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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, DC 20549

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# FORM 10-Q

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

FOR THE QUARTERLY PERIOD ENDED MARCH 31, 2000

COMMISSION FILE NUMBER: 1-13762

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RECKSON OPERATING PARTNERSHIP, L. P.
(Exact name of registrant as specified in its charter)

| | |
|---|---|
| DELAWARE | 11-3233647 |
| (State other jurisdiction of incorporation of 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)

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Indicate by check mark whether the registrant (1) has filed all reports required to be filed by section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports) Yes X No__, and (2) has been subject to such filing requirements for the past 90 days. Yes X No__.

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RECKSON OPERATING PARTNERSHIP, L.P.
QUARTERLY REPORT
FOR THE THREE MONTHS ENDED MARCH 31, 2000

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PART I -- FINANCIAL INFORMATION

ITEM 1 -- FINANCIAL STATEMENTS

RECKSON OPERATING PARTNERSHIP, L. P.
CONSOLIDATED BALANCE SHEETS
(DOLLARS IN THOUSANDS EXCEPT UNIT AMOUNTS)

| | MARCH 31, 2000 (UNAUDITED) | DECEMBER 31, 1999 |
|---|---|---|
| ASSETS | | |
| Commercial real estate properties, at cost | | |
| Land | $ 296,058 | $ 276,204 |
| Buildings and improvements | 1,938,600 | 1,802,611 |
| Developments in progress: | | |
| Land | 61,904 | 60,894 |
| Development costs | 75,588 | 68,690 |
| Furniture, fixtures and equipment | 6,803 | 6,473 |
| | 2,378,953 | 2,214,872 |
| Less accumulated depreciation | (237,028) | (218,385) |
| | 2,141,925 | 1,996,487 |
| Investments in real estate joint ventures | 32,219 | 31,531 |
| Investment in mortgage notes and notes receivable | 352,863 | 352,466 |
| Cash and cash equivalents | 31,042 | 21,122 |
| Tenant receivables | 3,998 | 5,117 |
| Investments in and advances to affiliates | 198,580 | 179,762 |
| Deferred rent receivable | 36,597 | 32,132 |
| Prepaid expenses and other assets | 60,138 | 66,855 |
| Contract and land deposits and pre-acquisition costs | 4,752 | 9,585 |
| Deferred lease and loan costs | 43,457 | 39,520 |
| TOTAL ASSETS | $2,905,571 | $2,734,577 |
| LIABILITIES | | |
| Mortgage notes payable | $ 527,508 | $ 459,174 |
| Unsecured credit facility | 407,600 | 297,600 |
| Unsecured term loan | 75,000 | 75,000 |
| Senior unsecured notes | 449,330 | 449,313 |
| Accrued expenses and other liabilities | 78,408 | 81,265 |
| Distributions payable | 27,169 | 27,166 |
| Total Liabilities | 1,565,015 | 1,389,518 |
| Commitments and other comments | -- | -- |
| Minority interests' in consolidated partnerships | 93,001 | 93,086 |
| PARTNERS' CAPITAL | | |
| Preferred Capital, 15,234,518 units outstanding | 413,126 | 413,126 |
| General Partner's Capital: | | |
| Class A common units, 40,386,721 and 40,375,506 units outstanding, respectively | 474,600 | 477,172 |
| Class B common units, 10,283,513 and 10,283,763 units outstanding, respectively | 269,497 | 270,689 |
| Limited Partners' Capital, 7,696,642 and 7,701,142 units outstanding, respectively | 90,332 | 90,986 |
| Total Partners' Capital | 1,247,555 | 1,251,973 |
| TOTAL LIABILITIES AND PARTNERS' CAPITAL | $2,905,571 | $2,734,577 |

(see accompanying notes to financial statements)

RECKSON OPERATING PARTNERSHIP, L. P.
CONSOLIDATED STATEMENTS OF INCOME
(UNAUDITED AND IN THOUSANDS, EXCEPT UNIT DATA)

| | THREE MONTHS ENDED MARCH 31, 2000 | THREE MONTHS ENDED MARCH 31, 1999 |
|---|---|---|
| REVENUES: | | |
| Base rents | $ 94,400 | $ 62,093 |
| Tenant escalations and reimbursements | 12,847 | 8,542 |
| Equity in earnings of real estate joint ventures and service companies | 1,413 | 377 |
| Interest income on mortgage notes and notes receivable | 2,285 | 2,808 |
| Other | 6,713 | 2,287 |
| Total Revenues | 117,658 | 76,107 |
| EXPENSES: | | |
| Property operating expenses | 38,156 | 22,908 |
| Marketing, general and administrative | 5,878 | 4,074 |
| Interest | 23,840 | 13,943 |
| Depreciation and amortization | 21,012 | 15,091 |
| Total Expenses | 88,886 | 56,016 |
| Income before distributions to preferred unit holders and minority interests | 28,772 | 20,091 |
| Minority partners' interest in consolidated partnerships income | (1,975) | (1,168) |
| Income before distributions to preferred unitholders | 26,797 | 18,923 |
| Preferred unit distributions | (7,985) | (5,041) |
| Net income available to common unit holders | $ 18,812 | $ 13,882 |
| Net Income available to: | | |
| General Partner -- Class A common units | $ 11,946 | $ 11,641 |
| General Partner -- Class B common units | 4,589 | -- |
| Limited Partners' | 2,277 | 2,241 |
| Total | $ 18,812 | $ 13,882 |
| Net income per weighted average units: | | |
| Net income per weighted average Class A general partnership unit | $ .30 | $ .29 |
| Net income per weighted average Class B general partnership unit | $ .45 | $ -- |
| Net income per weighted average limited partnership unit | $ .30 | $ .29 |
| Weighted average common units outstanding: | | |
| General Partner -- Class A common units | 40,382,182 | 40,049,079 |
| General Partner -- Class B common units | 10,283,598 | -- |
| Limited Partners | 7,699,593 | 7,710,399 |

(see accompanying notes to financial statements)

RECKSON OPERATING PARTNERSHIP, L. P.
CONSOLIDATED STATEMENTS OF CASH FLOWS
(UNAUDITED AND IN THOUSANDS)

| | THREE MONTHS ENDED MARCH 31, 2000 | 1999 |
|---|---|---|
| CASH FLOWS FROM OPERATING ACTIVITIES: | | |
| Income before distributions to preferred unitholders | $ 26,797 | $ 18,923 |
| Adjustments to reconcile income before distributions to preferred unitholders to net cash provided by operating activities: | | |
| Depreciation and amortization | 21,012 | 15,091 |
| Minority partners' interests in consolidated partnerships | 1,975 | 1,168 |
| Equity in earnings of real estate joint ventures and service companies | (1,413) | (377) |
| Changes in operating assets and liabilities: | | |
| Prepaid expenses and other assets | 5,763 | (8,556) |
| Tenant receivables | 1,120 | 2,905 |
| Deferred rents receivable | (4,465) | (1,369) |
| Real estate tax escrow | 926 | (901) |
| Accrued expenses and other liabilities | (5,935) | (13,930) |
| Net cash provided by operating activities | 45,780 | 12,954 |
| CASH FLOWS FROM INVESTING ACTIVITIES: | | |
| Purchases of commercial real estate properties | (139,426) | (6,610) |
| Increase in deposits and pre-acquisition costs | (928) | (6,472) |
| Investment in mortgage notes and notes receivable | -- | (6,170) |
| Proceeds from repayment of mortgage note receivable | 685 | -- |
| Additions to commercial real estate properties | (8,655) | (4,520) |
| Increase in developments in progress | (9,642) | (6,098) |
| Payment of leasing costs | (2,642) | (4,226) |
| Additions to furniture, fixtures and equipment | (359) | (85) |
| Distribution from a real estate joint venture | 140 | 86 |
| Investments in real estate joint ventures | (83) | (3,263) |
| Net cash used in investing activities | (160,910) | (37,358) |
| CASH FLOWS FROM FINANCING ACTIVITIES: | | |
| Principal payments on secured borrowings | (1,666) | (867) |
| Proceeds from issuance of senior unsecured notes net of issuance costs | -- | 299,262 |
| Payment of loan costs | (1,617) | (2,606) |
| Investments in and advances to affiliates | (18,210) | (8,299) |
| Proceeds from secured borrowings | 70,000 | -- |
| Proceeds from unsecured credit facility | 110,000 | -- |
| Proceeds from unsecured term loan | -- | 55,000 |
| Principal payments on unsecured credit facility | -- | (285,750) |
| Contributions | 195 | 471 |
| Distributions | (31,592) | (21,173) |
| Distributions to minority partners' in consolidated partnerships | (2,060) | (684) |
| Net cash provided by financing activities | 125,050 | 35,354 |
| Net increase in cash and cash equivalents | 9,920 | 10,950 |
| Cash and cash equivalents at beginning of period | 21,122 | 2,228 |
| Cash and cash equivalents at end of period | $ 31,042 | $ 13,178 |

(see accompanying notes to financial statements)

RECKSON OPERATING PARTNERSHIP, L. P.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
MARCH 31, 2000
(UNAUDITED)

1. ORGANIZATION AND FORMATION OF THE OPERATING PARTNERSHIP

Reckson Operating Partnership, L. P. (the "Operating Partnership") commenced operations on June 2, 1995. The sole general partner in the Operating Partnership, Reckson Associates Realty Corp. (the "Company") is a self-administered and self-managed Real Estate Investment Trust ("REIT").

