SL GREEN REALTY CORP
Form 10-Q
November 09, 2007

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

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

For the quarterly period ended September 30, 2007

o **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the transition period from to .

Commission File Number: 1-13199

SL GREEN REALTY CORP.

(Exact name of registrant as specified in its charter)

Maryland (State or other jurisdiction of incorporation or organization)	**13-3956775** (I.R.S. Employer Identification No.)
420 Lexington Avenue, New York, New York (Address of principal executive offices)	**10170** (Zip Code)

(212) 594-2700

(Registrant s telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. YES x NO o

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of accelerated filer and large accelerated filer in Rule 12b-2 of the Exchange Act.

Large accelerated filer x Accelerated filer o Non-accelerated filer o

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). YES o NO x

The number of shares outstanding of the registrant s common stock, $0.01 par value, was 59,232,036 as of October 31, 2007.

SL GREEN REALTY CORP.

INDEX

PART I.	**FINANCIAL INFORMATION**	
ITEM 1.	**FINANCIAL STATEMENTS**	
		PAGE
	Condensed Consolidated Balance Sheets as of September 30, 2007 (unaudited) and December 31, 2006	3
	Condensed Consolidated Statements of Income for the three and nine months ended September 30, 2007 and 2006 (unaudited)	4
	Condensed Consolidated Statement of Stockholders Equity for the nine months ended September 30, 2007 (unaudited)	5
	Condensed Consolidated Statements of Cash Flows for the nine months ended September 30, 2007 and 2006 (unaudited)	6
	Notes to Condensed Consolidated Financial Statements (unaudited)	7
ITEM 2.	**MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS**	34
ITEM 3.	**QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK**	50
ITEM 4.	**CONTROLS AND PROCEDURES**	50
PART II.	**OTHER INFORMATION**	51
ITEM 1.	**LEGAL PROCEEDINGS**	51
ITEM 1A.	**RISK FACTORS**	51
ITEM 2.	**UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS**	51
ITEM 3.	**DEFAULTS UPON SENIOR SECURITIES**	51
ITEM 4.	**SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS**	51
ITEM 5.	**OTHER INFORMATION**	51
ITEM 6.	**EXHIBITS**	51

Signatures 52

PART I. FINANCIAL INFORMATION

ITEM 1. Financial Statements

SL Green Realty Corp.

Condensed Consolidated Balance Sheets

(Amounts in thousands, except per share data)

	September 30, 2007	December 31, 2006
Assets	(Unaudited)	
Commercial real estate properties, at cost:		
Land and land interests	$ 1,447,297	$ 439,986
Building and improvements	5,799,995	2,111,970
Building leasehold and improvements	1,237,758	490,995
Property under capital lease	12,208	12,208
	8,497,258	3,055,159
Less: accumulated depreciation	(406,958)	(279,436)
	8,090,300	2,775,723
Cash and cash equivalents	98,099	117,178
Restricted cash	119,553	252,272
Tenant and other receivables, net of allowance of $12,915 and $11,079 in 2007 and 2006, respectively	48,815	34,483
Related party receivables	32,950	7,195
Deferred rents receivable, net of allowance of $12,646 and $10,925 in 2007 and 2006, respectively	134,580	96,624
Structured finance investments, net of discount of $18,613 and $14,804 in 2007 and 2006, respectively	683,084	445,026
Investments in unconsolidated joint ventures	886,672	686,069
Deferred costs, net	127,353	97,850
Other assets	294,783	119,807
Total assets	$ 10,516,189	$ 4,632,227
Liabilities and Stockholders Equity		
Mortgage notes payable	$ 2,846,529	$ 1,190,379
Revolving credit facility	590,000	
Term loans and unsecured notes	1,793,100	525,000
Accrued interest payable and other liabilities	50,257	10,008
Accounts payable and accrued expenses	169,288	138,181
Deferred revenue/gain	385,840	43,721
Capitalized lease obligation	16,504	16,394
Deferred land leases payable	16,873	16,938
Dividend and distributions payable	47,238	40,917
Security deposits	35,789	27,913
Junior subordinate deferrable interest debentures held by trusts that issued trust preferred securities	100,000	100,000
Total liabilities	6,051,418	2,109,451
Commitments and Contingencies		
Minority interest in Operating Partnership	78,878	71,731
Minority interests in other partnerships	595,782	56,162
Stockholders Equity		
Series C preferred stock, $0.01 par value, $25.00 liquidation preference, 6,300 issued and outstanding at September 30, 2007 and December 31, 2006, respectively	151,981	151,981
Series D preferred stock, $0.01 par value, $25.00 liquidation preference, 4,000 issued and outstanding at September 30, 2007 and December 31, 2006, respectively	96,321	96,321
Common stock, $0.01 par value 160,000 shares authorized and 59,989 and 49,840 issued and outstanding at September 30, 2007 and December 31, 2006, respectively (including 776 shares at September 30, 2007 held in Treasury)	598	498
Additional paid-in-capital	2,918,847	1,809,893
Treasury stock at cost	(94,071)	

