has recognized a book gain, before taxes, on this land sale and build-to-suit transaction of approximately $23.8 million, of which $400,000 and $5.0 million and, $4.3 million and $10.1 million has been recognized during the three and six month periods ended June 30, 2004 and 2003, respectively, and is included in investment and other income on the accompanying consolidated statements of income.

The Company holds a $17.0 million 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, New York (the "Omni Note"). The Company currently owns a 60% majority partnership interest in Omni Partners, L.P. and on March 14, 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 a $30 million junior mezzanine loan which is secured by a pledge of an indirect ownership interest of an entity which owns the ground leasehold estate under a 1.1 million square foot office complex located on Long Island, New York (the "Mezz Note"). The Mezz Note matures in September 2005, currently bears interest at 12.73%, and the borrower has the right to extend for three additional one-year periods. The Company also holds three other notes receivable aggregating $19.0 million which bear interest at rates ranging from 10.5% to 12% per annum. These notes are secured in part by a minority partner's preferred unit interest in the Operating Partnership, an interest in real property and a personal guarantee (the "Other Notes" and collectively with the Omni Note and the Mezz Note, the "Note Receivable Investments"). During April 2004, approximately $2.7 million of the Other Notes, including accrued interest, were repaid by the minority partner exchanging, and the Operating Partnership redeeming, approximately 3,081 preferred units. The preferred units were redeemed at a par value of $3.1 million. Approximately $420,000 of the redemption proceeds was used to offset interest due from the minority partner under the Other Notes and for prepaid interest. In July 2004, the minority partner delivered notice to the Operating Partnership stating his intention to repay $15.5 million of the 10.5% Other Notes. When repaid, the remaining Other Notes will aggregate $3.5 million and carry a weighted average interest rate of 11.57%. The Operating Partnership has also agreed to extend the maturity of $2.5 million of such debt through January 31, 2005 and the remaining $1.0 million through January 31, 2010. As of June 30, 2004, management has made subjective assessments as to the underlying security value on the Company's Note Receivable Investments. These assessments indicate an excess of market value over the 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 $100.1 million mortgage note payable along with one of the Company's New York City buildings. The Company has the right to prepay this note in November 2004, prior to its maturity.

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. As of June 30, 2004, the 520JV had total assets of $20.6 million, a mortgage note payable of $11.7 million and other liabilities of $582,000. The Company's allocable share of the 520JV mortgage note payable is approximately $7.6 million. This mortgage note payable bears interest at 8.85% per annum and matures on September 1, 2005. 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 income (loss) was approximately $294,000 and $408,000 and $(270,000) and $($164,000) for the three and six month periods ended June 30, 2004 and 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. In August 2003, the Company acquired TIAA's 49% interest in the property located at 275 Broadhollow Road, Melville, NY, for approximately $12.4 million. In addition, during April 2004, the Tri-State JV sold a 175,000 square foot office building located on Long Island for approximately $30 million. Net proceeds from this sale were distributed to the members of the Tri-State JV. As a result of these transactions, the Tri-State JV owns seven Class A suburban office properties aggregating approximately 1.2 million square feet. 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.

7. STOCKHOLDERS' EQUITY

An OP Unit and a share of 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 common stock on a one-for-one basis. The OP Units currently receive a quarterly distribution of $.4246 per unit. As of June 30, 2004, the Operating Partnership had issued and outstanding 3,084,713 Class A OP Units and 465,845 Class C OP Units. The Class C OP Units were issued in August 2003 in connection with the contribution of real property to the Operating Partnership and currently receive a quarterly distribution of $.4664 per unit

During June, 2004, the Board of Directors of the Company declared the following dividends on the Company's securities:

SECURITY	DIVIDEND / DISTRIBUTION	RECORD DATE	PAYMENT DATE	THREE MONTHS ENDED	AN DI DI
Common stock	$ .4246	July 7, 2004	July 20, 2004	June 30, 2004	$
Series A preferred stock	$ .4766	July 15, 2004	August 2, 2004	July 31, 2004	$

On November 25, 2003 the Company exchanged all of its 9,915,313 outstanding shares of Class B common stock for an equal number of shares of its common stock. The Board of Directors declared a final cash dividend on the Company's Class B common stock to holders of record on November 25, 2003 in the amount of $.1758 per share which was paid on January 12, 2004. This payment covered the period from November 1, 2003 through November 25, 2003 and was based on the previous quarterly Class B common stock dividend rate of $.6471 per share. In order to align the regular quarterly dividend payment schedule of the former holders of Class B common stock with the schedule of the holders of common stock for periods subsequent to the exchange date for the Class B common stock, the Board of Directors also declared a cash dividend with regard to the common stock to holders of record on October 14, 2003 in the amount of $.2585 per share which was paid on January 12, 2004. This payment covered the period from October 1, 2003 through November 25, 2003 and was based on the current quarterly common stock dividend rate of $.4246 per share. As a result, the Company declared dividends through November 25, 2003 to all holders of common stock and Class B common stock. The Board of Directors also declared the common stock cash dividend for the portion of the fourth quarter subsequent to November 25, 2003. The holders of record of common stock on January 2, 2004, giving effect to the exchange transaction, received a dividend on the common stock in the amount of $.1661 per share on January 12, 2004. This payment covered the period from November 26, 2003 through December 31, 2003 and was based on the current quarterly common stock dividend rate of $.4246 per share.

During the six month period ended June 30, 2004, approximately 1.3 million shares of the Company's common stock was issued in connection with the exercise of outstanding options to purchase stock under its stock option plans resulting in proceeds to the Company of approximately $27.2 million.

In March 2004, the Company completed an equity offering of 5.5 million shares of its common stock raising approximately $149.5 million, net of an underwriting discount, or $27.18 per share. Net proceeds received from this transaction were used to repay outstanding borrowings under the Credit Facility, repay $100 million of the Operating Partnership's 7.4% senior unsecured notes and to invest in short-term liquid investments.

The Board of Directors of the Company authorized the purchase of up to five million shares of the Company's common stock. Transactions conducted on the New York Stock Exchange have been, and will continue to 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. Since the Board's initial authorization, the Company has purchased 3,318,600 shares of its common stock for an aggregate purchase price of approximately $71.3 million. In June 2004, the Board of Directors re-set the Company's common stock repurchase program back to five million shares. No purchases were made during the six months ended June 30, 2004.

The Board of Directors of the Company also formed a pricing committee to consider purchases of up to $75 million of the Company's outstanding preferred securities.

On June 30, 2004, the Company had issued and outstanding 8,693,900 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, 2004 at a price of $25.7625 per share with such price decreasing, at annual intervals, to $25.00 per share on April 13, 2008. In addition, the Series A preferred stock, at the option of the holder, is convertible at any time into the Company's common stock at a price of $28.51 per share. On May 13, 2004, the Company purchased and retired 140,600 shares of the Series A preferred stock for approximately $3.4 million or $24.45 per share. In addition, during July 2004, the Company exchanged 1,350,000 shares of the Series A preferred stock for 1,304,602 shares of common stock. As a result of these transactions annual preferred dividends will decrease by approximately $2.8 million. In accordance with the Emerging Issues Task Force ("EITF") Topic D-42 the Company will incur an accounting charge during the third quarter of 2004 of approximately $3.4 million in connection with the July 2004 exchange of the Series A preferred stock.

On January 1, 2004, the Company had issued and outstanding two million shares of Series B Convertible Cumulative Preferred Stock (the "Series B preferred stock"). The Series B preferred stock was 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. The Series B preferred stock, at the option of the holder, was convertible at any time into the Company's common stock at a price of $26.05 per share. On January

16, 2004, the Company exercised its option to redeem the two million shares of outstanding Series B preferred stock for approximately 1,958,000 shares of its common stock. As a result of this redemption, annual preferred dividends will decrease by approximately $4.4 million.

On April 1, 2004, the Operating Partnership had issued and outstanding approximately 19,662 preferred units of limited partnership interest with a liquidation preference value of $1,000 per unit and a current annualized distribution of $55.60 per unit (the "Preferred Units"). The Preferred Units were issued in 1998 in connection with the contribution of real property to the Operating Partnership. On April 12, 2004, the Operating Partnership redeemed approximately 3,081 Preferred Units, at the election of the holder, for approximately $3.1 million, including accrued and unpaid dividends which is being applied to amounts owed from the unit holder under the Other Notes. In addition, during July 2004, the holder of approximately 15,381 of the outstanding Preferred Units exchanged them into OP Units. The Operating Partnership converted the Preferred Units, including accrued and unpaid dividends, into approximately 531,000 OP Units, which were valued at approximately $14.7 million at the time of the conversion. Subsequent to the conversion, the OP Units were exchanged for an equal number of shares of the Company's common stock. In connection with the July 2004 exchanges and conversions, the preferred unit holder delivered notice to the Operating Partnership of his intent to repay $15.5 million owed from the unit holder under the Other Notes.

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 487,500 shares of its 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) were scheduled to vest and be 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. As of June 30, 2004, there remains 222,429 shares of common stock subject to the original stock loans which are anticipated to vest between 2005 and 2011. Approximately $248,000 and $556,000 of compensation expense was recorded for the three and six month periods ended June 30, 2004, respectively related to these LTIP. Such amount has 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 $4.7 million at June 30, 2004, 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, 2004 amounted to approximately $1.9 million primarily related to tax payment advances on stock compensation awards and life insurance contracts made to certain executive and 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 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 62,835 shares of the Company's common stock and the 2003 Rights aggregate 26,042 shares of common stock. As of June 30, 2004, there remains 47,126 shares of common stock related to the 2002 Rights and 26,042 shares of common stock related to the 2003 Rights. During the three and six month periods ended June 30, 2004 the Company recorded approximately$100,000 and $201,000, respectively of compensation expense related to the Rights. Such amount has 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 827,776 shares of its common stock under one of its existing stock option plans in connection with the core award of this LTIP for eight of its executive and senior officers. On March 13, 2004, the Company met its annual performance measure with respect to the prior annual period. As a result, the Company issued to the participants 206,944 shares of its common stock related to the core component of this LTIP. As of June 30, 2004, there remains 620,832 shares of common stock reserved for future issuance under the core award of this LTIP. With respect to the core award of this LTIP, the Company recorded approximately $699,000 and $1.4 million of compensation expense for the three and six month periods ended June 30, 2004, respectively. Such amount has 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 common stock was calculated using the weighted average number of shares outstanding of 66,892,096 and 48,000,995 for the three months ended June 30, 2004 and 2003, respectively and 64,127,596 and 48,100,148 for the six months ended June 30, 2004 and 2003, respectively.

Basic net income per share on the Company's Class B common stock was calculated using the weighted average number of Class B shares outstanding of 9,915,313 for the three and six month periods ended June 30, 2003.