During June 1995, the Company contributed approximately $162 million in cash to the Operating Partnership in exchange for an approximate 73% general partnership interest. The Operating Partnership executed various option and purchase agreements whereby it issued units in the Operating Partnership ("Units") to the continuing investors and assumed certain indebtedness in exchange for interests in certain property partnerships, fee simple and leasehold interests in properties and development land, certain business assets of the executive center entities and 100% of the non-voting preferred stock of the management and construction companies.

As of March 31, 2000, the Operating Partnership owned and operated 78 office properties comprising approximately 13.7 million square feet, 110 industrial properties comprising approximately 8.3 million square feet and two retail properties comprising approximately 20,000 square feet, located in the New York tri-state area (the "Tri-State Area"). The Operating Partnership also owns a 357,000 square foot office building located in Orlando, Florida and approximately 346 acres of land in 16 separate parcels of which the Operating Partnership can develop approximately 1.9 million square feet of office space and approximately 300,000 square feet of industrial space. The Operating Partnership also has invested approximately $314.8 million in mortgage notes encumbering two Class A office properties encompassing approximately 1.6 million square feet, approximately 472 acres of land located in New Jersey and in a note receivable secured by a partnership interest in Omni Partner's, L.P., owner of the Omni, a 575,000 square foot Class A office property located in Uniondale, New York. In addition, the Operating Partnership also holds $41.5 million of preferred and common stock of Keystone Property Trust ("KTR") (see note 6).

On January 6, 1998, the Operating Partnership made an investment in the Morris Companies, a New Jersey developer and owner of "Big Box" warehouse facilities. In connection with the transaction the Morris Companies contributed 100% of their interests in certain industrial properties to Reckson Morris Operating Partnership, L. P. ("RMI") in exchange for operating partnership units in RMI. On September 27, 1999, the Operating Partnership sold its interest in RMI to KTR.

During July 1998, the Company formed Metropolitan Partners, LLC ("Metropolitan") for the purpose of acquiring Tower Realty Trust, Inc. ("Tower"). On May 24, 1999 the Company completed the merger with Tower and acquired three Class A office properties located in New York City totaling 1.6 million square feet and one office property located on Long Island totaling approximately 101,000 square feet. In addition, pursuant to the merger, the Company also acquired certain office properties, a property under development and land located outside of the Tri-State Area. All of the assets acquired in the merger located outside of the Tri-State Area, other than a 357,000 square foot office property located in Orlando, Florida, have been sold (see note 6).

2. BASIS OF PRESENTATION

The accompanying consolidated financial statements include the consolidated financial position of the Operating Partnership and its subsidiaries at March 31, 2000 and December 31, 1999 and the results of its operations for the three months ended March 31, 2000 and 1999, respectively, and, its cash flows for the three months ended March 31, 2000 and 1999, respectively. The Operating Partnership's investments in Metropolitan and Omni Partners, L. P. ("Omni"), are reflected in the accompanying financial statements on a consolidated basis with a reduction for minority partners' interest. The Operating Partnership's investment in RMI was reflected in the accompanying financial statements on a consolidated basis with a reduction for minority partner's interest through September 26, 1999. On September 27, 1999, the Operating Partnership sold its interest in RMI to KTR. The operating results of the service businesses currently conducted by Reckson Management Group, Inc., and Reckson Construction Group, Inc., are reflected in the accompanying financial statements on the equity method of accounting. The Operating Partnership also invests in real estate joint ventures where it may own less than a controlling interest, such investments are also reflected in the accompanying financial statements on the equity method of accounting. All significant intercompany balances and transactions have been eliminated in the consolidated financial statements.

The merger with Tower was accounted for as a purchase in accordance with Accounting Principles Board Opinion No. 16. Accordingly, the fair value of the consideration given by the Operating Partnership, in accordance with generally accepted accounting principles ("GAAP"), was used as the valuation basis for the merger. The assets acquired and liabilities assumed by the Operating Partnership were recorded at the fair value as of the closing date of the merger and the excess of the purchase price over the historical basis of the net assets acquired was allocated primarily to operating real estate properties and real estate properties which have been sold.

The minority interests at March 31, 2000 represent an approximate 28% interest in certain industrial joint venture properties formerly owned by RMI, a convertible preferred interest in Metropolitan and a 40% interest in Omni.

The accompanying interim unaudited financial statements have been prepared by the Operating Partnership's management pursuant to the rules and regulations of the Securities and Exchange Commission ("SEC"). Certain information and footnote disclosure normally included in the financial statements prepared in accordance with GAAP may have been condensed or omitted pursuant to such rules and regulations, although management believes that the disclosures are adequate to make the information presented not misleading. The unaudited financial statements as of March 31, 2000 and for the three month periods ended March 31, 2000 and 1999 include, in the opinion of management, ll 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, 2000. These financial statements should be read in conjunction with the Operating Partnership's audited financial statements and notes thereto included in the Operating Partnership's Form 10-K for the year ended December 31, 1999.

In June 1999, the Financial Accounting Standards Board issued Statement No. 137, amending Statement No. 133, "Accounting for Derivative Instruments and Hedging Activities", which extended the required date of adoption to the years beginning after June 15, 2000. The Statement permits early adoption as of the beginning of any fiscal quarter after its issuance. The Operating Partnership expects to adopt the new Statement effective January 1, 2001. The Operating Partnership does not anticipate that the adoption of this Statement will have any effect on its results of operations or financial position.

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

3. MORTGAGE NOTES PAYABLE

As of March 31, 2000, the Operating Partnership had approximately $527.5 million of fixed rate mortgage notes which mature at various times between June 2000 and November 2027. The notes are secured by 23 properties and have a weighted average interest rate of approximately 7.57%.

4. SENIOR UNSECURED NOTES

As of March 31, 2000, the Operating Partnership had outstanding approximately $449.3 million (net of issuance discounts) of senior unsecured notes (the "Senior Unsecured Notes"). The following table sets forth the Operating Partnership's Senior Unsecured Notes and other related disclosures (dollars in thousands):

| ISSUANCE | FACE AMOUNT | COUPON RATE | TERM | MATURITY |
|---|---|---|---|---|
| August 27, 1997 | $150,000 | 7.20% | 10 years | August 28, 2007 |
| March 26, 1999 | $100,000 | 7.40% | 5 years | March 15, 2004 |
| March 26, 1999 | $200,000 | 7.75% | 10 years | March 15, 2009 |

Interest on the Senior Unsecured Notes is payable semiannually with principal and unpaid interest due on the scheduled maturity dates. In addition, the Senior Unsecured Notes issued on March 26, 1999 were issued at an aggregate discount of $738,000.

Net proceeds of approximately $297.4 million received from the issuance of the March 26, 1999 Senior Unsecured Notes were used to repay outstanding borrowings under the Operating Partnership's unsecured credit facility.

5. UNSECURED CREDIT FACILITIES AND UNSECURED TERM LOAN

As of March 31, 2000, the Operating Partnership had a three year $500 million unsecured revolving credit facility (the "Credit Facility") from Chase Manhattan Bank, Union Bank of Switzerland and PNC Bank as co-managers of the Credit Facility bank group which matures in July, 2001. Interest rates on borrowings under the Credit Facility are priced off of LIBOR plus a sliding scale ranging from 65 basis points to 90 basis points based on the Operating Partnership's investment grade rating on its senior unsecured debt. On March 16, 1999, the Operating Partnership received its investment grade rating on its senior unsecured debt. As a result, the pricing under the Credit Facility was adjusted to LIBOR plus 90 basis points.

The Operating Partnership utilizes the Credit Facility primarily to finance the acquisitions of properties and other real estate investments, fund its development activities and for working capital purposes. At March 31, 2000, the Operating Partnership had availability under the Credit Facility to borrow an additional $51.3 million (net of $41.1 million of outstanding undrawn letters of credit).

As of March 31, 2000, the Operating Partnership had an 18-month, $75 million unsecured term loan (the "Term Loan") from Chase Manhattan Bank which matures in June, 2001. Interest rates on borrowings under the Term Loan are priced off of LIBOR plus 150 basis points. The Term Loan replaced the Operating Partnership's previous term loan, which matured on December 17, 1999.

6. COMMERCIAL REAL ESTATE INVESTMENTS

On January 13, 2000, the Operating Partnership acquired 1350 Avenue of the Americas, a 540,000 square foot, 35 story, Class A office property, located in New York City, for a purchase price of approximately $126.5 million. This acquisition was financed through a $70 million secured debt financing and a draw under the Credit Facility.

On June 15, 1999, the Operating Partnership acquired the first mortgage note secured by a 47 story, 1.4 million square foot Class A office property located at 919 Third Avenue in New York City for approximately $277.5 million. The first mortgage note entitles the Operating Partnership to all the net cash flow of the property and to substantial rights regarding the operations of the property, with the Operating Partnership anticipating to ultimately obtain title to the property. This acquisition was financed with proceeds from the issuance of six million Series E preferred units of general partnership interest and through draws under the Credit Facility. Current financial accounting guidelines provide that where a lender has virtually the same risks and potential rewards as those of a real estate owner it should recognize the full economics associated with the operations of the property. As such, the Operating Partnership has recognized the real estate operations of the 919 Third Avenue in the accompanying consolidated statement of income for the period from the date of acquisition.