Accumulated other comprehensive income		**6,961**		13,971
Retained earnings		**709,474**		322,219
Total stockholders equity		**3,790,111**		2,394,883
Total liabilities and stockholders equity	**$**	**10,516,189**	$	4,632,227

The accompanying notes are an integral part of these financial statements.

SL Green Realty Corp.

Condensed Consolidated Statements of Income

(Unaudited, and amounts in thousands, except per share data)

	Three months Ended September 30, 2007	2006	Nine months Ended September 30, 2007	2006
Revenues				
Rental revenue, net	$ 190,525	$ 85,944	$ 519,206	$ 242,031
Escalation and reimbursement	31,785	18,225	90,119	46,022
Preferred equity and investment income	21,856	15,978	71,008	46,762
Other income	15,040	9,441	128,129	30,631
Total revenues	259,206	129,588	808,462	365,446
Expenses				
Operating expenses including approximately $3,600, $10,595 (2007) and $3,400, $9,600 (2006) paid to affiliates	58,245	31,597	160,815	84,264
Real estate taxes	32,580	17,922	97,782	52,643
Ground rent	8,674	4,846	23,705	14,687
Interest	69,366	23,386	189,552	62,405
Amortization of deferred financing costs	1,994	1,140	14,537	3,096
Depreciation and amortization	49,957	18,020	131,938	49,813
Marketing, general and administrative	22,224	13,829	80,602	40,072
Total expenses	243,040	110,740	698,931	306,980
Income from continuing operations before equity in net income of unconsolidated joint ventures, minority interest and discontinued operations	16,166	18,848	109,531	58,466
Equity in net income from unconsolidated joint ventures	11,302	9,679	32,715	30,243
Income from continuing operations before minority interest and discontinued operations	27,468	28,527	142,246	88,709
Equity in net gain on sale of interest in unconsolidated joint ventures/ real estate			31,509	
Minority interest in other partnerships	(4,025)	(1,392)	(12,603)	(3,359)
Minority interest in Operating Partnership attributable to continuing operations	(388)	(1,246)	(5,948)	(3,447)
Income from continuing operations	23,055	25,889	155,204	81,903
Net income from discontinued operations, net of minority interest	268	3,138	4,572	10,074
Gain on sale of discontinued operations, net of minority interest	80,214	94,631	367,007	94,410
Net income	103,537	123,658	526,783	186,387
Preferred stock dividends	(4,969)	(4,969)	(14,907)	(14,906)
Net income available to common stockholders	$ 98,568	$ 118,689	$ 511,876	$ 171,481
Basic earnings per share:				
Net income from continuing operations before discontinued operations	$ 0.31	$ 0.46	$ 1.87	$ 1.53
Net income from discontinued operations		0.07	0.08	0.23
Gain on sale of discontinued operations, net of minority interest	1.35	2.09	6.26	2.16
Gain on sale of unconsolidated joint venture			0.52	
Net income available to common stockholders	$ 1.66	$ 2.62	$ 8.73	$ 3.92

Diluted earnings per share:								
Net income from continuing operations before discontinued operations	$	0.30	$	0.45	$	1.85	$	1.48
Net income from discontinued operations				0.07		0.08		0.22
Gain on sale of discontinued operations, net of minority interest		1.34		2.01		6.18		2.08
Gain on sale of unconsolidated joint venture						0.51		
Net income available to common stockholders	$	1.64	$	2.53	$	8.62	$	3.78
Dividends per share	$	0.70	$	0.60	$	2.10	$	1.80
Basic weighted average common shares outstanding		59,432		45,277		58,649		43,784
Diluted weighted average common shares and common share equivalents outstanding		62,411		49,215		61,915		47,718

The accompanying notes are an integral part of these financial statements.