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

THREE MONTHS ENDED

	JUNE 30, 2004	JUNE 30, 2003	
Numerator:			
Income before discontinued operations, dividends to preferred shareholders and (income) allocated to Class B shareholders	$ 13,481	$ 9,487	$
Discontinued operations (net of share applicable to limited partners, minority interests and Class B shareholders)	3,734	2,597	
Dividends to preferred shareholders	(4,172)	(5,317)	
(Income) allocated to Class B common shareholders	--	(998)	
Numerator for basic and diluted earnings per common share	$ 13,043	$ 5,769	$
Denominator:			
Denominator for basic earnings per share - weighted average common shares	66,892	48,001	
Effect of dilutive securities:			
Common stock equivalents	435	117	
Denominator for diluted earnings per common share - adjusted weighted average shares and assumed conversions	67,327	48,118	
Basic earnings per weighted average common share:			
Income from continuing operations	$ .13	$ .07	$
Discontinued operations	.06	.05	
Net income per common share	$ .19	$ .12	$
Diluted earnings per weighted average common share:			
Income from continuing operations	$ .13	$ .07	$
Discontinued operations	.06	.05	
Diluted net income per common share	$ .19	$ .12	$

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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, 2003	SIX MO JUNE
Numerator:		
Income before discontinued operations, dividends to preferred shareholders and (income) allocated to common shareholders	$ 9,487	$
Discontinued operations (net of share applicable to limited		

partners and common shareholders)	818	
Dividends to preferred shareholders	(5,317)	
(Income) allocated to common shareholders	(3,172)	
Numerator for basic earnings per Class B common share	1,816	
Add back:		
Income allocated to common shareholders	5,769	
Limited partner's minority interest in the operating partnership	874	
Numerator for diluted earnings per Class B common share	$ 8,459	$
Denominator:		
Denominator for basic earnings per share-weighted average Class B common shares	9,915	
Effect of dilutive securities:		
Weighted average common shares outstanding	48,001	
Weighted average OP Units outstanding	7,276	
Common stock equivalents	117	
Denominator for diluted earnings per Class B common share - adjusted weighted average shares and assumed conversions	65,309	
Basic earnings per weighted average common share:		
Income from continuing operations	$ .18	$
Discontinued operations	--	
Net income per Class B common share	$ .18	$
Diluted earnings per weighted average common share:		
Income from continuing operations	$ .13	$
Discontinued operations	--	
Diluted net income per Class B common share	$ .13	$

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

	SIX MONTHS ENDED JUNE 30,	
	2004	
Cash paid during the period for interest	$ 50,277	$
Interest capitalized during the period	$ 4,000	$

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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 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 formed an Operating Committee that reports directly to the President 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 accounting policies of the reportable segments are the same as those described in the summary of significant account policies. In addition, amounts reflected have been adjusted to give effect to the Company's discontinued operations in accordance with FASB Statement No. 144.

The following table sets forth the components of the Company's revenues and expenses and other related disclosures (in thousands):

	THREE MONTHS ENDED			
	JUNE 30, 2004			
	Core Portfolio	Other	CONSOLIDATED TOTALS	Core Portfoli
REVENUES:				
Base rents, tenant escalations and reimbursements	$ 125,324	$ 1,919	$ 127,243	$ 106,
Interest, investment and other income	562	2,761	3,323	1,
Total Revenues	125,886	4,680	130,566	107,
EXPENSES:				
Property operating expenses	49,785	841	50,626	41,
Marketing, general and administrative	4,076	3,298	7,374	3,
Interest	15,847	8,760	24,607	10,
Depreciation and amortization	28,026	1,591	29,617	25,
Total Expenses	97,734	14,490	112,224	80,
Income (loss) before minority interests, preferred dividends and distributions, equity (loss) in earnings of real estate joint ventures and discontinued operations ...	$ 28,152	$ (9,810)	$ 18,342	$ 26,

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	SIX MONTHS ENDED OR A			
	JUNE 30, 2004			
	Core Portfolio	Other	CONSOLIDATED TOTALS	Core Portfol
REVENUES:				
Base rents, tenant escalations and reimbursements	$ 252,483	$ 3,910	$ 256,393	$ 213,
Interest, investment and other income	1,986	7,000	8,986	1,
Total Revenues	254,469	10,910	265,379	215,
EXPENSES:				
Property operating expenses	100,608	1,483	102,091	83,
Marketing, general and administrative	8,280	6,161	14,441	7,
Interest	31,477	18,791	50,268	20,
Depreciation and amortization	55,516	3,222	58,738	52,
Total Expenses	195,881	29,657	225,538	164,
Income (loss) before minority interests, preferred dividends and distributions, equity (loss) in earnings of real estate joint ventures and discontinued operations ...	$ 58,588	$ (18,747)	$ 39,841	$ 50,
Total Assets	$ 2,893,110	$ 239,744	$ 3,132,854	$ 2,425,

10. NON-CASH INVESTING AND FINANCING ACTIVITIES

During January 2004, in connection with the Company's acquisition of 1185 Avenue of the Americas, New York, NY, the Company assumed a $202 million mortgage note payable and $48 million of mezzanine debt (see Note 6).

During January 2004, the Company exercised its option to redeem two million shares of its outstanding Series B preferred stock for approximately 1,958,000 shares of its common stock.

During April 2004, the OP redeemed approximately 3,081 Preferred Units, which were valued at approximately $3.1 million which was applied to amounts owned from the unit holder under the Other Notes.

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11. RELATED PARTY TRANSACTIONS

In connection with the Disposition, four of the five remaining options (the "Remaining Option Properties") granted to the Company at the time of the IPO to purchase interests in properties owned by Rechler family members were terminated. In return the Company received an aggregate payment from the Rechler family members of $972,000. Rechler family members have also agreed to extend the term of the remaining option on the property located at 225 Broadhollow Road, Melville, New York (the Company's current headquarters) for five years and to release the Company from approximately 15,500 square feet under its lease at this property. In connection with the restructuring of the remaining option the Rechler family members paid the Company $1 million in return for the Company's agreement not to exercise the option during the next three years. As part of the agreement, the exercise price of the option payable by the Company was increased by $1 million.

In addition, in April 2004, the Company completed the sale to the Rechler family two of the three properties remaining in connection with the Disposition. The third property has subsequently been excluded from the Disposition and will not be transferred to the Rechler family (see Note 6).

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. During the three and six month periods ended June 30, 2004 and 2003, Reckson Construction Group, Inc. or its successor, Reckson Construction & Development, LLC billed approximately $217,000 and $678,000 and $105,000 and $231,000, respectively, of market rate services and Reckson Management Group, Inc. billed approximately $72,000 and $138,000 and $69,000 and $140,000, respectively, of market rate management fees to the Remaining Option Properties.

Reckson Management Group, Inc. leases approximately 26,000 square feet of office space at the Remaining Option Property located at 225 Broadhollow Road, Melville, New York for its corporate offices at an annual base rent of approximately $750,000. The Company had also entered into a short term license agreement at the property for 6,000 square feet of temporary space which expired in January 2004. Reckson Management Group, Inc. also leases 10,722 square feet of warehouse space used for equipment, materials and inventory storage at a property owned by certain members of the Rechler family at an annual base rent of approximately $75,000. In addition, commencing April 1, 2004, Reckson Construction & Development, LLC ("RCD") has been leasing approximately 17,000 square feet of space at the Remaining Option Property, located at 225 Broadhollow Road, Melville, New York, which was formerly occupied by an affiliate of First Data Corp. through September 30, 2006 (see Note 6). Base rent of approximately $121,000 was paid by RCD during the three months ended June 30, 2004. RCD anticipates it will mitigate this obligation by sub-letting the space to a third party. However, there can be no assurances that RCD will be successful in sub-leasing the aforementioned space and mitigating its aggregate costs.

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 $445,000.

During 1997, the Company formed FrontLine Capital Group, formerly Reckson Service Industries, Inc. ("FrontLine") and Reckson Strategic Venture Partners, LLC ("RSVP"). RSVP is a real estate venture capital fund which invested 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, 2004 approximately $109.1 million had been funded through the RSVP Commitment, of which $59.8 million represents investments by the Company in RSVP-controlled (REIT-qualified) joint ventures and $49.3 million represents loans made to FrontLine under the RSVP Facility. As of June 30, 2004, interest accrued (net of reserves) under the FrontLine Facility and the RSVP Facility was approximately $19.6 million.

A committee of the Board of Directors, comprised solely of independent directors, considers 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.

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.

In September 2003, RSVP completed the restructuring of its capital structure and management arrangements. In connection with the restructuring, RSVP redeemed the interest of the preferred equity holders of RSVP for an aggregate of approximately $137 million in cash and the transfer to the preferred equity holders of the assets that comprised RSVP's parking investment valued at approximately $28.5 million. RSVP also restructured its management arrangements whereby a management company formed by its former managing directors has been retained to manage RSVP pursuant to a management agreement and the employment contracts of the managing directors with RSVP have been terminated. The management agreement provides for an annual base management fee, and disposition fees equal to 2% of the net proceeds received by RSVP on asset sales. (The base management fee and disposition fees are subject to a maximum over the term of the agreement of $7.5 million.) In addition, the managing directors retained a one-third residual interest in RSVP's assets which is subordinated to the distribution of an aggregate amount of $75 million to RSVP and/or the Company in respect of its joint ventures with RSVP. The management agreement has a three-year term, subject to early termination in the event of the disposition of all of the assets of RSVP.

In connection with the restructuring, RSVP and certain of its affiliates obtained a $60 million secured loan. In connection with this loan, the Operating Partnership agreed to indemnify the lender in respect of any environmental liabilities incurred with regard to RSVP's remaining assets in which the Operating Partnership has a joint venture interest (primarily certain student housing assets held by RSVP) and guaranteed the obligation of an affiliate of RSVP to the lender in an amount up to $6 million plus collection costs for any losses incurred by the lender as a result of certain acts of malfeasance on the part of RSVP and/or its affiliates. The loan is scheduled to mature in 2006 and is expected to be repaid from proceeds of assets sales by RSVP and or a joint venture between RSVP and a subsidiary of the Operating Partnership.

In April 2004, American Campus Communities, Inc. ("ACC"), a student housing company owned by RSVP and the joint venture between RSVP and a subsidiary of the Operating Partnership, filed a registration statement on Form S-11 with the Securities and Exchange Commission in connection with a proposed initial public offering ("IPO") of its common stock. RSVP and the joint venture between RSVP and a subsidiary of the Operating Partnership plan to liquidate the ownership position in ACC in connection with the IPO transaction.

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, 2004. Such amount has been reflected in investments in service companies and affiliate loans and joint ventures on the Company's consolidated balance sheet.

Scott H. Rechler, who serves as Chief Executive Officer, President 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 and has agreed to serve as a member of the board of ACC upon consummation of its initial public offering.

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

The following discussion should be read in conjunction with the historical 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 in the New York Tri-State area; changes in interest rate levels; changes in the Company's credit ratings; changes in the Company's cost and access to capital; 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, real estate tax 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

Minimum 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.