On August 9, 1999, the Operating Partnership executed a contract for the sale, which will take place in three stages, of its interest in RMI, which consisted of 28 properties, comprising approximately 6.1 million square feet and three other big box industrial properties to KTR. In addition, the Operating Partnership also entered into a sale agreement with Matrix relating to a first mortgage note and certain industrial land holdings (the "Matrix Sale"). The combined total sale price is $310 million (approximately $42 million of which is payable to the Morris Companies and its affiliates) and will consist of a combination of (i) cash, (ii) convertible preferred and common stock of KTR, (iii) preferred units of KTR's operating partnership, (iv) relief of debt and (v) a purchase money mortgage note secured by certain land that is being sold to Matrix.

During September 1999, the Matrix Sale and the first stage of the RMI closing occurred whereby the Operating Partnership sold its interest in RMI to KTR for a combined sales price of approximately $164.7 million (net of minority partner's interest). The combined consideration consisted of approximately (i) $86.3 million in cash, (ii) $40 million of preferred stock of KTR, (iii) $1.5 million in common stock of KTR, (iv) approximately $26.7 million of debt relief and (v) approximately $10.2 million in purchase money mortgages. As a result, the Operating Partnership incurred a gain of approximately $10.1 million. Cash proceeds from the sales were used primarily to repay borrowings under the Credit Facility. The $41.5 million of common and preferred stock of KTR has been included in prepaid expenses and other assets on the accompanying consolidated balance sheet.

During April and May 2000, the second and third stages of the RMI closing occurred whereby the Operating Partnership sold six industrial buildings. The total consideration received in connection with stages two and three totaled approximately $98 million (approximately $6 million of which is payable to the Morris Companies and its affiliates) and consisted of approximately $26 million of preferred operating partnership units of KTR and approximately $72 million in cash. Cash proceeds from the sales were used primarily to repay borrowings under the Credit Facility.

In July 1998, the Company formed a joint venture, Metropolitan Partners LLC, a Delaware limited liability company ("Metropolitan"), with Crescent Real Estate Equities Company, a Texas real estate investment trust ("Crescent").

On December 8, 1998, the Company, Metropolitan and Tower Realty Trust, Inc. ("Tower") executed a merger agreement and on May 24, 1999 Tower was merged (the "Merger") into Metropolitan, with Metropolitan surviving the Merger. Concurrently with the Merger, Tower Realty Operating Partnership, L.P. was merged with and into a subsidiary of Metropolitan. The consideration issued in the mergers was comprised of (i) 25% cash (approximately $107.2 million) and (ii) 75% of shares of Class B Exchangeable Common Stock, par value $.01 per share, of the Company (the "Class B common stock") (valued for GAAP purposes at approximately $304.1 million).

The Company controls Metropolitan and owns 100% of the common equity; Crescent owns a $85 million preferred equity investment in Metropolitan. Crescent's investment accrues distributions at a rate of 7.5% per annum for a two-year period (May 24, 1999 - May 24, 2001) and may be redeemed by Metropolitan at any time during that period for $85 million, plus an amount sufficient to provide a 9.5% internal rate of return. If Metropolitan does not redeem the preferred interest, upon the expiration of the two-year period, Crescent must convert its $85 million preferred interest into either (i) a common membership interest in Metropolitan or (ii) shares of the Company's Class A common stock at a conversion price of $24.61 per share.

The Tower portfolio acquired in the Merger consisted of three office properties comprising approximately 1.6 million square feet located in New York City, one office property located on Long Island and certain office properties and other real estate assets located outside the Tri-State Area. All of the assets acquired in the Merger, located outside the Tri-State Area, other than an office property located in Orlando, Florida, have been sold.

7. PARTNERS' CAPITAL

On May 24, 1999, in conjunction with the Tower acquisition, the Operating Partnership issued 11,694,567 Class B common units of general partnership interest to the Company which were valued for GAAP purposes at $26 per unit for total consideration of approximately $304.1 million. The Class B common units are entitled to receive an initial annual distribution of $2.24 per unit which distribution is subject to adjustment annually. The Class B common units are exchangeable at any time, at the option of the holder, into an equal number of Class A common units subject to customary antidilution adjustments. The Operating Partnership, at its option, may redeem any or all of the Class B common units in exchange for an equal number of Class A common units at any time following the four year, six-month anniversary of the issuance of the Class B common units.

On March 8, 2000, the Operating Partnership declared the following distributions:

| SECURITY | DISTRIBUTION | RECORD DATE | PAYMENT DATE | THREE MONTHS ENDED | ANNUALIZED DISTRIBUTION |
|---|---|---|---|---|---|
| Class A common unit | $ 0.37125 | April 3, 2000 | April 14, 2000 | March 31, 2000 | $ 1.485 |
| Class B common unit | $ 0.56000 | April 14, 2000 | May 1, 2000 | April 30, 2000 | $ 2.240 |
| Series A preferred unit | $ 0.47660 | April 14, 2000 | May 1, 2000 | April 30, 2000 | $ 1.906 |
| Series E preferred unit | $ 0.49063 | April 14, 2000 | May 1, 2000 | April 30, 2000 | $ 1.963 |

As of March 31, 2000, in conjunction with the Company's Class B common stock buy back program, the Operating Partnership had purchased and retired 1,410,804 Class B common units for approximately $30.3 million.

Net income per common partnership unit is determined by allocating net income after preferred distributions and minority partners' interest in consolidated partnerships income to the general and limited partners' based on their weighted average distribution per common partnership units outstanding during the respective periods presented.

Holders of preferred units of limited and general partnership interest are entitled to distributions based on the stated rates of return (subject to adjustment) for those units.

8. SUPPLEMENTAL DISCLOSURES OF CASH FLOWS INFORMATION (in thousands)

| | THREE MONTHS ENDED MARCH 31, 2000 | 1999 |
|---|---|---|
| Cash paid during the period for interest . | $33,306 | $18,729 |
| Interest capitalized during the period ......... | $ 2,362 | $ 2,311 |

9. SEGMENT DISCLOSURE

The Operating Partnership's portfolio consists of Class A office properties located within the New York City metropolitan area and Class A suburban office and industrial properties located and operated within the Tri-State Area (the "Core Portfolio"). In addition the Operating Partnership's portfolio also includes one office property located in Orlando, Florida, and certain industrial joint venture properties formerly owned by RMI and for the period commencing January 6, 1998 and ending September 26, 1999, industrial properties which were owned by RMI and subsequently sold to KTR. The Operating Partnership has managing directors who report directly to the Chief Operating Officer and Chief Financial Officer who have been identified as the Chief Operating Decision Makers because of their final authority over resource allocation decisions and performance assessment.

In addition, as the Operating Partnership expects to meet its short-term liquidity requirements in part through the Credit Facility and Term Loan, interest incurred on borrowings under the Credit Facility and Term Loan is not considered as part of property operating performance. Further, the Operating Partnership does not consider the property operating performance of the office property located in Orlando, Florida as a part of its Core Portfolio. Additionally, commencing January 1, 2000, the Operating Partnership does not consider the operating performance of the industrial joint venture properties formerly owned by RMI, a reportable segment.

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

The following table sets forth the components of the Operating Partnership's revenues and expenses and other related disclosures for the three months ended March 31, 2000 and 1999 (in thousands):

| | THREE MONTHS ENDED MARCH 31, 2000 | | |
|---|---|---|---|
| | CORE PORTFOLIO | OTHER | CONSOLIDATED TOTALS |
| REVENUES: | | | |
| Base rents, tenant escalations and reimbursements | $ 104,821 | $ 2,426 | $ 107,247 |
| Equity in earnings of real estate joint ventures and service companies | -- | 1,413 | 1,413 |
| Interest and other income | 406 | 8,592 | 8,998 |
| Total Revenues | 105,227 | 12,431 | 117,658 |
| EXPENSES: | | | |
| Property operating expenses | 37,488 | 668 | 38,156 |
| Marketing, general and administrative | 5,100 | 778 | 5,878 |
| Interest | 9,192 | 14,648 | 23,840 |
| Depreciation and amortization | 19,334 | 1,678 | 21,012 |
| Total Expenses | 71,114 | 17,772 | 88,886 |
| Income (loss) before distributions to preferred unitholders and minority interests' | $ 34,113 | $ (5,341) | $ 28,772 |
| Total Assets | $ 2,069,161 | $ 836,410 | $2,905,571 |

| | THREE MONTHS ENDED MARCH 31, 1999 | | | |
|---|---|---|---|---|
| | CORE PORTFOLIO | RMI | OTHER | CONSOLIDATED TOTALS |
| REVENUES: | | | | |
| Base rents, tenant escalations and reimbursements | $ 66,022 | $ 4,613 | $ -- | $ 70,635 |
| Equity in earnings of real estate joint ventures and service companies | -- | -- | 377 | 377 |
| Interest and other income | 69 | 2 | 5,024 | 5,095 |
| Total Revenues | 66,091 | 4,615 | 5,401 | 76,107 |
| EXPENSES: | | | | |
| Property operating expenses | 22,157 | 751 | -- | 22,908 |
| Marketing, general and administrative | 3,942 | 131 | 1 | 4,074 |
| Interest | 4,559 | 277 | 9,107 | 13,943 |
| Depreciation and amortization | 12,781 | 1,080 | 1,230 | 15,091 |
| Total Expenses | 43,439 | 2,239 | 10,338 | 56,016 |
| Income (loss) before distributions to preferred unitholders and minority interests' | $ 22,652 | $ 2,376 | $ (4,937) | $ 20,091 |
| Total Assets | $1,435,086 | $159,873 | $315,890 | $1,910,849 |