SL Green Realty Corp.

Condensed Consolidated Statement of Stockholders Equity

(Unaudited, and amounts in thousands, except per share data)

	Series C Preferred Stock	Series D Preferred Stock	Common Stock Shares	Common Stock Par Value	Additional Paid-In-Capital	Treasury Stock	Accumulated Other Comprehensive Income	Retained Earnings	Total	Comprehensive Income
Balance at December 31, 2006	**$ 151,981**	**$ 96,321**	**49,840**	**$ 498**	**$ 1,809,893**	**$**	**$ 13,971**	**$ 322,219**	**$ 2,394,883**	
Comprehensive Income:										
Net income								526,783	526,783	**$ 526,783**
Net unrealized loss on derivative instruments							(7,010)		(7,010)	(7,010)
SL Green s share of joint venture net unrealized gain on derivative instruments										20
Preferred dividends								(14,907)	(14,907)	
Redemption of units and DRIP proceeds			424	4	21,125				21,129	
Deferred compensation plan & stock award, net			419	3	593				596	
Amortization of deferred compensation plan					27,703				27,703	
Proceeds from stock options exercised			293	3	10,945				10,948	
Common stock issued in connection with Reckson Merger			9,013	90	1,048,588				1,048,678	
Treasury stock-at cost			(776)			(94,071)			(94,071)	
Cash distribution declared ($2.10 per common share of which none represented a return of capital for federal income tax purposes)								(124,621)	(124,621)	
	$ 151,981	$ 96,321	59,213	$ 598	$ 2,918,847	$ (94,071)	$ 6,961	$ 709,474	$ 3,790,111	$ 519,793
Balance at September 30, 2007										

The accompanying notes are an integral part of these financial statements.

SL Green Realty Corp.

Condensed Consolidated Statements of Cash Flows

(Unaudited, and amounts in thousands, except per share data)

	Nine months Ended September 30, 2007	2006
Operating Activities		
Net income	**$ 526,783**	$ 186,387
Adjustment to reconcile net income to net cash provided by operating activities:		
Non-cash adjustments related to income from discontinued operations	**17,456**	9,774
Depreciation and amortization	**144,481**	52,909
Gain on sale of real estate	**(382,568)**	(94,411)
Equity in net income from unconsolidated joint ventures	**(32,715)**	(30,243)
Equity in net gain on sale of unconsolidated joint ventures	**(31,509)**	
Distributions of cumulative earnings from unconsolidated joint ventures	**33,287**	31,110
Minority interests	**18,351**	6,806
Deferred rents receivable	**(36,358)**	(12,398)
Other non-cash adjustments	**30,507**	7,950
Changes in operating assets and liabilities:		
Restricted cash operations	**(15,239)**	(4,376)
Tenant and other receivables	**(16,145)**	(11,242)
Related party receivables	**(25,755)**	(1,856)
Deferred lease costs	**(21,944)**	(12,227)
Other assets	**17,032**	(3,155)
Accounts payable, accrued expenses and other liabilities	**83,669**	14,168
Deferred revenue and land lease payable	**9,054**	3,115
Net cash provided by operating activities	**318,387**	142,311
Investing Activities		
Acquisitions of real estate property	**(4,215,109)**	(466,762)
Proceeds from Asset Sale	**1,964,914**	
Additions to land, buildings and improvements	**(57,107)**	(38,405)
Escrowed cash capital improvements/acquisition deposits	**135,054**	(169,556)
Investments in unconsolidated joint ventures	**(285,355)**	(55,482)
Distributions in excess of cumulative earnings from unconsolidated joint ventures	**78,990**	39,102
Proceeds from disposition of real estate/ partial interest in property	**872,672**	161,036
Other investments	**(166,030)**	(15,288)
Structured finance and other investments net of repayments/participations	**(241,867)**	40,538
Net cash used in investing activities	**(1,913,838)**	(504,817)
Financing Activities		
Proceeds from mortgage notes payable	**809,914**	327,968
Repayments of mortgage notes payable	**(122,455)**	(2,927)
Proceeds from revolving credit facilities, term loans and unsecured notes	**2,956,689**	490,645
Repayments of revolving credit facilities, term loans and unsecured notes	**(2,355,313)**	(522,645)
Net proceeds from sale of common stock		268,496
Purchases of Treasury Stock	**(94,071)**	
Proceeds from stock options exercised	**10,948**	13,519
Minority interest in other partnerships	**531,808**	35,842
Dividends and distributions paid	**(133,657)**	(87,688)
Deferred loan costs and capitalized lease obligation	**(27,491)**	(8,364)
Net cash provided by financing activities	**1,576,372**	514,846
Net decrease in cash and cash equivalents	**(19,079)**	152,340
Cash and cash equivalents at beginning of period	**117,178**	24,104
Cash and cash equivalents at end of period	**$ 98,099**	$ 176,444

