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RECKSON ASSOCIATES REALTY CORP

Form 8-K

October 22, 2003

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 8-K

CURRENT REPORT

Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

Date of Report (Date of earliest event reported) October 22, 2003

Reckson Associates Realty Corp.

(Exact name of registrant as specified in its charter)

Maryland

1-13762

11-3233650

(State or other jurisdiction
of incorporation or organization)

(Commission
file number)

(IRS Employer
Identification No.)

225 Broadhollow Road, Melville, NY

11747

(Address of principal executive office)

(zip code)

(631) 694-6900

(Registrant's telephone number including area code)

Item 2. ACQUISITION OR DISPOSITION OF ASSETS

On September 10, 2003, Reckson Associates Realty Corp. ("Reckson") announced that it had entered into agreements relating to the disposition of its Long Island industrial portfolio (the "Disposition") to members of the Rechler family for approximately \$315.5 million in cash and other consideration. Subject to the terms and conditions of the agreements, at closing, Reckson will dispose of its 95 property, 5.9 million square foot, Long Island industrial building portfolio for approximately \$225.1 million in cash and debt assumption and 3,932,111 limited partnership units, valued at approximately \$90.4 million in Reckson

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Operating Partnership, L.P. In connection with the Disposition, Reckson estimates that it will recognize for United States GAAP purposes a gain on the sale of real estate of approximately \$138 million. In addition, Reckson estimates that it will recognize a taxable gain on the sale of real estate of approximately \$20 million.

Sales proceeds from the Disposition are anticipated to be used to repay Reckson's unsecured credit facility and for transaction costs. Subsequent to the Disposition Reckson anticipates it will redeem \$50 million, or 100%, of its outstanding 8.85% Series B cumulative preferred stock.

In addition, four of the five remaining options granted to Reckson at the time of its IPO to purchase interests in properties owned by Rechler family members (including three properties in which the Rechler family members hold non-controlling interests and one industrial property) will be terminated. In return Reckson will receive 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 (Reckson's current headquarters) for five years and to release Reckson from approximately 16,000 square feet under its lease at this property. In connection with the restructuring of the remaining option the Rechler family members have agreed to pay Reckson \$1 million in return for Reckson'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 Reckson will be increased by \$1 million.

In recent weeks, a number of shareholder derivative actions have been commenced against the Company and the Board of Directors in the Supreme Court of the State of New York, County of Nassau ((Index No. 01 4162/03), the Supreme Court of the State of New York, County of Suffolk (Index No. 03 32545 and Index No. 03 23593) and in the United States District Court, Eastern District of New York (Case No. cv 03 4917, Case No. cv 03 5008 and Case No. cv 03 5178), relating to the recently announced 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.

The description of the Disposition contained in the Company's current reports on Form 8-K filed with the Securities and Exchange Commission on September 18, 2003 and October 1, 2003 are incorporated herein by reference. The information in this current report on Form 8-K supplements and amends the information contained in those previously filed current reports.

Item. 7. FINANCIAL STATEMENTS, PRO FORMA FINANCIAL INFORMATION AND EXHIBITS.

(b) Pro forma financial information.

Reckson Associates Realty Corp.
Pro Forma Financial Information
(Unaudited)

The accompanying financial statements present the unaudited pro forma balance sheet of Reckson Associates Realty Corp. as of June 30, 2003 and the unaudited pro forma statements of income for the year ended December 31, 2002 and the six

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months ended June 30, 2003.

The unaudited pro forma balance sheet as of June 30, 2003 is presented as if the Disposition transaction had occurred on June 30, 2003. The unaudited pro forma statements of income for the year ended December 31, 2002 and the six months ended June 30, 2003 are presented as if the Disposition transaction had occurred as of January 1, 2002 and carried forward through June 30, 2003.

The pro forma information is unaudited and is not necessarily indicative of the results which actually would have occurred if the aforementioned Disposition had been consummated at the beginning of the period presented, nor does it purport to represent the financial position and results of operations for future periods. The pro forma information should be read in conjunction with the historical financial statements of Reckson Associates Realty Corp.