## 10. OTHER INVESTMENTS AND ADVANCES

During 1997, the Company formed FrontLine Capital Group ("FrontLine") (formerly Reckson Service Industries, Inc.) and Reckson Strategic Venture Partners, LLC ("RSVP"). In connection with the formation of FrontLine, the Operating Partnership established a credit facility with FrontLine (the "FrontLine Facility") in the amount of $100 million for FrontLine's e-commerce and e-services operations and other general corporate purposes. As of March 31, 2000, the Company had advanced approximately $92.7 million under the FrontLine Facility. In addition, the Operating Partnership has approved the funding of investments of up to $100 million with or in RSVP (the "RSVP Commitment"), through RSVP-controlled joint venture REIT-qualified investments or advances made to FrontLine under terms similar to the FrontLine Facility. As of March 31, 2000, approximately $60.9 million had been invested through the RSVP Commitment, of which $24.8 million represents RSVP-controlled joint venture

REIT-qualified investments and $36.1 million represents advances to FrontLine under the RSVP Commitment.

During November 1999, the Board of Directors of the Company approved an amendment to the FrontLine Facility and the RSVP Commitment to permit FrontLine to incur secured debt and to pay interest thereon. In consideration of the amendments, FrontLine paid the Operating Partnership a fee of approximately $3.6 million in the form of shares of FrontLine common stock. Such fee is being recognized in income over an estimated nine month benefit period.

FrontLine identifies, acquires interests in and develops a network of e-commerce and e-services companies that service small to medium sized enterprises, independent professionals and entrepreneurs and the mobile workforce of larger companies. FrontLine serves as the managing member of RSVP. RSVP was formed to provide the Company with a research and development vehicle to invest in alternative real estate sectors. RSVP invests primarily in real estate and real estate related operating companies generally outside of the Company's core office and industrial focus. RSVP's strategy is to identify and acquire interests in established entrepreneurial enterprises with experienced management teams in market sectors which are in the early stages of their growth cycle or offer unique circumstances for attractive investments as well as a platform for future growth.

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 Operating Partnership, L. P. (the "Operating Partnership") and related notes.

The Operating Partnership 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 Operating Partnership's expectations for future periods. Certain forward-looking statements, including, without limitation, statements relating to the timing and success of acquisitions, the financing of the Operating Partnership's operations, the ability to lease vacant space and the ability to renew or relet space under expiring leases, involve certain risks and uncertainties. Although the Operating Partnership 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 Operating Partnership can give no assurance that its expectation will be achieved. Certain factors that might cause the results of the Operating Partnership to differ materially from those indicated by such forward-looking statements include, among other factors, general economic conditions, general real estate industry risks, tenant default and bankruptcies, loss of major tenants, the impact of competition and acquisition, redevelopment and development risks, the ability to finance business opportunities and local real estate risks such as an oversupply of space or a reduction in demand for real estate in the Operating Partnership's real estate markets. Consequently, such forward-looking statements should be regarded solely as reflections of the Operating Partnership's current operating and development plans and estimates. These plans and estimates are subject to revisions from time to time as additional information becomes available, and actual results may differ from those indicated in the referenced statements.

OVERVIEW AND BACKGROUND

The Operating Partnership, which commenced operations on June 2 1995, is engaged in the ownership, management, operation, leasing and development of commercial real estate properties, principally office and industrial buildings, and also owns certain undeveloped land located in the New York tri-state area (the "Tri-State Area"). Reckson Associates Realty Corp. (the "Company"), is a self-administered and self-managed Real Estate Investment Trust ("REIT"), and serves as the sole general partner in the Operating Partnership.

As of March 31, 2000, the Operating Partnership owned and operated 78 office properties comprising approximately 13.7 million square feet, 110 industrial properties comprising approximately 8.3 million square feet and two retail properties comprising approximately 20,000 square feet, located in the Tri-State Area. The Operating Partnership also owns a 357,000 square foot office building located in Orlando, Florida and approximately 346 acres of land in 16 separate parcels of which the Operating Partnership can develop approximately 1.9 million square feet of office space and approximately 300,000 square feet of industrial space. The Operating Partnership also has invested approximately $314.8 million in mortgage notes encumbering two Class A office properties encompassing approximately 1.6 million square feet, approximately 472 acres of land located in New Jersey and in a note receivable secured by a partnership interest in Omni Partner's, L.P., owner of the Omni, a 575,000 square foot Class A office property located in Uniondale, New York. In addition, the Operating Partnership also holds $41.5 million of preferred and common stock of Keystone Property Trust ("KTR"), as discussed below.

During 1997, the Company formed FrontLine Capital Group ("FrontLine") (formerly Reckson Service Industries, Inc.) and Reckson Strategic Venture Partners, LLC ("RSVP"). In connection with the formation of FrontLine, the Operating Partnership established a credit facility with FrontLine (the "FrontLine Facility") in the amount of $100 million for FrontLine's e-commerce and e-services operations and other general corporate purposes. As of March 31, 2000, the Company had advanced approximately $92.7 million under the FrontLine Facility. In addition, the Operating Partnership has approved the funding of investments of up to $100 million with or in RSVP (the "RSVP Commitment"), through RSVP-controlled joint venture REIT-qualified investments or advances made to FrontLine under terms similar to the FrontLine Facility. As of March 31, 2000, approximately $60.9 million had been invested through the RSVP Commitment, of which $24.8 million represents RSVP-controlled joint venture REIT-qualified investments and $36.1 million represents advances to FrontLine under the RSVP Commitment.

During November 1999, the Board of Directors of the Company approved an amendment to the FrontLine Facility and the RSVP Commitment to permit FrontLine to incur secured debt and to pay interest thereon. In consideration of the amendments, FrontLine paid the Operating Partnership a fee of approximately $3.6 million in the form of shares of FrontLine common stock. Such fee is being recognized in income over an estimated nine month benefit period.

FrontLine identifies, acquires interests in and develops a network of e-commerce and e-services companies that service small to medium sized enterprises, independent professionals and entrepreneurs and the mobile workforce of larger companies. FrontLine serves as the managing member of RSVP. RSVP was formed to provide the Company with a research and development vehicle to invest in alternative real estate sectors. RSVP invests primarily in real estate and real estate related operating companies generally outside of the Company's core office and industrial focus. RSVP's strategy is to identify and acquire interests in established entrepreneurial enterprises with experienced management teams in market sectors which are in the early stages of their growth cycle or offer unique circumstances for attractive investments as well as a platform for future growth.

On January 6, 1998, the Operating Partnership made an investment in the Morris Companies, a New Jersey developer and owner of "Big Box" warehouse facilities. In connection with the transaction the Morris Companies contributed 100% of their interests in certain industrial properties to Reckson Morris Operating Partnership, L. P. ("RMI") in exchange for operating partnership units in RMI. On September 27, 1999, the Operating Partnership sold its interest in RMI to KTR.

On August 9, 1999, the Operating Partnership executed a contract for the sale, which will take place in three stages, of its interest in RMI, which consisted of 28 properties, comprising approximately 6.1 million square feet and three other big box industrial properties to KTR. In addition, the Operating Partnership also entered into a sale agreement with Matrix relating to a first mortgage note and certain industrial land holdings (the "Matrix Sale"). The combined total sale price is $310 million (approximately $42 million of which is payable to the Morris Companies and its affiliates) and will consist of a combination of (i) cash, (ii) convertible preferred and common stock of KTR, (iii) preferred units of KTR's operating partnership, (iv) relief of debt and (v) a purchase money mortgage note secured by certain land that is being sold to Matrix.

During September 1999, the Matrix Sale and the first stage of the RMI closing occurred whereby the Operating Partnership sold its interest in RMI to KTR for a combined sales price of approximately $164.7 million (net of minority partner's interest). The combined consideration consisted of approximately (i) $86.3 million in cash, (ii) $40 million of preferred stock of KTR, (iii) $1.5 million in common stock of KTR, (iv) approximately $26.7 million of debt relief and (v) approximately $10.2 million in purchase money mortgages. As a result, the Operating Partnership incurred a gain of approximately $10.1 million. Cash proceeds from the sales were used primarily to repay borrowings under the Credit Facility. The $41.5 million of common and preferred stock of KTR has been included in prepaid expenses and other assets on the Operating Partnership's consolidated balance sheet.

During April and May 2000, the second and third stages of the RMI closing occurred whereby the Operating Partnership sold six industrial buildings. The total consideration received in connection with stages two and three totaled approximately $98 million (approximately $6 million of which is payable to the Morris Companies and its affiliates) and consisted of approximately $26 million of preferred operating partnership units of KTR and approximately $72 million in cash. Cash proceeds from the sales were used primarily to repay borrowings under the Operating Partnership's unsecured credit facility.

In July 1998, the Company formed a joint venture, Metropolitan Partners LLC, a Delaware limited liability company ("Metropolitan"), with Crescent Real Estate Equities Company, a Texas real estate investment trust ("Crescent").