The accompanying notes are an integral part of these financial statements.

SL Green Realty Corp.

Notes to Condensed Consolidated Financial Statements

(Unaudited)

September 30, 2007

1. Organization and Basis of Presentation

SL Green Realty Corp., also referred to as the Company or SL Green, a Maryland corporation, and SL Green Operating Partnership, L.P., or the operating partnership, a Delaware limited partnership, were formed in June 1997 for the purpose of combining the commercial real estate business of S.L. Green Properties, Inc. and its affiliated partnerships and entities. The operating partnership received a contribution of interest in the real estate properties, as well as 95% of the economic interest in the management, leasing and construction companies which are referred to as the Service Corporation. The Company has qualified, and expects to qualify in the current fiscal year, as a real estate investment trust, or REIT, under the Internal Revenue Code of 1986, as amended, or the Code, and operates as a self-administered, self-managed REIT. A REIT is a legal entity that holds real estate interests and, through payments of dividends to stockholders, is permitted to reduce or avoid the payment of Federal income taxes at the corporate level. Unless the context requires otherwise, all references to we, our and us means the Company and all entities owned or controlled by the Company, including the operating partnership.

Substantially all of our assets are held by, and our operations are conducted through, the operating partnership. The Company is the sole managing general partner of the operating partnership. As of September 30, 2007, minority investors held, in the aggregate, a 3.8% limited partnership interest in the operating partnership.

On January 25, 2007, we completed the acquisition, or the Reckson Merger, of all of the outstanding shares of common stock of Reckson Associates Realty Corp., or Reckson, pursuant to the terms of the Agreement and Plan of Merger, dated as of August 3, 2006, as amended, the Merger Agreement, among SL Green, Wyoming Acquisition Corp., or Wyoming, Wyoming Acquisition GP LLC, Wyoming Acquisition Partnership LP, Reckson and Reckson Operating Partnership, L.P., or ROP. Pursuant to the terms of the Merger Agreement, each of the issued and outstanding shares of common stock of Reckson were converted into (i) $31.68 in cash, (ii) 0.10387 of a share of the common stock, par value $0.01 per share, of SL Green and (iii) a prorated dividend in an amount equal to approximately $0.0977 in cash. We also assumed an aggregate of approximately $226.3 million of Reckson mortgage debt, approximately $287.5 million of Reckson convertible public debt and approximately $967.8 million of Reckson public unsecured notes. ROP is a subsidiary of our operating partnership.