The Company incurred approximately $700,000 and $1.8 million, and $1.6 million and $3.6 million of bad debt expense during the three and six month periods ended June 30, 2004 and 2003, respectively, related to tenant receivables and deferred rents receivable which accordingly reduced total revenues and reported net income during the periods presented.

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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., Reckson Construction & Development LLC, (the successor to Reckson Construction Group, Inc.) and Reckson Construction Group New York, Inc. use the percentage-of-completion method for recording amounts earned on their 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 are reliably estimated.

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.

On July 1, 2001 and January 1, 2002, the Company adopted FASB Statement No.141, "Business Combinations" and FASB Statement No. 142, "Goodwill and Other Intangibles", respectively. As part of the acquisition of real estate assets, the fair value of the real estate acquired is allocated to the acquired tangible assets, consisting of land, building and building improvements, and identified intangible assets and liabilities, consisting of the value of above-market and below-market leases, other value of in-place leases, and value of tenant relationships, based in each case on their fair values. The Company assesses fair value based on estimated cash flow projections that utilize appropriate discount and capitalization rates and available market information. Estimates of future cash flows are based on a number of factors including the historical operating results, known trends, and market/economic conditions that may affect the property. If the Company incorrectly estimates the values at acquisition or the undiscounted cash flows, initial allocation of purchase price and future impairment charges may be different.

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." In accordance with the provisions of Statement No. 144, the Company allocated approximately $2.6 million and $5.2 million of its unsecured corporate interest expense to discontinued operations for the three and six months ended June 30, 2003.

CASH AND CASH EQUIVALENTS

The Company considers highly liquid investments with a maturity of six months or less when purchased to be cash equivalents. Cash balances at June 30, 2004 include approximately $46.5 million of the remaining net proceeds received during the six month period ended June 30, 2004 relating to property sales, the issuance of the Company's equity and the Operating Partnership's January 2004 issuance of senior unsecured notes.

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 to a lesser extent industrial / R&D properties and also owns land for future development. The Company's growth strategy is focused on the commercial real estate markets in and around the New York City tri-state area (the "Tri-State Area"). The Company owns all of its interest in its real properties, directly or indirectly, through Reckson Operating Partnership, L.P. (the "Operating Partnership").

As of June 30, 2004, the Company owned and operated 76 office properties (inclusive of nine office properties owned through joint ventures) comprising approximately 14.4 million square feet and 9 industrial / R&D properties comprising approximately 955,000 located in the Tri-State Area.

In June 2004, the Company entered into a contract to sell a 92,000 square foot industrial property located in Westchester for approximately $7.5 million. The Company's basis in this property is approximately $4.8 million and is included in properties and related assets held for sale on the Company's balance sheet.

As of June 30, 2004, the Company also owned approximately 313 acres of land in 12 separate parcels of which the Company can develop approximately 3.0 million square feet of office 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 use for potential disposition. As of June 30, 2004, the Company had invested approximately $124.5 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. In addition, during the three and six month periods ended June 30, 2004, the Company has capitalized approximately $2.3 million and $5.1 million, respectively related to real estate taxes, interest and other carrying costs related to these development projects. In October 2003, the Company entered into a contract to sell a 113 acre land parcel located in New Jersey. The contract provides for a sales price ranging from $18 million to $36 million. The sale is contingent upon obtaining zoning for residential use of the land and other customary approvals. The proceeds ultimately received from such sale will be based upon the number of residential units permitted by the rezoning. The cost basis of the land parcel at June 30, 2004 was approximately $5.7 million. The closing is scheduled to occur upon the rezoning, which is anticipated to occur within 12 to 24 months. However, there can be no assurances such rezoning will occur. During February 2004, a 3.9 acre land parcel located on Long Island was condemned by the Town of Oyster Bay. As consideration from the condemnation the Company anticipates it will initially receive approximately $1.8 million. The Company's cost basis in this land parcel was approximately $1.4 million. The Company is currently contesting this valuation and seeking payment of additional consideration from the Town of Oyster Bay but there can be no assurances that the Company will be successful in obtaining any such additional consideration. In July 2004, the Company commenced the ground-up development of a 277,000 square foot Class A office building with a total anticipated investment cost of approximately $60 million. This development is located within the Company's existing 404,000 square foot executive office park in Melville, NY.

In November 2003, the Company disposed of all but three of its 95 property, 5.9 million square foot, Long Island industrial building portfolio to members of the Rechler family (the "Disposition") for approximately $315.5 million, comprised of $225.1 million in cash and debt assumption and 3,932,111 common units of limited partnership interest in the Operating Partnership ("OP Units") valued at approximately $90.4 million. Approximately $204 million of cash sales proceeds from the Disposition were used to repay borrowings under the Credit Facility. For information concerning certain litigation matters pertaining to this transaction see Part II-Other Information; Item 1. Legal Proceedings of this Form 10-Q.

In connection with the Disposition, four of the five remaining options (the "Remaining Option Properties") granted to the Company at the time of the IPO to purchase interests in properties owned by Rechler family members were terminated. In return the Company received an aggregate payment from the Rechler family members of $972,000. Rechler family members have also agreed to extend the term of the remaining option on the property located at 225 Broadhollow Road, Melville, New York (the Company's current headquarters) for five years and to release the Company from approximately 15,500 square feet under its lease at this property. In connection with the restructuring of the remaining option the Rechler family members paid the Company $1 million in return for the Company's agreement not to exercise the option during the next three years. As part of the agreement, the exercise price of the option payable by the Company was increased by $1 million.

In January 2004, the Company sold a 104,000 square foot office property located on Long Island for approximately $18.5 million. Net proceeds from the sale were used to repay borrowings under the Company's unsecured Credit Facility. As a result, the Company recorded a net gain of approximately $5.2 million, net of limited partners' minority interest. In accordance with FASB Statement No. 144, such gain has been reflected in discontinued operations on the Company's consolidated statements of income.

In January 2004, the Company acquired 1185 Avenue of the Americas, a 42-story, 1.1 million square foot Class A office tower, located between 46th and 47th Streets in New York, NY for $321 million. In connection with this acquisition, the Company assumed a $202 million mortgage and $48 million of mezzanine debt. The balance of the purchase price was paid through an advance under the Credit Facility. The floating rate mortgage and mezzanine debt both mature in August 2004 and presently have a weighted average interest rate of 4.95%. Such rate is based on the greater of one month LIBOR or 2.15% plus a weighted average spread of approximately 2.80%. An interest rate hedge agreement was acquired to limit exposure to increases in LIBOR above 5.825%. The property is also encumbered by a ground lease which has a remaining term of approximately 40 years with rent scheduled to be re-set at the end of 2005 and then remain constant for the balance of the term. Pursuant to the terms of the ground lease, the Company and the ground lessor have commenced arbitration proceedings related to the re-setting of the ground lease. There can be no assurances as to the outcome of the rent re-set process. In accordance with FASB Statement No. 141, "Business Combinations", the Company allocated and recorded net deferred intangible lease income of approximately $14.2 million, representing the net value of acquired above and below market leases, assumed lease origination costs and other value of in-place leases. The net value of the above and below market leases is amortized over the remaining terms of the respective leases to rental income which amounted to approximately $2.0 million and $3.8 million for the three and six month periods ended June 30, 2004. In addition, amortization expense on the value of lease origination costs was approximately $746,000 and $1.3 million for the three and six month periods ended June 30, 2004, respectively. At acquisition, there were 31 in-place leases aggregating approximately one million square feet with a weighted average remaining lease term of approximately 6 years.

During February 2004, the Company executed a lease with Nassau County for the entire building and concourse level at 60 Charles Lindbergh Blvd., Long Island, comprising approximately 200,000 square feet, including 127,000 square feet previously vacated by WorldCom/MCI. 60 Charles Lindbergh Blvd. will be repositioned to satisfy Nassau County's use.

In April 2004, the Company sold a 175,000 square foot office building located on Long Island for approximately $30 million, of which the Company owned a 51% interest, and a wholly owned 9,000 square foot retail property for approximately $2.8 million. In addition, the Company completed the sale on two of the remaining three properties from the Disposition for approximately $5.8 million. Proceeds from the sale 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 (a "Section 1031 Exchange"). A Section 1031 Exchange allows for the deferral of taxes related to the gain attributable to the sale of property if qualified replacement property is identified within 45 days and such qualified replacement property is then acquired within 180 days from the initial sale. There can be no assurances that the Company will meet the requirements of Section 1031 by identifying and acquiring qualified replacement properties in the required time frame, in which case the Company would incur the tax liability on the capital gain realized of approximately $1.5 million. The disposition of the other industrial property, which is subject to certain environmental issues, is conditioned upon the approval of the buyer's lender, which has not been obtained. As a result, the Company will not dispose of this property as part of the Disposition. Management believes that the cost to remediate the environmental issues will not have a material adverse effect on the Company, but there can be no assurance in this regard.

In July 2004, the Company acquired a 141,000 square foot Class A office property, located in Chatham Township, NJ for approximately $22.7 million. The Company made this acquisition through available cash-on-hand.

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 was 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 been completed. In accordance with FASB Statement No. 66, the Company has recognized a book gain, before taxes, on this land sale and build-to-suit transaction of approximately $23.8 million, of which $400,000 and $5.0 million and $4.3 million and $10.1 million has been recognized during the three and six month periods ended June 30, 2004 and 2003, respectively, and is included in investment and other income on the Company's consolidated statements of income.

The Company holds a $17.0 million 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, New York (the "Omni Note"). The Company currently owns a 60% majority partnership interest in Omni Partners, L.P. and on March 14, 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 a $30 million junior mezzanine loan which is secured by a pledge of an indirect ownership interest of an entity which owns the ground leasehold estate under a 1.1 million square foot office complex located on Long Island, New York (the "Mezz Note"). The Mezz Note matures in September 2005, currently bears interest at 12.73%, and the borrower has the right to extend for three additional one-year periods. The Company also holds three other notes receivable aggregating $19.0 million which bear interest at rates ranging from 10.5% to 12% per annum. These notes are secured in part by a minority partner's preferred unit interest in the Operating Partnership, an interest in real property and a personal guarantee (the "Other Notes" and collectively with the Omni Note and the Mezz Note, the "Note Receivable Investments"). During April 2004, approximately $2.7 million of the Other Notes, including accrued interest, were repaid by the minority partner exchanging, and the Operating Partnership redeeming, approximately 3,081 preferred units. The preferred units were redeemed at a par value of $3.1 million. Approximately $420,000 of the redemption proceeds was used to offset interest due from the minority partner under the Other Notes and for prepaid interest. In July 2004, the minority partner delivered notice to the Operating Partnership stating his intention to repay $15.5 million of the 10.5% Other Notes. When repaid, the remaining Other Notes will aggregate $3.5 million and carry a weighted average interest rate of 11.57%. The Operating Partnership has also agreed to extend the maturity of $2.5 million of such debt through January 31, 2005 and the remaining $1.0 million through January 31, 2010. As of June 30, 2004, management has made subjective assessments as to the underlying security value on the Company's Note Receivable Investments. These assessments indicate an excess of market value over the 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 $100.1 million mortgage note payable along with one of the Company's New York City buildings. The Company has the right to prepay this note in November 2004, prior to its maturity.