On December 8, 1998, the Company, Metropolitan and Tower Realty Trust, Inc. ("Tower") executed a merger agreement and on May 24, 1999 Tower was merged (the "Merger") into Metropolitan, with Metropolitan surviving the Merger. Concurrently with the Merger, Tower Realty Operating Partnership, L.P. was merged with and into a subsidiary of Metropolitan. The consideration issued in the mergers was comprised of (i) 25% cash (approximately $107.2 million) and (ii) 75% of shares of Class B Exchangeable Common Stock, par value $.01 per share, of the Company (the "Class B common stock") (valued for GAAP purposes at approximately $304.1 million).

The Company controls Metropolitan and owns 100% of the common equity; Crescent owns a $85 million preferred equity investment in Metropolitan. Crescent's investment accrues distributions at a rate of 7.5% per annum for a two-year period (May 24, 1999 - May 24, 2001) and may be redeemed by Metropolitan at any time during that period for $85 million, plus an amount sufficient to provide a 9.5% internal rate of return. If Metropolitan does not redeem the preferred interest, upon the expiration of the two-year period, Crescent must convert its $85 million preferred interest into either (i) a common membership interest in Metropolitan or (ii) shares of the Company's Class A common stock at a conversion price of $24.61 per share.

The Tower portfolio acquired in the Merger consisted of three office properties comprising approximately 1.6 million square feet located in New York City, one office property located on Long Island and certain office properties and other real estate assets located outside the Tri-State Area. All of the assets acquired in the Merger located outside the Tri-State Area, other than an office property located in Orlando, Florida, have been sold.

The market capitalization of the Operating Partnership at March 31, 2000 was approximately $3.06 billion. The Operating Partnership's market capitalization is calculated based on the sum of (i) the value of the Operating Partnership's Class A common units and Class B common units (which, for this purpose, is assumed to be the same per unit as the market value of a share of the Company's Class A common stock and Class B common stock), (ii) the liquidation preference values of the Operating Partnership's preferred units, (iii) the contributed value of Metropolitan's preferred interest and (iv) the approximately $1.45 billion (including its share of joint venture debt and net of minority partners' interest) of debt outstanding at March 31, 2000. As a result, the Operating Partnership's total debt to total market capitalization ratio at March 31, 2000 equaled approximately 47.2%.

RESULT OF OPERATIONS

The Operating Partnership's total revenues increased by $41.6 million or 54.6% for the three months ended March 31, 2000 as compared to the 1999 period. Property operating revenues, which include base rents and tenant escalations and reimbursements ("Property Operating Revenues") increased by $36.6 million or 51.8% for the three months ended March 31, 2000 as compared to the 1999 period. The increase in Property Operating Revenues is substantially attributable to the Tower portfolio acquisition in May 1999, the acquisition of the first mortgage note secured by 919 Third Avenue (which revenue was reflected in Property Operating Revenues) in June 1999 and the acquisition of 1350 Avenue of the Americas in January 2000. In addition, Property Operating Revenues were also positively impacted by approximately $3.1 million from increases in occupancies and rental rates in our "same store" properties. The Operating Partnership's base rent reflects the positive impact of the straight-line rent adjustment of $4.5 million for the three months ended March 31, 2000 as compared to $1.4 million for the 1999 period. The remaining balance of the increase in total revenues is primarily attributable to interest income and fees relating to the FrontLine Facility and the RSVP Commitment.

Property operating expenses, real estate taxes and ground rents ("Property Expenses") increased by $15.2 million or 66.6% for the three months ended March 31, 2000 as compared to the 1999 period. These increases are primarily due to the acquisition of the Tower portfolio in May 1999, the acquisition of the first mortgage note secured by 919 Third Avenue in June 1999, (which operations were reflected in Property Expenses) and the acquisition of 1350 Avenue of the Americas in January 2000. Gross operating margins (defined as Property Operating Revenues less Property Expenses, taken as a percentage of Property Operating Revenues) for the three months ended March 31, 2000 and 1999 were 64.4% and 67.6% respectively. The decrease in gross operating margins is primarily attributable to a larger proportionate share of gross operating margin derived from office properties, which has a lower gross margin percentage, in 2000 compared to 1999. The higher proportionate share of the gross operating margin is attributable to the office properties acquired during the period May 1999 through January 2000 and the disposition of net leased industrial properties in September 1999. This shift in the composition of the portfolio was offset by increases in rental rates and operating efficiencies realized.

Marketing, general and administrative expenses increased by $1.8 million for the three months ended March 31, 2000 as compared to the 1999 period. The increase is due to the increased costs of managing the acquisition properties and the increase in corporate management and administrative costs associated with the growth of the Operating Partnership including the opening of its New York City division. Marketing, general and administrative expenses as a percentage of total revenues were 5.0% for the three months ended March 31, 2000 as compared to 5.4% for the 1999 period.

Interest expense increased by $9.9 million for the three months ended March 31, 2000 as compared to the 1999 period. The increase is primarily due to secured borrowings assumed in the Tower acquisition as well as new debt incurred with the Tower and 1350 Avenue of the Americas acquisitions. Additionally, the increase is also due to $300 million of Senior Unsecured Notes issued on March 26, 1999.

LIQUIDITY AND CAPITAL RESOURCES

As of March 31, 2000, the Operating Partnership had a three year $500 million unsecured revolving credit facility (the "Credit Facility") from Chase Manhattan Bank, Union Bank of Switzerland and PNC Bank as co-managers of the Credit Facility bank group which matures in July, 2001. Interest rates on borrowings under the Credit Facility are priced off of LIBOR plus a sliding scale ranging from 65 basis points to 90 basis points based on the Operating Partnership's investment grade rating on its senior unsecured debt. On March 16, 1999, the Operating Partnership received its investment grade rating on its senior unsecured debt. As a result, the pricing under the Credit Facility was adjusted to LIBOR plus 90 basis points.

The Operating Partnership utilizes the Credit Facility primarily to finance the acquisitions of properties and other real estate investments, fund its development activities and for working capital purposes. At March 31, 2000, the Operating Partnership had availability under the Credit Facility to borrow an additional $51.3 million (net of $41.1 million of outstanding undrawn letters of credit).

As of March 31, 2000, the Operating Partnership had an 18-month, $75 million unsecured term loan (the "Term Loan") from Chase Manhattan Bank which matures in June, 2001. Interest rates on borrowings under the Term Loan are priced off of LIBOR plus 150 basis points. The Term Loan replaced the Operating Partnership's previous term loan, which matured on December 17, 1999.

On May 24, 1999, in conjunction with the Tower acquisition, the Operating Partnership issued 11,694,567 Class B common units of general partnership interest to the Company which were valued for GAAP purposes at $26 per unit for total consideration of approximately $304.1 million. The Class B common units are entitled to receive an initial annual distribution of $2.24 per unit, which distribution is subject to adjustment annually. The Class B common units are exchangeable at any time, at the option of the holder, into an equal number of Class A common units subject to customary antidilution adjustments. The Operating Partnership, at its option, may redeem any or all of the Class B common units in exchange for an equal number of Class A common units at any time following the four year, six-month anniversary of the issuance of the Class B common units.

As of March 31, 2000, in conjunction with the Company's Class B common stock buy back program, the Operating Partnership had purchased and retired 1,410,804 Class B common units for approximately $30.3 million.

The Operating Partnership's indebtedness at March 31, 2000 totaled approximately $1.45 billion (including its share of joint venture debt and net of the minority partners' interests) and was comprised of $407.6 million outstanding under the Credit Facility, $75 million outstanding under the Term Loan, $449.3 million of senior unsecured notes and approximately $527.5 million of mortgage indebtedness. Based on the Operating Partnership's total market capitalization of approximately $3.06 billion at March

31, 2000 (calculated based on the sum of (i) the value of the Operating Partnership's Class A common units and Class B common units (which, for this purpose, is assumed to be the same per unit as the market value of a share of the Company's Class A common stock and Class B common stock), (ii) the liquidation preference value of the Operating Partnership's preferred units, (iii) the contributed value of Metropolitan's preferred interest of $85 million and (iv) the $1.45 billion of debt), the Operating Partnership's debt represented approximately 47.2% of its total market capitalization.

Historically, rental revenue has been the principal source of funds to pay operating expenses, debt service and capital expenditures, excluding non-recurring capital expenditures of the Operating Partnership. The Operating Partnership expects to meet its short-term liquidity requirements generally through its net cash provided by operating activities along with the Credit Facility previously discussed. The Operating Partnership expects to meet certain of its financing requirements through long-term secured and unsecured borrowings and the issuance of debt securities and additional equity securities of the Operating Partnership. The Operating Partnership will refinance existing mortgage indebtedness or indebtedness under the Credit Facility at maturity or retire such debt through the issuance of additional debt securities or additional equity securities. The Operating Partnership anticipates that the current balance of cash and cash equivalents and cash flows from operating activities, together with cash available from borrowings and debt and equity offerings, will be adequate to meet the capital and liquidity requirements of the Operating Partnership in both the short and long-term.

## 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 and electric costs over a base amount. The industrial leases also 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 Operating Partnership believes that inflationary increases in expenses will generally be offset by contractual rent increases and expense escalations described above.