On January 25, 2007, we completed the sale, or Asset Sale, of certain assets of ROP to an asset purchasing venture led by certain of Reckson s former executive management, or the Buyer, for a total consideration of approximately $2.0 billion. SL Green caused ROP to transfer the following assets to the Buyer in the Asset Sale: (1) certain real property assets and/or entities owning such real property assets, in either case, of ROP and 100% of certain loans secured by real property, all of which are located in Long Island, New York; (2) certain real property assets and/or entities owning such real property assets, in either case, of ROP located in White Plains and Harrison, New York; (3) all of the real property assets and/or entities owning 100% of the interests in such real property assets, in either case, of ROP located in New Jersey; (4) the entity owning a 25% interest in Reckson Australia Operating Company LLC, Reckson s Australian management company (including its Australian licensed responsible entity), and other related entities, and ROP and ROP subsidiaries rights to and interests in, all related contracts and assets, including, without limitation, property management and leasing, construction services and asset management contracts and services contracts; (5) the direct or indirect interest of Reckson in Reckson Asset Partners, LLC, an affiliate of RSVP and all of ROP s rights in and to certain loans made by ROP to Frontline Capital Group, the bankrupt parent of RSVP, and other related entities, which will be purchased by a 50/50 joint venture with an affiliate of SL Green; (6) a 50% participation interest in certain loans made by a subsidiary of ROP that are secured by four real property assets located in Long Island, New York; and (7) 100% of certain loans secured by real property located in White Plains and New Rochelle, New York.

As of September 30, 2007, we owned the following interests in commercial office properties in the New York metro area, primarily in midtown Manhattan, a borough of New York City, or Manhattan. Our investments in the New York metro area also include investments in Brooklyn, Queens, Long Island, Westchester County, Connecticut and New Jersey, which are collectively known as the Suburban assets:

Location	Ownership	Number of Properties	Square Feet	Weighted Average Occupancy (1)
Manhattan	Consolidated properties	24	14,889,200	97.5%
	Unconsolidated properties	7	7,464,000	96.0%
Suburban	Consolidated properties	30	4,925,800	91.1%
	Unconsolidated properties	6	2,941,700	93.8%
		67	30,220,700	

(1) The weighted average occupancy represents the total leased square feet divided by total available square feet.

7

SL Green Realty Corp.

Notes to Condensed Consolidated Financial Statements

(Unaudited)

September 30, 2007

We also own investments in retail properties (10) encompassing approximately 394,000 square feet, development property (one) encompassing approximately 85,000 square feet and land interests (two). In addition, we manage three office properties owned by third parties and affiliated companies encompassing approximately 1.0 million rentable square feet.

As of September 30, 2007, we also owned approximately 25% of the outstanding common stock of Gramercy Capital Corp. (NYSE: GKK), or Gramercy, as well as 65.83 units of the Class B limited partner interest in Gramercy s operating partnership. See Note 6.

Partnership Agreement

In accordance with the partnership agreement of the Operating Partnership, or the Operating Partnership Agreement, we allocate all distributions and profits and losses in proportion to the percentage ownership interests of the respective partners. As the managing general partner of the Operating Partnership, we are required to take such reasonable efforts, as determined by us in our sole discretion, to cause the Operating Partnership to distribute sufficient amounts to enable the payment of sufficient dividends by us to avoid any Federal income or excise tax at the Company level. Under the Operating Partnership Agreement each limited partner will have the right to redeem units of limited partnership interest for cash, or if we so elect, shares of our common stock on a one-for-one basis. In addition, we are prohibited from selling 673 First Avenue and 470 Park Avenue South before August 2009, under certain circumstances.

Basis of Quarterly Presentation

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and notes required by accounting principles generally accepted in the United States for complete financial statements. In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for fair presentation have been included. The 2007 operating results for the period presented are not necessarily indicative of the results that may be expected for the year ending December 31, 2007. These financial statements should be read in conjunction with the financial statements and accompanying notes included in our annual report on Form 10-K for the year ended December 31, 2006.

The balance sheet at December 31, 2006 has been derived from the audited financial statements at that date but does not include all the information and footnotes required by accounting principles generally accepted in the United States for complete financial statements.

2. Significant Accounting Policies

Principles of Consolidation

The consolidated financial statements include our accounts and those of our subsidiaries, which are wholly-owned or controlled by us or entities which are variable interest entities in which we are the primary beneficiary under the Financial Accounting Standards Board, or FASB, Interpretation No. 46R, or FIN 46R, Consolidation of Variable Interest Entities - an Interpretation of ARB No. 51. See Note 5, Note 6 and Note 7. Entities which we do not control and entities which are variable interest entities, but where we are not the primary beneficiary are accounted

for under the equity method. We consolidate variable interest entities in which we are determined to be the primary beneficiary. The interest that we do not own is included in Minority Interest-Other Partnerships on the balance sheet. All significant intercompany balances and transactions have been eliminated.