RECKSON ASSOCIATES REALTY CORP. PRO FORMA BALANCE SHEET JUNE 30, 2003 (UNAUDITED AND IN THOUSANDS)

	Reckson Historical (A) -----	Pr Adj -----
ASSETS:		
Commercial real estate properties, at cost:		
Land	\$ 423,036	\$
Building and improvements	2,448,379	(
Developments in progress:		
Land	88,388	
Development costs	23,743	
Furniture, fixtures and equipment	12,572	
	-----	-----
	2,996,118	(
Less accumulated depreciation	(501,122)	
	-----	-----
	2,494,996	(
Investments in real estate joint ventures	5,709	
Investments in mortgage notes and notes receivable	54,600	
Investments in service companies and affiliate loans and joint ventures	72,440	
Cash and cash equivalents	23,996	
Tenant receivables	7,724	
Deferred rents receivable	116,573	
Prepaid expenses and other assets	56,021	
Contract and land deposits and pre-acquisition costs	208	
Deferred leasing and loan costs	68,727	
	-----	-----
TOTAL ASSETS	\$2,900,994	\$ (
	=====	=====
LIABILITIES:		
Mortgage notes payable	\$ 734,134	\$
Unsecured credit facility	322,000	(
Senior unsecured notes	499,374	
Accrued expenses and other liabilities	82,357	

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Dividends and distributions payable	31,471	
	-----	---
TOTAL LIABILITIES	1,669,336	(
	-----	---
Minority partners' interests in consolidated partnerships	240,452	
Preferred unit interest in the operating partnership	19,662	
Limited partners' minority interest in the operating partnership	66,261	
	-----	---
	326,375	
	-----	---
Commitments and contingencies	--	
STOCKHOLDERS' EQUITY:		
Preferred Stock, \$.01 par value, 25,000,000 shares authorized		
Series A preferred stock, 8,834,500 shares issued and outstanding	88	
Series B preferred stock, 2,000,000 shares and 0, issued and outstanding, respectively	20	
Common Stock, \$.01 par value, 100,000,000 shares authorized		
Class A common stock, 48,000,995 shares issued and outstanding	480	
Class B common stock, 9,915,313 shares issued and outstanding	99	
Additional paid in capital	973,089	
Treasury stock	(68,493)	
	-----	---
Total Stockholders Equity	905,283	
	-----	---
Total Liabilities and Stockholders' Equity	\$2,900,994	\$ (
	=====	==

The accompanying notes and management's assumptions are an integral part of this statement

RECKSON ASSOCIATES REALTY CORP. NOTES TO PRO FORMA BALANCE SHEET JUNE 30, 2003 (UNAUDITED)

- (A) Represents the historical balance sheet of Reckson Associates Realty Corp. at June 30, 2003.
- (B) Represent adjustments to remove the assets and liabilities as a result of the Disposition as if the Disposition occurred on June 30, 2003.
- (a) To record the Disposition transaction as if the Disposition occurred on June 30, 2003.
- | | |
|--|------------|
| Sales Price | \$ 315,500 |
| Repayment on unsecured credit facility | (214,000) |
| Assignment of secured debt to purchaser | (6,137) |
| Retirement of limited partners minority interest | (90,439) |
| Estimated transactional costs | (4,924) |
- (b) To record the redemption of the outstanding 8.85% Cumulative Series B preferred stock with proceeds from borrowings under the

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unsecured credit facility.

Borrowing under the unsecured credit facility	\$	51,000
\$.01 par value, 2,000,000 shares		(20)
Additional paid in capital		(50,980)

- (c) To accrue \$11.0 million, for the future settlement of employment contracts and for anticipated restructure costs related to the Disposition net of \$3.3 million of accrued expenses and other liabilities related to the properties being disposed of.
- (d) To record the reallocation of general and limited partnership interests in the operating partnership, at June 30, 2003 of approximately \$56.6 million, based on percentage of ownership giving effect to the Disposition transaction and retirement of 3,932,111 common units of limited partnership interest.
- (e) To record the disposition of the assets as a result of the Disposition transaction as if the Disposition occurred on June 30, 2003.
- (f) To record the anticipated realized gain resulting from the Disposition transaction.