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

## IMPACT OF YEAR 2000

During 1999, the Operating Partnership discussed the nature and progress of its plans to become Year 2000 ready. In that regard, the Operating Partnership has completed its assessment, remediation and testing of its systems in order for those systems to function properly with respect to dates occurring in the Year 2000 and thereafter. As a result of those efforts, the Operating Partnership experienced no significant disruptions in connection with its building management, mechanical and computer systems and believes that those systems successfully responded to the Year 2000 date change. The Operating Partnership has expended approximately one million dollars with upgrading, replacing or remediating its systems and is not aware of any material problems resulting from Year 2000 issues. Further, the Operating Partnership will continue to monitor its critical building management, mechanical and computer systems throughout the year 2000 to ensure that any latent Year 2000 matters that may arise are addressed promptly.

## FUNDS FROM OPERATIONS

Management believes that funds from operations ("FFO") is an appropriate measure of performance of an operating partnership which is a general partner of an equity REIT. FFO is defined by the National Association of Real Estate Investment Trusts (NAREIT) as net income or loss, excluding gains or losses from debt restructurings and sales of properties, plus depreciation and amortization, and after adjustments for unconsolidated partnerships and joint ventures. FFO does not represent cash generated from operating activities in accordance with generally accepted accounting principles 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 Operating Partnership's operating performance or as an alternative to cash flow as a measure of liquidity. In November 1999, NAREIT issued a "White Paper" analysis to address certain interpretive issues under its definition of FFO. The White Paper provides that FFO should include both recurring and non-recurring operating results, except those results defined as "extraordinary items" under GAAP. This revised definition is effective for all periods beginning on or after January 1, 2000.

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

The following table presents the Operating Partnership's FFO calculation (in thousands):

| | THREE MONTHS ENDED MARCH 31, | |
|---|---|---|
| | 2000 | 1999 |
| Net Income available to common unit holders | $18,812 | $ 13,882 |
| Adjustment for Funds From Operations: | | |
| Add: | | |
| Real estate depreciation and amortization | 20,616 | 14,689 |
| Minority interests in consolidated partnerships | 1,975 | 1,168 |
| Less: | | |
| Amount distributed to minority partners in consolidated partnerships | 2,381 | 1,444 |
| Funds From Operations | $39,022 | $ 28,295 |
| Weighted average units outstanding | 58,366 | 47,759 |

## SUPPLEMENTAL INFORMATION ON CAPITAL EXPENDITURES, TENANT IMPROVEMENTS AND LEASING COMMISSIONS

The following table summarizes the expenditures incurred for non-incremental capital expenditures, tenant improvements and leasing commissions for the Operating Partnership's office and industrial properties for the three month period ended March 31, 2000 and the historical average of such non-incremental capital expenditures, tenant improvements and leasing commissions for the years 1996 through 1999.

### NON-INCREMENTAL REVENUE GENERATING CAPITAL EXPENDITURES

| | 1996 | 1997 | 1998 | 1999 | 1996-1999 AVERAGE | THREE MONTHS ENDED MARCH 31, 2000 |
|---|---|---|---|---|---|---|
| SUBURBAN OFFICE PROPERTIES | | | | | | |
| Total ........................ | $ 375,026 | $ 1,108,675 | $ 2,004,976 | $ 2,298,899 | $ 1,446,894 | $ 770,138 |
| Per Square Foot ............. | 0.13 | 0.22 | 0.23 | 0.23 | 0.20 | 0.08 |
| CBD OFFICE PROPERTIES ......... | | | | | | |
| Total ........................ | N/A | N/A | N/A | N/A | N/A | $ 362,774 |
| Per Square Foot ............. | N/A | N/A | N/A | N/A | N/A | 0.17 |
| INDUSTRIAL PROPERTIES ......... | | | | | | |
| Total ........................ | $ 670,751 | $ 733,233 | $ 1,205,266 | $ 1,048,688 | $ 914,485 | $ 118,494 |
| Per Square Foot ............. | 0.18 | 0.15 | 0.12 | 0.11 | 0.14 | 0.01 |

### NON-INCREMENTAL REVENUE GENERATING TENANT IMPROVEMENTS AND LEASING COMMISSIONS

| | 1996 | 1997 | 1998 |
|---|---|---|---|
| LONG ISLAND OFFICE PROPERTIES | | | |
| Tenant Improvements ................. | $ 523,574 | $ 784,044 | $ 1,140,251 |
| Per Square Foot Improved ............ | 4.28 | 7.00 | 3.98 |
| Leasing Commissions ................. | $ 119,047 | $ 415,822 | $ 418,191 |
| Per Square Foot Leased .............. | 0.97 | 4.83 | 1.46 |
| Total Per Square Foot ............... | $ 5.25 | $ 11.83 | $ 5.44 |
| WESTCHESTER OFFICE PROPERTIES | | | |
| Tenant Improvements ................. | $ 834,764 | $1,211,665 | $ 711,160 |
| Per Square Foot Improved ............ | 6.33 | 8.90 | 4.45 |
| Leasing Commissions ................. | $ 264,388 | $ 366,257 | $ 286,150 |
| Per Square Foot Leased .............. | 2.00 | 2.69 | 1.79 |
| Total Per Square Foot ............... | $ 8.33 | $ 11.59 | $ 6.24 |
| CONNECTICUT OFFICE PROPERTIES (A) | | | |
| Tenant Improvements ................. | $ 58,000 | $1,022,421 | $ 202,880 |
| Per Square Foot Improved ............ | 12.45 | 13.39 | 5.92 |
| Leasing Commissions ................. | $ 0 | $ 256,615 | $ 151,063 |
| Per Square Foot Leased .............. | 0.00 | 3.36 | 4.41 |
| Total Per Square Foot ............... | $ 12.45 | $ 16.75 | $ 10.33 |
| NEW JERSEY OFFICE PROPERTIES ......... | | | |
| Tenant Improvements ................. | N/A | N/A | $ 654,877 |
| Per Square Foot Improved ............ | N/A | N/A | 3.78 |
| Leasing Commissions ................. | N/A | N/A | $ 396,127 |
| Per Square Foot Leased .............. | N/A | N/A | 2.08 |
| Total Per Square Foot ............... | N/A | N/A | $ 5.86 |
| NEW YORK OFFICE PROPERTIES ........... | | | |
| Tenant Improvements ................. | N/A | N/A | N/A |
| Per Square Foot Improved ............ | N/A | N/A | N/A |
| Leasing Commissions ................. | N/A | N/A | N/A |
| Per Square Foot Leased .............. | N/A | N/A | N/A |
| Total Per Square Foot ............... | N/A | N/A | N/A |
| INDUSTRIAL PROPERTIES ................ | | | |
| Tenant Improvements ................. | $ 380,334 | $ 230,466 | $ 283,842 |
| Per Square Foot Improved ............ | 0.72 | 0.55 | 0.76 |
| Leasing Commissions ................. | $ 436,213 | $ 81,013 | $ 200,154 |
| Per Square Foot Leased .............. | 0.82 | 0.19 | 0.44 |
| Total Per Square Foot ............... | $ 1.54 | $ 0.74 | $ 1.20 |

| | 1999 | 1996-1999 AVERAGE | THREE MONTHS ENDED MARCH 31, 2000 |
|---|---|---|---|
| LONG ISLAND OFFICE PROPERTIES | | | |
| Tenant Improvements | $ 1,009,357 | $ 864,307 | $ 587,337 |
| Per Square Foot Improved | 4.73 | 5.00 | 5.02 |
| Leasing Commissions | $ 551,762 | $ 376,206 | $ 834,492 |
| Per Square Foot Leased | 2.59 | 2.46 | 7.13 |
| Total Per Square Foot | $ 7.32 | $ 7.46 | $ 12.15 |
| WESTCHESTER OFFICE PROPERTIES | | | |
| Tenant Improvements | $ 1,316,611 | $1,018,550 | $ 643,796 |
| Per Square Foot Improved | 5.62 | 6.33 | 14.71 |
| Leasing Commissions | $ 457,730 | $ 343,631 | $ 131,402 |
| Per Square Foot Leased | 1.96 | 2.11 | 3.00 |
| Total Per Square Foot | $ 7.58 | $ 8.44 | $ 17.71 |
| CONNECTICUT OFFICE PROPERTIES (A) | | | |
| Tenant Improvements | $ 179,043 | $ 449,952 | $ 129,380 |
| Per Square Foot Improved | 4.88 | 9.16 | 4.22 |
| Leasing Commissions | $ 110,252 | $ 159,363 | $ 96,388 |
| Per Square Foot Leased | 3.00 | 2.69 | 3.14 |
| Total Per Square Foot | $ 7.88 | $ 11.85 | $ 7.36 |
| NEW JERSEY OFFICE PROPERTIES | | | |
| Tenant Improvements | $ 454,054 | $ 554,466 | $ 316,187 |
| Per Square Foot Improved | 2.29 | 3.04 | 6.81 |
| Leasing Commissions | $ 787,065 | $ 591,596 | $ 254,045 |
| Per Square Foot Leased | 3.96 | 3.02 | 5.89 |
| Total Per Square Foot | $ 6.25 | $ 6.06 | $ 12.70 |
| NEW YORK OFFICE PROPERTIES | | | |
| Tenant Improvements | N/A | N/A | N/A |
| Per Square Foot Improved | N/A | N/A | N/A |
| Leasing Commissions | N/A | N/A | N/A |
| Per Square Foot Leased | N/A | N/A | N/A |
| Total Per Square Foot | N/A | N/A | N/A |
| INDUSTRIAL PROPERTIES | | | |
| Tenant Improvements | $ 375,646 | $ 317,572 | $ 66,483 |
| Per Square Foot Improved | 0.25 | 0.57 | 0.25 |
| Leasing Commissions | $ 835,108 | $ 388,122 | $ 86,439 |
| Per Square Foot Leased | 0.56 | 0.50 | 0.33 |
| Total Per Square Foot | $ 0.81 | $ 1.07 | $ 0.58 |