In June 2005, the FASB ratified the consensus in EITF Issue No. 04-5, or EITF 04-5, Determining Whether a General Partner, or the General Partners as a Group, Controls a Limited Partnership or Similar Entity When the Limited Partners Have Certain Rights, which provides guidance in determining whether a general partner controls a limited partnership. EITF 04-5 states that the general partner in a limited partnership is presumed to control that limited partnership. The presumption may be overcome if the limited partners have either (1) the substantive ability to dissolve the limited partnership or otherwise remove the general partner without cause or (2) substantive participating rights, which provide the limited partners with the ability to effectively participate in significant decisions that would be expected to be made in the ordinary course of the limited partnership s business and thereby preclude the general partner from exercising unilateral control over the partnership. Our adoption of EITF 04-5 did not have any effect on net income or stockholders equity.

We consolidate our investment in 919 Third Avenue as we own a 51% controlling interest.

If we retain an interest in the buyer and provide certain guarantees we account for such transaction as a profit-sharing arrangement. For transactions treated as profit-sharing arrangements, we record a profit-sharing obligation for the amount of equity contributed by the other partner and continue to keep the property and related accounts recorded on our books. Any debt assumed by the buyer would continue to be recorded on our books. The results of operations of the property, net of expenses other than depreciation (net operating

SL Green Realty Corp.

Notes to Condensed Consolidated Financial Statements

(Unaudited)

September 30, 2007

income), are allocated to the other partner for its percentage interest and reflected as co-venture expense in our consolidated financial statements. In future periods, a sale is recorded and profit is recognized when the remaining maximum exposure to loss is reduced below the amount of gain deferred.

Investment in Commercial Real Estate Properties

In accordance with SFAS No. 141, Business Combinations, we allocate the purchase price of real estate to land and building and, if determined to be material, intangibles, such as the value of above, below and at-market leases and origination costs associated with the in-place leases. We depreciate the amount allocated to building and other intangible assets over their estimated useful lives, which generally range from three to 40 years. The values of the above and below market leases are amortized and recorded as either an increase (in the case of below market leases) or a decrease (in the case of above market leases) to rental income over the remaining term of the associated lease. The value associated with in-place leases and tenant relationships are amortized over the expected term of the relationship, which includes an estimated probability of the lease renewal, and its estimated term. If a tenant vacates its space prior to the contractual termination of the lease and no rental payments are being made on the lease, any unamortized balance of the related intangible will be written off. The tenant improvements and origination costs are amortized as an expense over the remaining life of the lease (or charged against earnings if the lease is terminated prior to its contractual expiration date). We assess fair value of the leases based on estimated cash flow projections that utilize appropriate discount and capitalization rates and available market information. Estimates of future cash flows are based on a number of factors including the historical operating results, known trends, and market/economic conditions that may affect the property.

We have not yet obtained all the information necessary to finalize our estimates to complete the purchase price allocations in accordance with SFAS No. 141 related to the Reckson Merger. The purchase price allocations will be finalized once the information we identified has been received, which should not be longer than one year from the date of acquisition.

As a result of our evaluations, under SFAS No. 141, of acquisitions made, we recognized an increase of approximately $1.7 million, $3.0 million, $591,000 and $1.5 million in rental revenue for the three and nine months ended September 30, 2007 and 2006, respectively, for the amortization of below market leases and a reduction in lease origination costs, resulting from the reallocation of the purchase price of the applicable properties. We recognized a reduction in interest expense for the amortization of the above market rate debt of approximately $1.7 million, $4.4 million, $196,000 and $577,000 for the three and nine months ended September 30, 2007 and 2006, respectively.

Scheduled amortization on existing intangible liabilities on real estate investments is as follows (in thousands):

		Intangible Liabilities
2007	$	652
2008		2,605
2009		2,356
2010		1,857
2011		1,540
Thereafter		2,753
	$	11,763

Income Taxes

We are taxed as a REIT under Section 856(c) of the Code. As a REIT, we generally are not subject to Federal income tax. To maintain our qualification as a REIT, we must distribute at least 90% of our REIT taxable income to our stockholders and meet certain other requirements. If we fail to qualify as a REIT in any taxable year, we will be subject to Federal income tax on our taxable income at regular corporate rates. We may also be subject to certain state, local and franchise taxes. Under certain circumstances, Federal income and excise taxes may be due on our undistributed taxable income.