Sales Price	\$	315,500
Estimated transaction costs		(4,924)
Assets disposed of net of liabilities		(173,057)

	\$	137,519
		=====

- (g) To record cash proceeds anticipated to be received in consideration for the termination by Reckson of four options to acquire interests in properties owned by Rechler family members and to amend the terms on which Reckson can exercise a fifth option to acquire the property located at 225 Broadhollow Road, Melville, N.Y. (Reckson's current headquarters).

RECKSON ASSOCIATES REALTY CORP. PRO FORMA STATEMENT OF INCOME SIX MONTHS ENDED JUNE 30, 2003 (UNAUDITED AND IN THOUSANDS, EXCEPT SHARE AMOUNTS)

		Reckson Historical (A) -----
REVENUES:		
Property operating revenues:		
Base rents	\$	214,605
Tenant escalations and reimbursements		31,340

Total property operating revenues		245,945
Interest income on mortgage notes and notes receivable		3,090
Investment and other income		9,137

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TOTAL REVENUES	258,172
EXPENSES:	
Property operating expenses	94,402
Marketing, general and administrative	17,649
Interest	45,746
Depreciation and amortization	61,887
TOTAL EXPENSES	219,684
Income before minority interests, preferred dividends and distributions, equity (loss) in earnings of real estate joint ventures and service companies, gain on sales of depreciable real estate assets and discontinued operations	38,488
Minority partners' interests in consolidated partnerships	(9,025)
Distributions to preferred unit holders	(547)
Limited partners' minority interest in the operating partnership	(1,870)
Equity (loss) in earnings of real estate joint ventures and service companies	(164)
Net income	26,882
Dividends to preferred shareholders	(10,634)
Net income allocable to common shareholders	\$ 16,248
Net income allocable to:	
Class A common	\$ 12,364
Class B common	3,884
Total	\$ 16,248
Basic net income per weighted average share:	
Class A common	\$ 0.26
Class B common	\$ 0.39
Basic weighted average common shares outstanding:	
Class A common	48,100,418
Class B common	9,915,313
Diluted net income per weighted average common share:	
Class A common	\$ 0.26
Class B common	\$ 0.28
Diluted weighted average common shares outstanding:	
Class A common	48,218,598
Class B common	9,915,313

The accompanying notes and management's assumptions are an integral part of this statement

RECKSON ASSOCIATES REALTY CORP.
NOTES TO PRO FORMA STATEMENT OF INCOME
SIX MONTHS ENDED JUNE 30, 2003
(UNAUDITED)

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- (A) Represents the historical statement of income of Reckson Associates Realty Corp. for the six months ended June 30, 2003.
- (B) Represent adjustments to remove the results of operations from the Disposition properties as if such Disposition occurred on January 1, 2002.
- (C) To adjust for general and administrative expenses and service company overhead included in other income, which would be avoided as a result of the Disposition had the Disposition occurred on January 1, 2002
- (D) To adjust for interest expense which would have been avoided if the unsecured credit facility had been repaid using the proceeds from the Disposition had the Disposition occurred on January 1, 2002. In addition, to adjust for interest expense which would have been incurred had Reckson borrowed under its unsecured credit facility to redeem its outstanding 8.85% Convertible Series B preferred stock.
- (E) To adjust the allocation of income under the limited partnership agreement had the Disposition occurred on January 1, 2002.
- (F) To adjust for preferred dividends on the 8.85% Cumulative Series B preferred stock as if such preferred stock were redeemed on January 1, 2002.