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(A) 1996 -- 1999 average weighted to reflect October 1996 acquisition date

## LEASE EXPIRATIONS

The following table sets forth scheduled lease expirations for executed leases as of March 31, 2000:

LONG ISLAND OFFICE PROPERTIES (EXCLUDING OMNI):

| YEAR OF LEASE EXPIRATION | NUMBER OF LEASES | TOTAL RENTABLE SQUARE FEET EXPIRING | % OF TOTAL RENTABLE SQUARE FEET EXPIRING | PER SQUARE FOOT S/L RENT(1) | PER SQUARE FOOT RENT(2) |
|---|---|---|---|---|---|
| 2000 ........................ | 32 | 138,314 | 4.5% | $ 21.24 | $ 22.66 |
| 2001 ........................ | 41 | 188,697 | 6.2% | $ 22.29 | $ 24.45 |
| 2002 ........................ | 32 | 261,102 | 8.5% | $ 22.29 | $ 24.53 |
| 2003 ........................ | 52 | 340,359 | 11.2% | $ 21.90 | $ 24.85 |
| 2004 ........................ | 45 | 275,654 | 9.0% | $ 23.04 | $ 25.73 |
| 2005 ........................ | 53 | 529,651 | 17.3% | $ 22.74 | $ 26.08 |
| 2006 AND THEREAFTER ......... | 71 | 1,322,630 | 43.3% | -- | -- |
| TOTAL ....................... | 326 | 3,056,407 | 100.0% | | |

OMNI:

| YEAR OF LEASE EXPIRATION | NUMBER OF LEASES | TOTAL RENTABLE SQUARE FEET EXPIRING | % OF TOTAL RENTABLE SQUARE FEET EXPIRING | PER SQUARE FOOT S/L RENT(1) | PER SQUARE FOOT RENT(2) |
|---|---|---|---|---|---|
| 2000 ........................ | -- | -- | -- | -- | -- |
| 2001 ........................ | 4 | 32,680 | 6.2% | $ 27.39 | $ 32.74 |
| 2002 ........................ | 3 | 129,351 | 24.3% | $ 30.00 | $ 33.52 |
| 2003 ........................ | 6 | 81,809 | 15.4% | $ 29.60 | $ 33.60 |
| 2004 ........................ | 4 | 112,414 | 21.1% | $ 26.04 | $ 33.40 |
| 2005 ........................ | 6 | 59,115 | 11.1% | $ 27.91 | $ 34.66 |
| 2006 AND THEREAFTER ......... | 5 | 116,605 | 21.9% | -- | -- |
| TOTAL ....................... | 28 | 531,974 | 100.0% | | |

INDUSTRIAL PROPERTIES:

| YEAR OF LEASE EXPIRATION | NUMBER OF LEASES | TOTAL RENTABLE SQUARE FEET EXPIRING | % OF TOTAL RENTABLE SQUARE FEET EXPIRING | PER SQUARE FOOT S/L RENT(1) | PER SQUARE FOOT RENT(2) |
|---|---|---|---|---|---|
| 2000 ........................ | 27 | 402,203 | 8.4% | $ 5.49 | $ 6.19 |
| 2001 ........................ | 31 | 652,359 | 13.7% | $ 5.84 | $ 7.06 |
| 2002 ........................ | 25 | 212,744 | 4.5% | $ 6.26 | $ 6.97 |
| 2003 ........................ | 30 | 724,434 | 15.2% | $ 5.26 | $ 6.08 |
| 2004 ........................ | 34 | 622,185 | 13.1% | $ 6.36 | $ 7.16 |
| 2005 ........................ | 12 | 351,234 | 7.4% | $ 5.48 | $ 7.79 |
| 2006 AND THEREAFTER ......... | 40 | 1,794,543 | 37.7% | -- | -- |
| TOTAL ....................... | 199 | 4,759,702 | 100.0% | | |

RESEARCH AND DEVELOPMENT PROPERTIES:

| YEAR OF LEASE EXPIRATION | NUMBER OF LEASES | TOTAL RENTABLE SQUARE FEET EXPIRING | % OF TOTAL RENTABLE SQUARE FEET EXPIRING | PER SQUARE FOOT S/L RENT(1) | PER SQUARE FOOT RENT(2) |
|---|---|---|---|---|---|
| 2000 | 6 | 62,492 | 4.9% | $ 9.43 | $ 9.31 |
| 2001 | 8 | 150,120 | 11.7% | $ 10.75 | $ 11.80 |
| 2002 | 2 | 64,620 | 5.0% | $ 10.10 | $ 12.70 |
| 2003 | 5 | 291,034 | 22.8% | $ 5.62 | $ 6.62 |
| 2004 | 10 | 129,218 | 10.1% | $ 12.17 | $ 13.43 |
| 2005 | 2 | 269,704 | 21.1% | $ 8.24 | $ 9.03 |
| 2006 AND THEREAFTER | 12 | 311,496 | 24.4% | -- | -- |
| TOTAL | 45 | 1,278,684 | 100.0% | | |

WESTCHESTER OFFICE PROPERTIES:

| YEAR OF LEASE EXPIRATION | NUMBER OF LEASES | TOTAL RENTABLE SQUARE FEET EXPIRING | % OF TOTAL RENTABLE SQUARE FEET EXPIRING | PER SQUARE FOOT S/L RENT(1) | PER SQUARE FOOT RENT(2) |
|---|---|---|---|---|---|
| 2000 | 38 | 280,179 | 9.6% | $ 22.44 | $ 22.44 |
| 2001 | 43 | 228,679 | 7.8% | $ 20.77 | $ 21.16 |
| 2002 | 51 | 461,797 | 15.8% | $ 19.99 | $ 20.24 |
| 2003 | 39 | 252,385 | 8.7% | $ 21.88 | $ 23.13 |
| 2004 | 27 | 164,609 | 5.6% | $ 21.60 | $ 22.01 |
| 2005 | 21 | 279,077 | 9.6% | $ 24.50 | $ 24.99 |
| 2006 AND THEREAFTER | 35 | 1,246,721 | 42.9% | -- | -- |
| TOTAL | 254 | 2,913,447 | 100.0% | | |

STAMFORD OFFICE PROPERTIES:

| YEAR OF LEASE EXPIRATION | NUMBER OF LEASES | TOTAL RENTABLE SQUARE FEET EXPIRING | % OF TOTAL RENTABLE SQUARE FEET EXPIRING | PER SQUARE FOOT S/L RENT(1) | PER SQUARE FOOT RENT(2) |
|---|---|---|---|---|---|
| 2000 | 25 | 101,334 | 9.6% | $ 21.14 | $ 21.90 |
| 2001 | 24 | 110,180 | 10.4% | $ 24.52 | $ 25.56 |
| 2002 | 18 | 95,920 | 9.1% | $ 27.07 | $ 28.29 |
| 2003 | 15 | 94,448 | 9.0% | $ 31.61 | $ 32.39 |
| 2004 | 22 | 225,924 | 21.4% | $ 22.86 | $ 23.74 |
| 2005 | 10 | 71,830 | 6.8% | $ 26.80 | $ 28.51 |
| 2006 AND THEREAFTER | 19 | 355,295 | 33.7% | -- | -- |
| TOTAL | 133 | 1,054,931 | 100.0% | | |

NEW JERSEY OFFICE PROPERTIES:

| YEAR OF LEASE EXPIRATION | NUMBER OF LEASES | TOTAL RENTABLE SQUARE FEET EXPIRING | % OF TOTAL RENTABLE SQUARE FEET EXPIRING | PER SQUARE FOOT S/L RENT(1) | PER SQUARE FOOT RENT(2) |
|---|---|---|---|---|---|
| 2000 .................... | 17 | 99,045 | 5.1% | $ 17.49 | $ 18.39 |
| 2001 .................... | 22 | 260,124 | 13.4% | $ 17.89 | $ 18.10 |
| 2002 .................... | 21 | 182,636 | 9.4% | $ 19.83 | $ 20.08 |
| 2003 .................... | 20 | 336,393 | 17.4% | $ 19.83 | $ 19.92 |
| 2004 .................... | 33 | 228,731 | 11.8% | $ 22.60 | $ 23.11 |
| 2005 .................... | 23 | 317,732 | 16.4% | $ 22.50 | $ 23.25 |
| 2006 AND THEREAFTER ..... | 16 | 512,495 | 26.5% | -- | -- |
| TOTAL ................... | 152 | 1,937,156 | 100.0% | | |

NEW YORK CITY OFFICE

| YEAR OF LEASE EXPIRATION | NUMBER OF LEASES | TOTAL RENTABLE SQUARE FEET EXPIRING | % OF TOTAL RENTABLE SQUARE FEET EXPIRING | PER SQUARE FOOT S/L RENT(1) | PER SQUARE FOOT RENT(2) |
|---|---|---|---|---|---|
| 2000 ........................ | 15 | 153,333 | 4.6% | $ 29.37 | $ 30.09 |
| 2001 ........................ | 23 | 176,179 | 5.3% | $ 37.19 | $ 34.55 |
| 2002 ........................ | 17 | 183,333 | 5.5% | $ 31.82 | $ 31.86 |
| 2003 ........................ | 7 | 115,726 | 3.5% | $ 31.89 | $ 32.22 |
| 2004 ........................ | 17 | 178,012 | 5.3% | $ 33.01 | $ 31.65 |
| 2005 ........................ | 27 | 431,088 | 12.9% | $ 34.56 | $ 34.62 |
| 2006 AND THEREAFTER ......... | 105 | 2,098,488 | 62.9% | -- | -- |
| TOTAL ....................... | 211 | 3,336,159 | 100.0% | | |

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

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

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK.