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. As of June 30, 2004, the 520JV had total assets of $20.6 million, a mortgage note payable of $11.7 million and other liabilities of $582,000. The Company's allocable share of the 520JV mortgage note payable is approximately $7.6 million. This mortgage note payable bears interest at 8.85% per annum and matures on September 1, 2005. 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 income (loss) was approximately $294,000 and $408,000 and $(270,000) and $(164,000) for the three and six month periods ended June 30, 2004 and 2003, respectively.

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. During the three and six months ended June 30, 2004 and 2003, Reckson Construction Group, Inc. or its successor, Reckson Construction & Development, LLC billed approximately $217,000 and $678,000 and $105,900 and $231,000, respectively, of market rate services and Reckson Management Group, Inc. billed approximately $72,000 and $138,000, and $69,000 and $140,000, respectively, of market rate management fees to the Remaining Option Properties.

Reckson Management Group, Inc. leases approximately 26,000 square feet of office space at the Remaining Option Property located at 225 Broadhollow Road, Melville, New York for its corporate offices at an annual base rent of approximately $750,000. The Company had also entered into a short term license agreement at the property for 6,000 square feet of temporary space which expired in January 2004. Reckson Management Group, Inc. also leases 10,722 square feet of warehouse space used for equipment, materials and inventory storage at a property owned by certain members of the Rechler family at an annual base rent of approximately $75,000. In addition, commencing April 1, 2004, Reckson

Construction & Development, LLC ("RCD") has been leasing approximately 17,000 square feet of space at the Remaining Option Property, located at 225 Broadhollow Road, Melville, New York, which was formerly occupied by an affiliate of First Data Corp. through September 30, 2006. Base rent of approximately $121,000 was paid by RCD during the three months ended June 30, 2004. RCD anticipates it will mitigate this obligation by sub-letting the space to a third party. However, there can be no assurances that RCD will be successful in sub-leasing the aforementioned space and mitigating its aggregate costs.

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 $445,000.

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 and the Operating Partnership, six Class A office properties, located in the New York City borough of Manhattan, aggregating approximately 4.5 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. In August 2003, the Company acquired TIAA's 49% interest in the property located at 275 Broadhollow Road, Melville, NY, for approximately $12.4 million. In addition, during April 2004, the Tri-State JV sold a 175,000 square foot office building located on Long Island for approximately $30 million. Net proceeds from this sale were distributed to the members of the Tri-State JV. As a result of these transactions, the Tri-State JV owns seven Class A suburban office properties aggregating approximately 1.2 million square feet. 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, 2004 was approximately $3.7 billion. The Company's total market capitalization is based on the sum of (i) the market value of the Company's common stock and OP Units (assuming conversion) of $27.46 per share/unit (based on the closing price of the Company's common stock on June 30, 2004), (ii) the liquidation preference value of the Company's Series A preferred stock of $1,000 per share, (iii) the liquidation preference value of the Operating Partnership's preferred units of

$1,000 per unit and (iv) the approximately $1.5 billion (including its share of consolidated and unconsolidated joint venture debt and net of minority partners' interests share of consolidated joint venture debt) of debt outstanding at June 30, 2004. As a result, the Company's total debt to total market capitalization ratio at June 30, 2004 equaled approximately 40.3%.

During 1997, the Company formed FrontLine Capital Group, formerly Reckson Service Industries, Inc. ("FrontLine") and Reckson Strategic Venture Partners, LLC ("RSVP"). RSVP is a real estate venture capital fund, which invested 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, 2004, approximately $109.1 million had been funded through the RSVP Commitment, of which $59.8 million represents investments by the Company in RSVP-controlled (REIT-qualified) joint ventures and $49.3 million represents loans made to FrontLine under the RSVP Facility. As of June 30, 2004, interest accrued (net of reserves) under the FrontLine Facility and the RSVP Facility was approximately $19.6 million.

In September 2003, RSVP completed the restructuring of its capital structure. In connection with the restructuring, RSVP redeemed the interest of the preferred equity holders of RSVP for an aggregate of $137 million in cash and the transfer to the preferred equity holders of the assets that comprised RSVP's parking investments valued at approximately $28.5 million. As a result of this transaction amounts formerly invested in the privatization, parking and medical office platforms have been reinvested as part of the buyout transaction.

A committee of the Board of Directors, comprised solely of independent directors, considers 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.

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.

RSVP also restructured its management arrangements whereby a management company formed by its former managing directors has been retained to manage RSVP pursuant to a management agreement and the employment contracts of the managing directors with RSVP have been terminated. The management agreement provides for an annual base management fee, and disposition fees equal to 2% of the net proceeds received by RSVP on asset sales. (The base management fee and disposition fees are subject to a maximum over the term of the agreement of $7.5 million.) In addition, the managing directors retained a one-third residual interest in RSVP's assets which is subordinated to the distribution of an aggregate amount of $75 million to RSVP and/or the Company in respect of its joint ventures with RSVP. The management agreement has a three-year term, subject to early termination in the event of the disposition of all of the assets of RSVP.

In connection with the restructuring, RSVP and certain of its affiliates obtained a $60 million secured loan. In connection with this loan, the Operating Partnership agreed to indemnify the lender in respect of any environmental liabilities incurred with regard to RSVP's remaining assets in which the Operating Partnership has a joint venture interest (primarily certain student housing assets held by RSVP) and guaranteed the obligation of an affiliate of RSVP to the lender in an amount up to $6 million plus collection costs for any losses incurred by the lender as a result of certain acts of malfeasance on the part of RSVP and/or its affiliates. The loan is scheduled to mature in 2006 and is expected to be repaid from proceeds of assets sales by RSVP and or a joint venture between RSVP and a subsidiary of the Operating Partnership.

In April 2004, American Campus Communities, Inc. ("ACC"), a student housing company owned by RSVP and the joint venture between RSVP and a subsidiary of the Operating Partnership, filed a registration statement on Form S-11 with the Securities and Exchange Commission in connection with a proposed initial public offering ("IPO") of its common stock. RSVP and the joint venture between RSVP and a subsidiary of the Operating Partnership plan to liquidate the ownership position in ACC in connection with the IPO transaction.

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, 2004. Such amount has been reflected in investments in service companies and affiliate loans and joint ventures on the Company's consolidated balance sheet.

Scott H. Rechler, who serves as Chief Executive Officer, President 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 and has agreed to serve as a member of the board of ACC upon consummation of its initial public offering.

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RESULTS OF OPERATIONS

The following table is a comparison of the results of operations for the three month period ended June 30, 2004 to the three month period ended June 30, 2003 (dollars in thousands):

	THREE MONTHS ENDED JUNE 30,			
			CHANGE	
	2004	2003	DOLLARS	PERCE
PROPERTY OPERATING REVENUES:				
Base rents	$ 109,765	$ 94,141	$ 15,624	
Tenant escalations and reimbursements ...	17,478	13,907	3,571	
TOTAL PROPERTY OPERATING REVENUES	$ 127,243	$ 108,048	$ 19,195	
PROPERTY OPERATING EXPENSES:				
Operating expenses	$ 30,532	$ 25,351	$ 5,181	
Real estate taxes	20,094	17,087	3,007	
TOTAL PROPERTY OPERATING EXPENSES	$ 50,626	$ 42,438	$ 8,188	
INVESTMENT AND OTHER INCOME	$ 3,323	$ 4,888	$ (1,565)	(
OTHER EXPENSES:				
Interest expense	$ 24,607	$ 20,145	$ 4,462	
Marketing, general and administrative	7,374	8,795	(1,421)	(
TOTAL OTHER EXPENSES	$ 31,981	$ 28,940	$ 3,041	

The Company's property operating revenues, which include base-rents and tenant escalations and reimbursements ("Property Operating Revenues") increased by $19.2 million for the three months ended June 30, 2004 as compared to the 2003 period. Property Operating Revenues increased $14.6 million attributable to lease up of redeveloped properties and from the acquisitions of 1185 Avenue of the Americas in January 2004 and 1055 Washington Avenue in August 2003. In addition, Property Operating Revenues increased by $1.3 million from built-in rent increases for existing tenants in our "same store" properties and by an $800,000 increase in termination fees. Property Operating Revenues also increased by approximately $1.6 million due to the reduction in tenant receivable write-offs and to a weighted average occupancy increase in our "same store" properties. Tenant escalations and reimbursements increased $2.3 million attributable to increased operating expense and real estate tax costs being passed through to tenants as base years for 2002 take effect. These increases were offset by $500,000 in same space rental rate decreases and $800,000 of free rent concessions.

The Company's property operating expenses, real estate taxes and ground rents ("Property Expenses") increased by approximately $8.2 million for the three months ended June 30, 2004 as compared to the 2003 period. The increase is primarily attributable the Company's acquisitions of 1185 Avenue of the Americas and 1055 Washington Avenue amounting to approximately $7.6 million. The remaining increase in property operating expenses is attributable to $ 600,000 in real estate taxes and operating expenses from the Company's "same store" properties. Increases in real estate taxes is attributable to the significant increases levied by certain municipalities, particularly in New York City and Nassau County, New York which have experienced fiscal budget issues.

Investment and other income decreased by $1.6 million or 32.0%. This decrease is primarily attributable to the decrease in the gain recognized of the Company's land sale and build-to-suit transaction of approximately $3.9 million. This decrease was off-set by cost savings achieved by the Company's service companies related to the November 2003 restructuring.

Interest expense increased by $4.5 million or 22.1%. This increase is attributable to approximately $3.4 million of interest expense incurred on the mortgage debt on 1185 Avenue of the Americas which was acquired in January 2004 and approximately $2.8 million of corporate interest expense allocable to discontinued operations for the three month period ended June 30, 2003 with no such allocation in the current period. These increases were offset by decreases in interest expense of approximately $400,000 incurred under the Company's "same store" mortgage portfolio and a decrease in interest expense of approximately $1.7 million incurred under the Company's unsecured credit facility as a result of a decrease in the weighted average balance outstanding. The weighted average balance outstanding under the Company's unsecured credit facility was $90 million for the three months ended June 30, 2004 as compared to $319.9 million for the three months ended June 30, 2003.

Marketing, general and administrative expenses decreased by $1.4 million or 16.2%. This overall decrease is attributable to the efficiencies the Company achieved as a result of its November 2003 restructuring and the related termination of certain employees and settlement of the employment contracts of certain former executive officers of the Company.

Discontinued operations, net of limited partners' and minority interests, increased by approximately $319,000. This net increase is attributable to the gain on sales related to those properties sold during the current period of approximately $3.6 million, which was offset by the decrease of the operations for those properties sold between July 1, 2003 and March 31, 2004.