RECKSON ASSOCIATES REALTY CORP.
PRO FORMA STATEMENT OF INCOME
FOR THE YEAR ENDED DECEMBER 31, 2002
(UNAUDITED AND IN THOUSANDS, EXCEPT SHARE AMOUNTS)

	Reckson Historical (A)	Pr
	-----	---
REVENUES:		
Property operating revenues:		
Base rents	\$ 437,393	\$ (3
Tenant escalations and reimbursements	60,689	(
	-----	---
Total property operating revenues	498,082	(4
Interest income on mortgage notes and notes receivable	6,279	
Investment and other income	1,731	
	-----	---
TOTAL REVENUES	506,092	(4
	-----	---
EXPENSES:		
Property operating expenses	175,041	(1
Marketing, general and administrative	31,578	(
Interest	88,585	
Depreciation and amortization	112,341	(
	-----	---
TOTAL EXPENSES	407,545	(2
	-----	---
Income before minority interests, preferred dividends and distributions, equity		

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in earnings of real estate joint ventures and service companies, gain on sales of real estate, discontinued operations and extraordinary loss	98,547	(2)
Minority partners' interests in consolidated partnerships	(18,730)	
Distributions to preferred unit holders	(1,288)	
Limited partners' minority interest in the operating partnership	(6,238)	
Equity in earnings of real estate joint ventures and service companies	1,113	
Gain on sales of real estate	537	
	-----	-----
Income before discontinued operations, extraordinary loss and preferred dividends	73,941	(2)
Discontinued operations (net of limited partners' minority interest):		
Income from discontinued operations	495	
Gain on sales of real estate	4,267	
	-----	-----
Income before extraordinary loss and dividends to preferred shareholders	78,703	(2)
Extraordinary loss on extinguishment of debts (net of limited partners' minority interest)	(2,335)	
	-----	-----
Net income	76,368	(2)
Dividends to preferred shareholders	(21,835)	
	-----	-----
Net income allocable to common shareholders	\$ 54,533	\$ (2)
	=====	=====
Net income allocable to:		
Class A common	\$ 41,604	
Class B common	12,929	

Total	\$ 54,533	
	=====	
Basic net income per weighted average share:		
Class A common	\$ 0.79	
Gain on sales of real estate	0.01	
Discontinued operations	0.07	
Extraordinary loss	(0.03)	

Basic net income per Class A common	\$ 0.84	
	=====	
Class B common	\$ 1.21	
Gain on sales of real estate	0.01	
Discontinued operations	0.11	
Extraordinary loss	(0.05)	

Basic net income per Class B common	\$ 1.28	
	=====	
Basic weighted average common shares outstanding:		
Class A common	49,669,000	
Class B common	10,122,000	
Diluted net income per weighted average common share:		
Class A common	\$ 0.83	
	=====	
Class B common	\$ 0.90	
	=====	
Diluted weighted average common shares outstanding:		
Class A common	49,968,000	
Class B common	10,122,000	

The accompanying notes and management's assumptions are an integral part of this statement

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RECKSON ASSOCIATES REALTY CORP.
NOTES TO PRO FORMA STATEMENT OF INCOME
FOR THE YEAR ENDED DECEMBER 31, 2002
(UNAUDITED)

- (A) Represents the historical statement of income of Reckson Associates Realty Corp. for the year ended December 31, 2002.
- (B) Represents adjustment to remove the results of operations from the Disposition properties as if such Disposition occurred on January 1, 2002.
- (C) To adjust for general and administrative expenses and service company overhead, included in other income, which would be avoided as a result of the Disposition had the Disposition occurred on January 1, 2002
- (D) To adjust for interest expense which would have been avoided if the unsecured credit facility had been repaid using the proceeds from the Disposition had the Disposition occurred on January 1, 2002. In addition, to adjust for interest expense which would have been incurred had Reckson borrowed under its unsecured credit facility to redeem its outstanding 8.85% Convertible Series B preferred stock.
- (E) To adjust the allocation of income under the limited partnership agreement had the Disposition occurred on January 1, 2002.
- (F) To adjust for preferred dividends on the 8.85% Cumulative Series B preferred stock as if such preferred stock were redeemed on January 1, 2002.

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/ Michael Maturo

Michael Maturo, Executive Vice President &
Chief Financial Officer

Date: October 22, 2003