The primary market risk facing the Operating Partnership is interest rate risk on its long-term debt, mortgage notes and notes receivable. The Operating Partnership does not hedge interest rate risk using financial instrument nor is the Operating Partnership subject to foreign currency risk.

The Operating Partnership manages its exposure to interest rate risk on its variable rate indebtedness by borrowing on a short-term basis under its Credit Facility or Term Loan until such time as it is able to retire the short-term variable rate debt with a long-term fixed rate debt offering on terms that are advantageous to the Operating Partnership or through general partner contributions.

The following table sets forth the Operating Partnership's long term debt obligations by scheduled principal cash flow payments and maturity date, weighted average interest rates and estimated fair market value ("FMV") at March 31, 2000 (dollars in thousands):

| | FOR THE YEAR ENDED DECEMBER 31, | | | | |
|---|---|---|---|---|---|
| | 2000 | 2001 | 2002 | 2003 | 2004 |
| Long term debt: | | | | | |
| Fixed rate ............. | $ 33,479 | $ 92,751 | $ 16,499 | $ 8,350 | $ 11,769 |
| Weighted average interest rate ................... | 7.36% | 7.50% | 7.79% | 7.77% | 8.30% |
| Variable rate ........... | $ -- | $482,600 | $ -- | $ -- | $ -- |
| Weighted average interest rate ................... | -- | 7.01% | -- | -- | -- |

| | THEREAFTER | TOTAL(1) | FMV |
|---|---|---|---|
| Long term debt: | | | |
| Fixed rate ............. | $ 814,660 | $ 977,508 | $ 977,508 |
| Weighted average interest rate ................... | 7.53% | 7.46% | |
| Variable rate ........... | $ -- | $ 482,600 | $ 482,600 |
| Weighted average interest rate ................... | -- | 7.01% | |

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(1) Includes unamortized issuance discounts of $670,000 on the 5 and 10-year senior unsecured notes issued on March 26, 1999, which are due at maturity.

In addition, the Operating Partnership has assessed the market risk for its variable rate debt, which is based upon LIBOR, and believes that a one percent increase in the LIBOR rate would have an approximate $482.6 million annual increase in interest expense based on approximately $4.8 million outstanding at March 31, 2000.

The following table sets forth the Operating Partnership's mortgage notes and note receivables by scheduled maturity date, weighted average interest rates and estimated FMV at March 31, 2000 (dollars in thousands):

| | FOR THE YEAR ENDED DECEMBER 31, | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | 2000 | 2001 | 2002 | 2003 | 2004 | THEREAFTER | TOTAL (2) | FMV |
| Mortgage notes and notes receivable: | | | | | | | | |
| Fixed rate ............ | $ 282,983 | $ 15 | $ 11,055 | $ -- | $ 36,500 | $ 16,990 | $ 347,543 | $ 347,543 |
| Weighted average interest rate ......... | 9.42% | 9.00% | 10.34% | -- | 10.23% | 11.65% | 9.64% | |

The fair value of the Operating Partnership's long term debt, mortgage notes and notes receivable is estimated based on discounting future cash flows at interest rates that management believes reflects the risks associated with long term debt, mortgage notes and notes receivable of similar risk and duration.

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(2) Excludes mortgage note receivable acquisition costs and interest

receivables aggregating approximately $5.3 million.

## PART II -- OTHER INFORMATION

Item 1. Legal Proceedings -- None
Item 2. Changes in Securities and use of proceeds -- None
Item 3. Defaults Upon Senior Securities -- None
Item 4. Submission of Matters to a Vote of Securities Holders -- None
Item 5. Other information -- None
Item 6. Exhibits and Reports on Form 8-K

a) Exhibits:

| NUMBER | |
|---|---|
| 10.1 | Amended and Restated letter Agreement, dated as of November 30, 1999, amending the RSVP Credit Agreement and the FrontLine Facility |
| 27.0 | Financial Data Schedule |

b) During the three months ended March 31, 2000 the Registrant did not file any Reports on Form 8-K

## SIGNATURES

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

RECKSON OPERATING PARTNERSHIP, L. P.
BY: RECKSON ASSOCIATES REALTY CORP., ITS GENERAL PARTNER

| | |
|---|---|
| By: \s\ Scott H. Rechler | \s\ Michael Maturo |
| Scott H. Rechler, Co-Chief Executive Officer and President | Michael Maturo, Executive Vice President, Treasurer And Chief Financial Officer |

DATE: May 10, 2000

EXHIBIT 10.1

November 30, 1999

Reckson Service Industries Inc.
10 East 53rd Street
New York, New York 10022

Re: Second Amended and Restated Credit Agreements

Dear Sirs:

Reference is made to the Amended and Restated Credit Agreement, dated as of August 4, 1999, between Reckson Service Industries, Inc., as Borrower (the "Borrower") and Reckson Operating Partnership, L.P., as Lender (the "Lender") relating to the operations of the Borrower (the "RSI Facility"), and the Amended and Restated Credit Agreement, dated as of August 4, 1999, between the Borrower and the Lender relating to Reckson Strategic Venture Partners LLC (together with the RSI Facility, the "Credit Facilities". Capitalized terms used herein and not otherwise defined shall have the meaning ascribed to such terms in the Credit Facilities.

You have advised us of your proposal to obtain (i) a $60 million secured loan from Warburg Dillon Read and UBS AG (or other lenders) substantially on the terms set forth on the term sheet attached hereto as Exhibit A (the "Secured $60 million Loan") and (ii) a $75 million secured loan from Reckson Strategic Venture Partners LLC (or other lenders) substantially on the terms set forth in the term sheet attached hereto as Exhibit B (the "Secured $75 million Loan" and, together with the Secured $60 million Loan, the "Secured Loans"). You have also advised us of your proposal to issue up to $200 million in preferred stock (the "Preferred Stock").

1. Amendments. We hereby agree to the following amendments to the Credit Facilities:

a. Section 1.1(b) is hereby amended to add the following definition: "Adjusted EBITDA" shall mean, for any fiscal quarter, EBITDA less any amounts payable (i) by any subsidiary in respect of the Indebtedness of such Subsidiary (including, but not limited to, Indebtedness of VANTAS Incorporated and the Secured $75 million Loan) and (ii) by the Borrower in respect of the Secured $60 million Loan.

b. The third sentence of Section 3.1 of the Credit Facilities is hereby amended by deleting the references to "EBITDA" and replacing such references with the term "Adjusted EBITDA."

c. Section 7.2(c) of the Credit Facilities is hereby amended to add the following:

(iv) Indebtedness of the Borrower payable to its subsidiaries, partner companies or other companies into which the Borrower makes investments to evidence the obligation of the Borrower to fund future capital commitments into such entities.

2. Consents. We hereby consent to the following:

a. The Liens to be granted under the Secured Loans shall be deemed to be Permitted Liens for purposes of the Credit Facilities.

b. In accordance with Section 7.2(c)(iii) of the Credit Facilities, the incurrence of Indebtedness under the Secured Loans and the payment of interest thereon is hereby approved.

c. In accordance with Sections 7.2(d) and 7.2(e) of the Credit Facilities, the filing of one or more Certificates of Designation and any amendments thereto in respect of the Preferred Stock, and the payment by the Borrower of dividends to the holders of the Preferred Stock, is hereby approved.

3. Fees. It is understood that a fee equal to 176,186 shares of common stock, par value $.01 per share, of the Borrower shall be paid to us upon delivery of this letter in consideration of the matters covered in this letter.

Very truly yours,
RECKSON OPERATING PARTNERSHIP, L.P.
By: Reckson Associates Realty Corp., general partner

By: /s/ Michael Maturo
Name: Michael Maturo
Title: Executive Vice President

Confirmed and Accepted:
RECKSON SERVICE INDUSTRIES, INC.

By: /s/ Michael Maturo
Name: Michael Maturo
Title: Executive Vice President

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0000930810
RECKSON OPERATING PARTNERSHIP, L. P.
1,000
US DOLLARS

3-MOS
DEC-31-2000
JAN-01-2000
MAR-31-2000
1
31,042
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239,175
0
0
270,217
2,378,953
(237,028)
2,905,571
105,577
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413,126
834,429
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2,905,571
107,247
117,658
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44,034
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0
23,840
28,772
0
28,772
0
0
0
18,812
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0