The following table is a comparison of the results of operations for the six month period ended June 30, 2004 to the six month period ended June 30, 2003 (dollars in thousands):

	SIX MONTHS ENDED JUNE 30,			
			CHANGE	
	2004	2003	DOLLARS	PERCEN
PROPERTY OPERATING REVENUES:				
Base rents	$ 220,800	$ 188,885	$ 31,915	1
Tenant escalations and reimbursements ...	35,593	27,943	7,650	2

TOTAL PROPERTY OPERATING REVENUES	$ 256,393	$ 216,828	$ 39,565	1
PROPERTY OPERATING EXPENSES:				
Operating expenses	$ 61,406	$ 51,789	$ 9,617	1
Real estate taxes	40,685	34,029	6,656	1
TOTAL PROPERTY OPERATING EXPENSES	$ 102,091	$ 85,818	$ 16,273	1
INVESTMENT AND OTHER INCOME	$ 8,986	$ 12,147	$ (3,161)	(2
OTHER EXPENSES:				
Interest expense	$ 50,268	$ 40,242	$ 10,026	2
Marketing, general and administrative ...	14,441	16,364	(1,923)	(1
TOTAL OTHER EXPENSES	$ 64,709	$ 56,606	$ 8,103	1

The Company's Property Operating Revenues increased by $39.6 million for the six months ended June 30, 2004 as compared to the 2003 period. Property Operating Revenues increased $27.3 million attributable to lease up of redeveloped properties and from the acquisitions of 1185 Avenue of the Americas in January 2004 and 1055 Washington Avenue in August 2003. In addition, Property Operating Revenues increased by $2.6 million from built-in rent increases for existing tenants in our "same store" properties and by a $5.0 million increase in termination fees. Property Operating Revenues also increased by approximately $2.8 million due to the reduction in tenant receivable write-offs and to a weighted average occupancy increase in our "same store" properties. Tenant escalations and reimbursements increased $4.3 million attributable to increased operating expense and real estate tax costs being passed through to tenants as base years for 2002 take effect. These increases were offset by $800,000 in same space rental rate decreases and $1.5 million of free rent concessions.

The Company's Property Expenses increased by approximately $16.3 million for the six months ended June 30, 2004 as compared to the 2003 period. The increase is primarily attributable the Company's acquisitions of 1185 Avenue of the Americas and 1055 Washington Avenue amounting to approximately $12.7 million. The remaining increase in Property Expenses is attributable to approximately $3.6 million in real estate taxes and operating expenses from the Company's "same store" properties. Increases in real estate taxes is attributable to the significant increases levied by certain municipalities, particularly in New York City and Nassau County, New York which have experienced fiscal budget issues.

Investment and other income decreased by $3.2 million or 26.0 % from the six month period ended June 30, 2003 as compared to the same quarterly period of 2004. The decrease is primarily attributable to a decrease in the gain recognized on the Company's land sale and build-to-suit transaction of approximately $5.1 million. This decrease was off-set by net increases in interest income on mortgage notes and notes receivable of approximately $403,000, net increases in real estate tax recoveries, related to prior periods, of approximately $600,000 and cost savings achieved by the Company's service companies related to the November 2003 restructuring.

Interest expense increased by $10.0 million or 24.9 % from the six month period ended June 30, 2003 as compared to the same quarterly period of 2004. The increase is attributable to the net increase of $50 million in the Operating Partnership's senior unsecured notes which resulted in approximately $ 1.3 million of additional interest expense and approximately $6.5 million of interest expense incurred on the mortgage debt on 1185 Avenue of the Americas which was acquired in January 2004. In addition, during the six month period ended June 30, 2003, the Company allocated approximately $5.5 million of its interest expense to discontinued operations in accordance with FASB Statement No. 144 with no such allocation in the current period. This allocation resulted in an additional increase in interest expense from continuing operations. These increases were offset by decreases in interest expense of approximately $691,000 incurred under the Company's "same store" mortgage portfolio, in capitalized interest expense of approximately $326,000 attributable to a decrease in development projects and in interest expense of approximately $2.3 million incurred under the Company's unsecured credit facility as a result of a decrease in the weighted average balance outstanding. The weighted average balance outstanding under the Company's unsecured credit facility was $104.9 million for the six months ended June 30, 2004 as compared to $303.0 million for the six months ended June 30, 2003.

Marketing, general and administrative expenses decreased by $1.9 million or 11.8% from the six month period ended June 30, 2003 as compared to the same quarterly period of 2004. This overall decrease is attributable to the efficiencies the Company achieved as a result of its November 2003 restructuring and the related termination of certain employees and settlement of the employment contracts of certain former executive officers of the Company.

Discontinued operations, net of limited partners' and minority interests, increased by approximately $3.0 million. This net increase is attributable to the gain on sales of real estate for those properties sold during the current period of approximately $8.8 million, which was off-set by the decrease of the operations for those properties sold between July 1, 2003 and January 1, 2004.

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 recent quarterly periods, the Company has incurred 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 or early terminations of leases. The Company is currently experiencing high tenanting costs including tenant improvement costs, leasing commissions and free rent in all of its markets. For the three and six month periods ended June 30, 2004, the Company paid $11.5 million and $21.6 million, respectively for tenanting costs including tenant improvement costs and leasing commissions. As a result of these and / or other operating factors, the Company's cash flow from operating activities was not sufficient to pay 100% of the dividends paid on its common stock. To meet the short-term funding requirements relating to these leasing costs, the Company has used proceeds of property sales or borrowings under its credit facility. Based on the Company's forecasted leasing for 2004 it anticipates that it will incur similar shortfalls. The Company currently intends to fund any shortfalls with proceeds from non-income producing asset sales or borrowings under its credit facility. The Company periodically reviews its dividend policy to determine the appropriateness of the Company's dividend rate relative to the Company's cash flows. The Company adjusts its dividend rate based on such factors as leasing activity, market conditions and forecasted increases and decreases in its cash flow as well as required distributions of taxable income to maintain REIT status. There can be no assurance that the Company will maintain the current quarterly distribution level on its common stock.

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. During the six months ended June 30, 2004, the Company issued $150 million of common equity securities and $150 million of senior unsecured debt securities. 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. Similarly, there can be no assurance that the Company will be able to access the unsecured debt markets at the time when the Company desires to sell its unsecured notes. 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. However, there can be no assurances that the Company will be able to identify such opportunities that meet the Company's underwriting criteria. 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 and non-income producing assets, will be adequate to meet the capital and liquidity requirements of the Company in both the short and long-term. The Company's senior unsecured debt is currently rated "BBB-" by Fitch, "BBB-" by Standard & Poors and "Ba1" by Moody's. The rating agencies review the ratings assigned to an issuer such as the Company on an ongoing basis. Negative changes in the Company's ratings would result in increases in the Company's borrowing costs, including borrowings under the Company's unsecured credit facility.

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. Our results reflect vacancy rates in our markets that are at the higher end of the range of historical cycles and in some instances our asking rents in

our markets have trended lower and landlords have been required to grant greater concessions such as free rent and tenant improvements. Our markets have also been experiencing higher real estate taxes and utility rates. However, our markets have begun to recover as evidenced by an increased level of leasing activity, increased occupancy rates in our portfolio and decreases in vacancy rates in certain of our markets.

The Company carries comprehensive liability, fire, extended coverage and rental loss insurance on all of its properties. Six of the Company's properties are located in New York City. As a result of the events of September 11, 2001, insurance companies were 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, including for acts of terrorism up to $500 million on a per occurrence basis, except for one asset which is insured up to $393 million.

The potential impact of terrorist attacks in the New York City and Tri-State Area may adversely affect the value of the Company's properties and its ability to generate cash flow. As a result, there may be a decrease in demand for office space in metropolitan areas that are considered at risk for future terrorist attacks, and this decrease may reduce the Company's revenues from property rentals.

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 liquid investments.

As of June 30, 2004, the Company had a $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 was scheduled to mature in December 2005, contained 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. As of June 30, 2004, based on a pricing grid of the Operating Partnership's unsecured debt ratings, borrowings under the Credit Facility were priced off LIBOR plus 90 basis points and the Credit Facility carried a facility fee of 20 basis points per annum. In the event of a change in the Operating Partnership's unsecured credit ratings the interest rates and facility fee are subject to change. At June 30, 2004, the outstanding borrowings under the Credit Facility aggregated $90 million and carried a weighted average interest rate of 2.18%.

In August 2004, the Company amended and extended the Credit Facility to mature in August 2007 with similar terms and conditions as existed prior to the amendment and extension.

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, 2004, the Company had availability under the Credit Facility to borrow an additional $410 million, subject to compliance with certain financial covenants.

In connection with the acquisition of certain properties, contributing partners of such properties have provided guarantees on indebtedness of the Company. As a result, the Company maintains certain outstanding balances on its Credit Facility.

On January 22, 2004, the Operating Partnership issued $150 million of seven-year 5.15% (5.196% effective rate) senior unsecured notes. Prior to the issuance of these senior unsecured notes the Company entered into several anticipatory interest rate hedge instruments to protect itself against potentially rising interest rates. At the time the notes were issued the Company incurred a net cost of approximately $980,000 to settle these instruments. Such costs are being amortized over the term of the senior unsecured notes. During March 2004, the Company also completed an equity offering of 5.5 million shares of its common stock raising approximately $149.5 million, net of an underwriting discount, or $27.18 per share. Net proceeds received from these transactions were used to repay outstanding borrowings under the Credit Facility, repay $100 million of the Operating Partnership's 7.4% senior unsecured notes and to invest in short-term liquid investments.

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 2003, the Company sold assets or interests in assets with aggregate sales prices of approximately $350.6 million. In addition, during the six months ended June 30, 2004, the Company has sold assets or interests in assets with aggregate sales prices of approximately $44.1 million, net of minority partner's joint venture interest. The Company used the proceeds from these sales primarily to pay down borrowings under the Credit Facility, for general corporate purposes and to invest in short-term liquid investments until such time as alternative real estate investments can be made.

An OP Unit and a share of 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 common stock on a one-for-one basis. The OP Units currently receive a quarterly distribution of $.4246 per unit. As of June 30, 2004, the Operating Partnership had issued and outstanding 3,084,708 Class A OP

Units and 465,845 Class C OP Units. The Class C OP Units were issued in August 2003 in connection with the contribution of real property to the Operating Partnership and currently receive a quarterly distribution of $.4664 per unit.

On November 25, 2003, the Company exchanged all of its 9,915,313 outstanding shares of Class B common stock for an equal number of shares of its common stock. The Board of Directors declared a final cash dividend on the Company's Class B common stock to holders of record on November 25, 2003 in the amount of $.1758 per share which was paid on January 12, 2004. This payment covered the period from November 1, 2003 through November 25, 2003 and was based on the previous quarterly Class B common stock dividend rate of $.6471 per share. In order to align the regular quarterly dividend payment schedule of the former holders of Class B common stock with the schedule of the holders of common stock for periods subsequent to the exchange date for the Class B common stock, the Board of Directors also declared a cash dividend with regard to the common stock to holders of record on October 14, 2003 in the amount of $.2585 per share which was paid on January 12, 2004. This payment covered the period from October 1, 2003 through November 25, 2003 and was based on the current quarterly common stock dividend rate of $.4246 per share. As a result, the Company declared dividends through November 25, 2003 to all holders of common stock and Class B common stock. The Board of Directors also declared the common stock cash dividend for the portion of the fourth quarter subsequent to November 25, 2003. The holders of record of common stock on January 2, 2004, giving effect to the exchange transaction, received a dividend on the common stock in the amount of $.1661 per share on January 12, 2004. This payment covered the period from November 26, 2003 through December 31, 2003 and was based on the current quarterly common stock dividend rate of $.4246 per share.

During the six month period ended June 30, 2004, approximately 1.3 million shares of the Company's common stock was issued in connection with the exercise of outstanding options to purchase stock under its stock option plans resulting in proceeds to the Company of approximately $27.2 million.

The Board of Directors of the Company authorized the purchase of up to five million shares of the Company's common stock. Transactions conducted on the New York Stock Exchange have been, and will continue to 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. Since the Board's initial authorization, the Company has purchased 3,318,600 shares of its common stock for an aggregate purchase price of approximately $71.3 million. In June 2004, the Board of Directors re-set the Company's common stock repurchase program back to five million shares. No purchases were made during the six months ended June 30, 2004.

The Board of Directors of the Company also formed a pricing committee to consider purchases of up to $75 million of the Company's outstanding preferred securities.

On June 30, 2004, the Company had issued and outstanding 8,693,900 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, 2004 at a price of $25.7625 per share with such price decreasing, at annual intervals, to $25.00 per share on April 13, 2008. In addition, the Series A preferred stock, at the option of the holder, is convertible at any time into the Company's common stock at a price of $28.51 per share. On May 13, 2004, the Company purchased and retired 140,600 shares of the Series A preferred stock for approximately $3.4 million or $24.45 per share. In addition, during July 2004, the Company exchanged 1,350,000 shares of the Series A preferred stock for 1,304,602 shares of common stock. As a result of these transactions annual preferred dividends will decrease by approximately $2.8 million. In accordance with the Emerging Issues Task Force ("EITF") Topic D-42 the Company will incur an accounting charge during the third quarter of 2004 of approximately $3.4 million in connection with the July 2004 exchange of the Series A preferred stock.

On January 1, 2004, the Company had issued and outstanding two million shares of Series B Convertible Cumulative Preferred Stock (the "Series B preferred stock"). The Series B preferred stock was 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. The Series B preferred stock, at the option of the holder, was convertible at any time into the Company's common stock at a price of $26.05 per share. On January 16, 2004, the Company exercised its option to redeem the two million shares of outstanding Series B preferred stock for approximately 1,958,000 shares of its common stock. As a result of this redemption annual preferred dividends will decrease by approximately $4.4 million.

On April 1, 2004, the Operating Partnership had issued and outstanding approximately 19,662 preferred units of limited partnership interest with a liquidation preference value of $1,000 per unit and a current annualized distribution of $55.60 per unit (the "Preferred Units"). The Preferred Units were issued in 1998 in connection with the contribution of real property to the Operating Partnership. On April 12, 2004, the Operating Partnership redeemed approximately 3,081 Preferred Units, at the election of the holder, for approximately $3.1 million, including accrued and unpaid dividends which is being applied to amounts owed from the unit holder under the Other Notes. In addition, during July 2004, the holder of approximately 15,381 of the outstanding Preferred Units exchanged them into OP Units. The Operating Partnership converted the Preferred Units, including accrued and unpaid dividends, into approximately 531,000 OP Units, which were valued at approximately $14.7 million at the time of the conversion. Subsequent to the conversion, the OP Units were exchanged for an equal number of shares of the Company's common stock. In connection with the July 2004 exchanges and conversions, the preferred unit holder delivered notice to the Operating

Partnership of his intent to repay $15.5 million owed from the unit holder under the Other Notes.

Effective January 1, 2002 the Company has elected to follow FASB Statement No. 123, "Accounting for Stock Based Compensation".

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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. To determine the fair value of the stock options granted, the Company uses a Black-Scholes option pricing model. Prior to the adoption of Statement No. 123, 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 each of the six month periods ended June 30, 2004 and 2003, the Company recorded approximately $2,700 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, 2004 totaled approximately $1.5 billion (including its share of consolidated and unconsolidated joint venture debt and net of minority partners' interests share of consolidated joint venture debt) and was comprised of $90 million outstanding under the Credit Facility, approximately $549.1 million of senior unsecured notes and approximately $833.2 million of mortgage indebtedness. Based on the Company's total market capitalization of approximately $3.7 billion at June 30, 2004 (calculated based on the sum of (i) the market value of the Company's common stock and OP Units, assuming conversion, (ii) the liquidation preference value of the Company's preferred stock, (iii) the liquidation preference value of the Operating Partnership's preferred units and (iv) the $1.5 billion of debt), the Company's debt represented approximately 40.3% of its total market capitalization.

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CONTRACTUAL OBLIGATIONS AND COMMERCIAL COMMITMENTS

The following table sets forth the Company's significant consolidated debt obligations, by scheduled principal cash flow payments and maturity date, and its commercial commitments by scheduled maturity at June 30, 2004 (in thousands):

	MATURITY DATE				
	2004	2005	2006	2007	2008
Mortgage notes payable (1)	$ 6,779	$ 13,887	$ 13,478	$ 10,969	$ 9,
Mortgage notes payable (2) (3)	250,000	18,553	129,920	60,539	
Senior unsecured notes	--	--	--	200,000	
Unsecured credit facility	--	90,000	--	--	
Land lease obligations (4)	3,737	3,776	3,828	3,753	3,
Operating leases	1,119	1,282	1,198	844	

Air rights lease obligations	333	333	333	333	
	$ 261,968	$ 127,831	$ 148,757	$ 276,438	$ 14,

(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 March 31, 2004 is approximately $7.6 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.

(4) The Company leases, pursuant to noncancellable operating leases, the land on which twelve of its buildings were constructed. The leases, certain of which contain renewal options at the direction of the Company, expire between 2006 and 2090. The leases either contain provisions for scheduled increases in the minimum rent at specified intervals or for adjustments to rent based upon the fair market value of the underlying land or other indices at specified intervals. Minimum ground rent is recognized on a straight-line basis over the terms of the leases.

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.

During August 2004 the mortgage note payable and mezzanine debt, aggregating $250 million, on the property located at 1185 Avenue of the Americas, New York, NY, matures. On March 19, 2004, the Company entered into two anticipatory interest rate hedge instruments which are scheduled to coincide with an August 2004 debt maturity, totaling $100 million, to protect itself against potentially rising interest rates. At June 30, 2004, the fair value of these instruments exceeded their carrying value by approximately $5.2 million. Such amount has been reflected as accumulated other comprehensive income with a corresponding increase to prepaid expenses and other assets on the Company's balance sheet. On July 1, 2004, the Company entered into an additional anticipatory interest rate hedge instrument totaling $12.5 million to coincide with the aforementioned August 2004 debt maturity.

At June 30, 2004, the Company had approximately $940,000 in outstanding undrawn standby letters of credit issued under the Credit Facility. In addition, approximately $43.5 million, or 4.5%, of the Company's mortgage debt is recourse to the Company.

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OTHER MATTERS

Seven 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 2007 and 2013.

Three 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, rights of first offer, and buy / sell provisions.

With the recent appointment of Messrs. Crocker, Steinberg, Ruffle and Ms. McCaul as additional independent directors and the retirement of Mr. Kevenides, the Company's Board of Directors currently consists of seven independent directors and two insiders. Mr. Peter Quick serves as the Lead Director of the Board. In addition, each of the Audit, Compensation and Nominating and Governance Committees is comprised solely of independent directors.

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 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.

Recently, the Company has taken certain additional actions to enhance its corporate governance policies. These actions included opting out of the Maryland Business Combination Statute, de-staggering the Board of Directors to provide that each director is subject to election by shareholders on an annual basis and modifying the Company's "five or fewer" limitation on the ownership of its common stock so that such limitation may only be used to protect the Company's REIT status and not for anti-takeover purposes.

The Company has also adopted a policy which requires that each independent director acquire $100,000 of common stock of the Company and a policy which requires that at least one independent director be rotated off the Board every three years.

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 487,500 shares of its 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) were scheduled to vest and be 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. As of June 30, 2004, there remains 222,429 shares of common stock subject to the original stock loans which are anticipated to vest between 2005 and 2011. Approximately $248,000 and $556,000 of compensation expense was recorded for the three and six month periods ended June 30, 2004, respectively related to these LTIP. Such amount has 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 $4.7 million at June 30, 2004, 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, 2004 amounted to approximately $1.9 million primarily related to tax payment advances on stock compensation awards and life insurance contracts made to certain executive and 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 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 62,835 shares of the Company's common stock and the 2003 Rights aggregate 26,042 shares of common stock. As of June 30, 2004, there remains 47,126 shares of common stock related to the 2002 Rights and 26,042 shares of common stock related to the 2003 Rights. During the three and six month periods ended June 30, 2004 the Company recorded approximately $100,000 and $201,000, respectively compensation expense related to the Rights. Such amount has been included in marketing, general and administrative expenses on the Company's consolidated statements of income.

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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 827,776 shares of its common stock under one of its existing stock option plans in connection with the core award of this LTIP for eight of its executive and senior officers. On March 13, 2004, the Company met its annual performance measure with respect to the prior annual period. As a result, the Company issued to the participants 206,944 shares of its common stock related to the core component of this LTIP. As of June 30, 2004, there remains 620,832 shares of common stock reserved for future issuance under the core award of this LTIP. With respect to the core award of this LTIP, the Company recorded approximately $699,000 and $1.4 million of compensation expense for the three and six month periods ended June 30, 2004, respectively. Such amount has 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.

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.

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 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.

Soil, sediment and groundwater contamination, consisting of volatile organic compounds ("VOCs") and metals, has been identified at the property at 32 Windsor Place, Central Islip, New York. The contamination is associated with industrial activities conducted by a tenant at the property over a number of years. The contamination, which was identified through an environmental investigation conducted on behalf of the Company, has been reported to the New York State Department of Environmental Conservation. The Company has notified the tenant of the findings and has demanded that the tenant take appropriate actions to fully investigate and remediate the contamination. Under applicable environmental laws, both the tenant and the Company are liable for the cost of investigation and remediation. The Company does not believe that the cost of investigation and remediation will be material and the Company has recourse against the tenant. However, there can be no assurance that the Company will not incur liability that would have a material adverse effect on the Company's business.

In March 2004, the Company received notification from the Internal Revenue Service indicating that they have selected the 2001 tax return of the Operating Partnership for examination. The examination process is currently on going.

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 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.

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

The following table presents the Company's FFO calculation (unaudited and in thousands):

	THREE MONTHS JUNE 3
	2004
Net income allocable to common shareholders	$ 13,043
Adjustments for basic funds from operations:	
Add:	
Limited partners' minority interest in the operating partnership	701
Real estate depreciation and amortization	28,854
Minority partners' interests in consolidated partnerships	6,811
Less:	
Gain on sales of depreciable real estate	6,174
Amounts distributable to minority partners in consolidated partnerships	6,411
Basic Funds From Operations ("FFO")	36,824
Add:	
Dividends and distributions on dilutive shares and units	227
Diluted FFO	$ 37,051
Weighted average common shares outstanding	66,892
Weighted average units of limited partnership interest outstanding	3,551
Basic weighted average common shares and units outstanding	70,443
Adjustments for dilutive FFO weighted average shares and units outstanding:	
Add:	
Weighted average common stock equivalents	435
Weighted average shares of Series A Preferred Stock	--
Weighted average shares of preferred limited partnership interest	581
Dilutive FFO weighted average shares and units outstanding	71,459

INFLATION

The office leases generally provide for fixed base rent increases or indexed escalations. In addition, the office leases provide for separate escalations of real estate taxes, operating expenses and electric costs over a base amount. The industrial / 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, $250 million of the Company's mortgage notes payable and the Mezz Note, bear interest at variable rates, which will be influenced by changes in short-term interest rates, and are sensitive to inflation.

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. On March 19, 2004, the Company entered into two anticipatory interest rate hedge instruments which are scheduled to coincide with an August 2004 debt maturity, totaling $100 million, to protect itself against potentially rising interest rates. At June 30, 2004, the fair value of these instruments exceeded their carrying value by approximately $5.2 million. On July 1, 2004, the Company entered into an additional anticipatory interest rate hedge instrument totaling $12.5 million to coincide with the aforementioned August 2004 debt maturity.

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

The following table sets forth the Company's long-term debt obligations by scheduled principal cash flow payments and maturity date, weighted average interest rates and estimated FMV at June 30, 2004 (dollars in thousands):

	For the Year Ended December 31,					
	2004	2005	2006	2007	2008	The
Long term debt:						
Fixed rate	$ 6,779	$ 32,440	$ 143,398	$ 271,508	$ 9,989	$ 8

Weighted average interest rate	7.47%	6.90%	7.37%	7.14%	7.23%	
Variable rate	$ 250,000	$ 90,000	$ --	$ --	$ --	$
Weighted average interest rate	4.95%	2.18%	--	--	--	

(1) Includes aggregate unamortized issuance discounts of approximately $868,000 on certain of the senior unsecured notes which are due at maturity.

In addition, a one percent increase in the LIBOR rate would have a $900,000 annual increase in interest expense on the $90 million of variable rate debt due in 2005. A one percent increase in LIBOR would have no impact to interest expense on the $250 million of variable rate debt due in 2004, as interest reported in the current period is calculated using a LIBOR rate in excess of one percent over the LIBOR rate at June 30, 2004.

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, 2004 (dollars in thousands):

	For the Year Ended December 31,					
	2004	2005	2006	2007	2008	The
Mortgage notes and notes receivable:						
Fixed rate	$ 19,000	$ --	$ --	$ 16,990	$ --	$
Weighted average interest rate	10.70%	--	--	12.00%	--	
Variable rate	$ --	$ 30,000	$ --	$ --	$ --	$
Weighted average interest rate	--	12.73%	--	--	--	

(1) Excludes interest receivables and unamortized acquisition costs aggregating approximately $2.4 million dollars.

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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 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 Chief Executive Officer 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 Chief Executive Officer and Chief Financial Officer 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 Chief Executive Officer and Chief Financial Officer 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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SELECTED PORTFOLIO INFORMATION

The following table sets forth the Company's schedule of its top 25 tenants based on base rental revenue as of June 30, 2004:

TENANT NAME (1) (2)	WTD. AVG. TERM REMAINING (YEARS)	TOTAL SQUARE FEET	PERCENT OF PRO-RATA SHARE OF ANNUALIZED BASE RENTAL REVENUE	P
*Debevoise & Plimpton	17.5	465,420	3.3%	
King & Spalding	7.8	176,204	2.3%	
*Verizon Communications Inc.	2.7	263,569	1.9%	
*American Express	9.2	129,818	1.9%	
*Schulte Roth & Zabel	16.4	279,746	1.6%	
*Fuji Photo Film USA	8.4	186,484	1.3%	
Dun & Bradstreet Corp.	8.3	123,000	1.2%	
United Distillers	0.7	137,918	1.2%	
*Bank of America/Fleet Bank	6.7	125,903	1.2%	
*WorldCom/MCI	2.6	244,730	1.1%	
Arrow Electronics	9.5	163,762	1.1%	
Amerada Hess Corporation	8.5	127,300	1.1%	
T.D. Waterhouse	3.1	103,381	1.0%	
Westdeutsche Landesbank	11.8	53,000	1.0%	
D.E. Shaw	11.5	79,515	0.9%	
Practicing Law Institute	9.7	77,500	0.9%	
*Banque Nationale De Paris	12.1	145,834	0.9%	
North Fork Bank	11.5	126,770	0.9%	
Vytra Healthcare	3.5	105,613	0.9%	
*Kramer Levin Nessen Kamin	0.8	158,144	0.9%	
Heller Ehrman White	0.9	64,526	0.9%	
P.R. Newswire Associates	3.9	67,000	0.8%	
*JP Morgan Chase/ Bank One	5.6	87,737	0.8%	
*HQ Global	4.3	126,487	0.8%	
Laboratory Corp. Of America	2.9	108,000	0.8%	

(1) Ranked by pro-rata share of annualized base rental revenue adjusted for pro rata share of joint venture interests.

(2) Excludes One Orlando Centre in Orlando, Florida.

* 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 (at 100% of cost) for the years 2000 through 2003 and for the six month period ended June 30, 2004 for the Company's consolidated office and industrial / R&D properties other than One Orlando Center in Orlando, FL:

	2000	2001	2002	2003
Suburban Office Properties				
Total	$ 3,289,116	$ 4,606,069	$ 5,283,674	$ 6,791,336
Per Square Foot	$ 0.33	$ 0.45	$ 0.53	$ 0.67
NYC Office Properties				
Total	$ 946,718	$ 1,584,501	$ 1,939,111	$ 1,922,209
Per Square Foot	$ 0.38	$ 0.45	$ 0.56	$ 0.55
Industrial Properties				
Total	$ 813,431	$ 711,666	$ 1,881,627	$1,218,401 (1)$
Per Square Foot	$ 0.11	$ 0.11	$ 0.28	$ 0.23
TOTAL PORTFOLIO				
Total	$ 5,049,265	$ 6,902,236	$ 9,104,412	$ 9,931,946
Per Square Foot	$ 0.25	$ 0.34	$ 0.45	$ 0.52

(1) Excludes non-incremental capital expenditures of $435,140 incurred during the fourth quarter 2003 for the industrial properties which were sold during the period.

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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 2000 through 2003 and for the six month period ended June 30, 2004 for the Company's consolidated office and industrial / R&D properties other than One Orlando Center in Orlando, FL:

	2000	2001	2002	2003	Average 2000-2003	YT 200
Long Island Office Properties						
Tenant Improvements	$2,853,706	$ 2,722,457	$ 1,917,466	$ 3,774,722	$ 2,817,088	$2,3
Per Square Foot Improved	$ 6.99	$ 8.47	$ 7.81	$ 7.05	$ 7.58	$
Leasing Commissions	$2,208,604	$ 1,444,412	$ 1,026,970	$ 2,623,245	$ 1,825,808	$1,3
Per Square Foot Leased	$ 4.96	$ 4.49	$ 4.18	$ 4.90	$ 4.63	$
Total Per Square Foot	$ 11.95	$ 12.96	$ 11.99	$ 11.95	$ 12.21	$

Westchester Office Properties						
Tenant Improvements	$1,860,027	$2,584,728	$6,391,589(2)	$ 3,732,370	$ 3,642,178	$4,9
Per Square Foot Improved	$ 5.72	$ 5.91	$ 15.05	$ 15.98	$ 10.66	$
Leasing Commissions	$ 412,226	$1,263,012	$1,975,850(2)	$ 917,487	$ 1,142,144	$2,0
Per Square Foot Leased	$ 3.00	$ 2.89	$ 4.65	$ 3.93	$ 3.62	$
Total Per Square Foot	$ 8.72	$ 8.80	$ 19.70	$ 19.91	$ 14.28	$
Connecticut Office Properties						
Tenant Improvements	$ 385,531	$ 213,909	$ 491,435	$ 588,087	$ 419,740	$2,4
Per Square Foot Improved	$ 4.19	$ 1.46	$ 3.81	$ 8.44	$ 4.47	$
Leasing Commissions	$ 453,435	$ 209,322	$ 307,023	$ 511,360	$ 370,285	$1,3
Per Square Foot Leased	$ 4.92	$ 1.43	$ 2.38	$ 7.34	$ 4.02	$
Total Per Square Foot	$ 9.11	$ 2.89	$ 6.19	$ 15.78	$ 8.49	$
New Jersey Office Properties						
Tenant Improvements	$1,580,323	$ 1,146,385	$ 2,842,521	$ 4,327,295	$ 2,474,131	$ 7
Per Square Foot Improved	$ 6.71	$ 2.92	$ 10.76	$ 11.57	$ 7.99	$
Leasing Commissions	$1,031,950	$ 1,602,962	$ 1,037,012	$ 1,892,635	$ 1,391,140	$ 2
Per Square Foot Leased	$ 4.44	$ 4.08	$ 3.92	$ 5.06	$ 4.38	$
Total Per Square Foot	$ 11.15	$ 7.00	$ 14.68	$ 16.63	$ 12.37	$
New York City Office Properties						
Tenant Improvements	$ 65,267	$ 788,930	$ 4,350,106	$ 5,810,017(3)	$ 2,753,580	$3,4
Per Square Foot Improved	$ 1.79	$ 15.69	$ 18.39	$ 32.84	$ 17.18	$
Leasing Commissions	$ 418,185	$ 1,098,829	$ 2,019,837	$ 2,950,330(3)	$ 1,621,795	$1,0
Per Square Foot Leased	$ 11.50	$ 21.86	$ 8.54	$ 16.68	$ 14.64	$
Total Per Square Foot	$ 13.29	$ 37.55	$ 26.93	$ 49.52	$ 31.82	$
Industrial Properties						
Tenant Improvements	$ 650,216	$ 1,366,488	$ 1,850,812	$ 1,249,200	$ 1,279,179	$ 2
Per Square Foot Improved	$ 0.95	$ 1.65	$ 1.97	$ 2.42	$ 1.75	$
Leasing Commissions	$ 436,506	$ 354,572	$ 890,688	$ 574,256	$ 564,005	$ 2
Per Square Foot Leased	$ 0.64	$ 0.43	$ 0.95	$ 1.11	$ 0.78	$
Total Per Square Foot	$ 1.59	$ 2.08	$ 2.92	$ 3.53	$ 2.53	$
TOTAL PORTFOLIO						
Tenant Improvements	$7,395,070	$ 8,822,897	$17,843,929	$19,481,691	$13,385,896	$14,
Per Square Foot Improved	$ 4.15	$ 4.05	$ 7.96	$ 10.22	$ 6.66	$
Leasing Commissions	$4,960,906	$ 5,973,109	$ 7,257,380	$ 9,469,313	$ 6,915,177	$6,2
Per Square Foot Leased	$ 3.05	$ 2.75	$ 3.24	$ 4.97	$ 3.54	$
Total Per Square Foot	$ 7.20	$ 6.80	$ 11.20	$ 15.19	$ 10.20	$

(1) Excludes $2.8 million of deferred leasing costs attributable to space marketed but not yet leased.

(2) 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.

(3) Excludes $5.8 million of tenant improvements and $2.2 million of leasing commissions related to a new 121,108 square foot lease to Debevoise with a lease commencement date in 2005. Also excludes tenant improvements of $0.2 million for Sandler O'Neil & Partners (7,446 SF) for expansion space with a lease commencement date in 2004.

(4) Excludes 86,800 square foot Westpoint Stevens early renewal. There were no tenant improvement or leasing costs associated with this transaction. Also excludes $1.4 million of tenant improvements and $1.2 million of leasing commissions related to a 74,293 square foot lease to Harper Collins Publishers with a lease commencement date in 2006.

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The following table sets forth the Company's lease expiration table, as adjusted for pre-leased space, at July 1, 2004 for its Total Portfolio of properties, its Office Portfolio and its Industrial / R&D Portfolio:

TOTAL PORTFOLIO (1)

Year of Expiration	Number of Leases Expiring	Square Feet Expiring	% of Total Portfolio Sq Ft	Cumulative % of Total Portfolio Sq Ft
2004	92	545,148	3.5%	3.5%
2005	185	1,523,110	9.9%	13.4%
2006	184	1,692,820	11.0%	24.4%
2007	109	1,140,838	7.4%	31.8%
2008	109	959,655	6.2%	38.1%
2009	102	1,131,680	7.4%	45.4%
2010 and thereafter	315	7,327,050	47.6%	93.0%
Total/Weighted Average	1,096	14,320,301	93.0%	
Total Portfolio Square Feet		15,396,244		

OFFICE PORTFOLIO (1)

Year of Expiration	Number of Leases Expiring	Square Feet Expiring	% of Total Office Sq Ft	Cumulative % of Total Portfolio Sq Ft
2004	89	513,528	3.6%	3.6%
2005	182	1,383,960	9.6%	13.1%
2006	180	1,595,854	11.1%	24.2%
2007	105	1,071,346	7.4%	31.6%
2008	106	916,812	6.3%	38.0%
2009	101	1,086,699	7.5%	45.5%
2010 and thereafter	310	6,981,186	48.3%	93.8%
Total/Weighted Average	1,073	13,549,385	93.8%	
Total Office Portfolio Square Feet		14,440,849		

INDUSTRIAL/R&D PORTFOLIO

Year of Expiration	Number of Leases Expiring	Square Feet Expiring	% of Total Industrial/R&D Sq Ft	Cumulative % of Total Portfolio Sq Ft
2004	3	31,620	3.3%	3.3%
2005	3	139,150	14.6%	17.9%
2006	4	96,966	10.1%	28.0%
2007	4	69,492	7.3%	35.3%
2008	3	42,843	4.5%	39.8%
2009	1	44,981	4.7%	44.5%
2010 and thereafter	5	345,864	36.2%	80.7%
Total/Weighted Average	23	770,916	80.7%	
Total Industrial/R&D Portfolio Square Feet		955,395		

(1) Excludes One Orlando Centre in Orlando, Florida

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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 periods presented as reported on its "Statements of Cash Flows - Investment Activities" contained in its consolidated financial statements (in thousands):

	SIX MONTHS ENDED JUNE 30, 2004	SIX MONTHS ENDED JUNE 30, 2003
Capital expenditures:		
Non-incremental	$ 4,069	$ 4,297
Incremental	1,085	899
Tenant improvements:		
Non-incremental	9,671	19,901
Incremental	2,976	52
Additions to commercial real estate properties	$ 17,801	$ 25,149
Leasing costs:		
Non-incremental	$ 6,764	$ 6,554
Incremental	1,913	2,211
Payment of deferred leasing costs	$ 8,677	$ 8,765
Acquisition and development costs	$ 335,668	$ 16,237

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PART II - OTHER INFORMATION

Item 1. Legal Proceedings

A number of shareholder derivative actions have been commenced purportedly on behalf of the Company against the Board of Directors in the Supreme Court of the State of New York, County of Nassau (Lowinger v. Rechler et al., Index No. 01 4162/03 (9/16/03)), the Supreme Court of the State of New York, County of Suffolk (Steiner v. Rechler et al., Index No. 03 32545 (10/2/03) and Lighter v. Rechler et al., Index No. 03 23593 (10/3/03)), the United States District Court, Eastern District of New York (Tucker v. Rechler et al., Case No. cv 03 4917 (9/26/03), Clinton Charter Township Police and Fire Retirement System v. Rechler et al., Case No. cv 03 5008 (10/1/03) and Teachers' Retirement System of Louisiana v. Rechler et al., Case No. cv 03 5178 (10/14/03)) and the Circuit Court for Baltimore County (Sekuk Global Enterprises Profit Sharing Plan v. Rechler et al., Civil No. 24-C- 03007496 (10/16/03), Hoffman v. Rechler et al., 24-C-03-007876 (10/27/03) and Chirko v. Rechler et al., 24-C-03-008010 (10/30/03)), relating to the sale of the Long Island Industrial Portfolio to certain members of the Rechler family. The complaints allege, among other things, that the process by which the directors agreed to the transaction was not sufficiently independent of the Rechler family and did not involve a " market check" or third party auction process and as a result was not for adequate consideration. The Plaintiffs seek similar relief, including a declaration that the directors violated their fiduciary duties, an injunction against the transaction and damages. The Company believes that complaints are without merit.

Kramer Levin Naftalis & Frankel commenced an action against Metropolitan 919 3rd Avenue LLC in the Supreme Court of the State of New York, County of New York (Kramer Levin Naftalis & Frankel LLP v. Metropolitan 919 3rd Avenue LLC, Index No. 604512/2002 (12/16/02)) relating to alleged overcharges of approximately $700,000 with respect to its lease at 919 3rd Avenue, New York, NY. Such overcharges were primarily incurred during the period prior to the Company's ownership of the property. Subsequent to the filing of the complaint, the parties agreed to pursue private mediation. As of May 2004, the mediation effort was discontinued and the parties have resumed litigation. The Company believes that the complaint is without merit.

Except as provided above, 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, Use of Proceeds and Issuer Purchases of Equity Securities

ISSUER PURCHASE OF EQUITY SECURITIES

PERIOD	(A) TOTAL NUMBER OF SHARES (OR UNITS) PURCHASED	(B) AVERAGE PRICE PAID PER SHARE (OR UNIT)	(C) TOTAL NUMBER OF SHARES (OR UNITS) PURCHASED AS PART OF PUBLICLY ANNOUNCED PLANS OR PROGRAMS

APRIL 1 THROUGH APRIL 30	---	---	---
MAY 1 THROUGH MAY 31	140,600 shares of Series A preferred stock (1)	$24.45	140,600 shares of Series A Preferred Stock
JUNE 1 THROUGH JUNE 30	---	---	---
TOTAL	140,600	$24.45	140,600

(1) All of the shares were purchased in a negotiated transaction from a seller that is not affiliated with the Company.

(2) On May 2nd, 2002, the Company announced that its Board of Directors had approved the purchase from time to time of up to $75 million of its preferred stock.

Item 3. Defaults Upon Senior Securities - None

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

On June 2, 2004, the Company held its annual meeting of stockholders. The matters on which the stockholders voted, in person or by proxy, were (1) to amend the Articles of Incorporation of the Company to eliminate the classification of the board of directors, (2) to amend the Articles of Incorporation to amend the provision regarding the Company's common stock ownership limit, (3) the election of nine nominees as directors to serve until the 2005 annual meeting of stockholders and until their respective successors are duly elected and qualified and (4) to ratify the selection of Ernst & Young LLP as the independent auditors of the Company for the fiscal year ending December 31, 2004. The board was de-classified, the ownership limit was amended, the nine nominees were elected and the auditors were ratified. The results of the voting are set forth below:

	VOTES CAST FOR	WITHHELD	VOTES CAST AGAINST	ABSTAIN
ELIMINATE CLASSIFICATION OF BOARD OF DIRECTORS	60,546,589	N/A	823,985	43,475
AMEND STOCK OWNERSHIP LIMIT	55,146,770	N/A	141,814	83,644
ELECTION OF DIRECTORS				
Peter Quick	60,840,066	573,986	N/A	N/A
Stanley Steinberg	44,166,846	17,247,206	N/A	N/A
John Ruffle	60,945,966	468,086	N/A	N/A
Elizabeth McCaul	60,945,966	468,086	N/A	N/A
Douglas Crocker	61,313,942	100,110	N/A	N/A
Scott Rechler	60,848,745	565,307	N/A	N/A
Donald Rechler	60,848,745	565,307	N/A	N/A
Lewis Ranieri	44,344,488	17,069,564	N/A	N/A
Ronald Menaker	60,840,066	573,986	N/A	N/A

RATIFICATION OF AUDITORS	60,625,939	N/A	755,864	32,248

Item 5. Other information

a) None

b) There have been no material changes to the procedures by which stockholders may recommend nominees to the Company's Board of Directors.

Item 6. Exhibits and Reports on Form 8-K

a) Exhibits

3.1 Articles of Amendment, dated June 2, 2004

3.2 Articles of Amendment, dated June 2, 2004

3.3 Amended and Restated Bylaws

10.1 Third amended and restated credit agreement dated August 6, 2004 between Reckson Operating Partnership, L.P., as Borrower and the institutions from time to time party thereto as Lenders.

31.1 Certification of Scott H. Rechler, Chief Executive Officer and President of the Registrant, pursuant to Rule 13a - 14(a) or Rule 15(d) - 14(a).

31.2 Certification of Michael Maturo, Executive Vice President, Treasurer and Chief Financial Officer of the Registrant, pursuant to Rule 13a - 14(a) or Rule 15(d) - 14(a).

32.1 Certification of Scott H. Rechler, Chief Executive Officer and President of the Registrant, pursuant to Section 1350 of Chapter 63 of Title 18 of the United States Code.

32.2 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 six months ended June 30, 2004, the Registrant filed the following reports on Form 8-K:

On May 6, 2004, the Registrant submitted a report on Form 8-K under Items 7 and 12 thereof in order to file a press release announcing its consolidated financial results for the quarter ended March 31, 2004.

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	By: /s/ Michael Maturo
Scott H. Rechler, Chief Executive Officer and President	Michael Maturo, Executive Vice President, Treasurer and Chief Financial Officer

DATE: August 9, 2004