Pursuant to amendments to the Code that became effective January 1, 2001, we have elected or may elect to treat certain of our existing or newly created corporate subsidiaries as taxable REIT subsidiaries, or TRS. In general, a TRS of ours may perform non-customary services for our tenants, hold assets that we cannot hold directly and generally engage in any real estate or non-real estate related business. A TRS is subject to corporate Federal income tax. Our TRS s generate income, resulting in Federal income tax liability for these entities. Our TRS s paid approximately $0.8 million and $1.3 million in estimated federal, state and local taxes during the nine months ended September 30, 2007 and 2006.

SL Green Realty Corp.

Notes to Condensed Consolidated Financial Statements

(Unaudited)

September 30, 2007

Stock-Based Employee Compensation Plans

We have a stock-based employee compensation plan, described more fully in Note 12. We account for this plan under SFAS No. 123 Shared Based Payment, revised, or SFAS No. 123-R.

The Black-Scholes option-pricing model was developed for use in estimating the fair value of traded options, which have no vesting restrictions and are fully transferable. In addition, option valuation models require the input of highly subjective assumptions including the expected stock price volatility. Because our plan has characteristics significantly different from those of traded options and because changes in the subjective input assumptions can materially affect the fair value estimate, in our opinion, the existing models do not necessarily provide a reliable single measure of the fair value of our employee stock options.

Compensation cost for stock options, if any, is recognized ratably over the vesting period of the award. Our policy is to grant options with an exercise price equal to the quoted closing market price of our stock on the grant date. Awards of stock options or restricted stock are expensed as compensation on a current basis over the benefit period.

The fair value of each stock option granted is estimated on the date of grant using the Black-Scholes option pricing model with the following weighted average assumptions for grants during the nine months ended September 30, 2007 and 2006.

	2007	**2006**
Dividend yield	2.1%	2.40%
Expected life of option	5 years	5 years
Risk-free interest rate	4.63%	4.80%
Expected stock price volatility	21.61%	16.61%

The following table illustrates the effect on net income available to common stockholders and earnings per share if the fair value method had been applied to all outstanding and unvested stock options for the three and nine months ended September 30, 2007 and 2006 (in thousands, except per share amounts):

	Three months Ended September 30, 2007	**2006**	**Nine months Ended September 30, 2007**	**2006**
Net income available to common stockholders	$ 98,568	$ 118,689	$ 511,876	$ 171,481
Deduct stock option expense-all awards	(2,021)	(670)	(5,675)	(2,117)
Add back stock option expense included in net income	1,821	416	5,101	1,367
Allocation of compensation expense to minority interest	77	31	231	104

Pro forma net income available to common stockholders	$	98,445	$	118,466	$	511,533	$	170,835
Basic earnings per common share-historical	$	1.66	$	2.62	$	8.73	$	3.92
Basic earnings per common share-pro forma	$	1.66	$	2.62	$	8.72	$	3.91
Diluted earnings per common share-historical	$	1.64	$	2.53	$	8.62	$	3.78
Diluted earnings per common share-pro forma	$	1.64	$	2.52	$	8.61	$	3.76

The effects of applying SFAS No. 123-R in this pro forma disclosure are not indicative of the impact future awards may have on our results of operations.

Earnings Per Share

We present both basic and diluted earnings per share, or EPS. Basic EPS excludes dilution and is computed by dividing net income available to common stockholders by the weighted average number of common shares outstanding during the period. Diluted EPS reflects the potential dilution that could occur if securities or other contracts to issue common stock were exercised or converted into common stock, where such exercise or conversion would result in a lower EPS amount. This also includes units of limited partnership interest.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

SL Green Realty Corp.

Notes to Condensed Consolidated Financial Statements

(Unaudited)

September 30, 2007

Concentrations of Credit Risk

Financial instruments that potentially subject us to concentrations of credit risk consist primarily of cash investments, structured finance investments and accounts receivable. We place our cash investments in excess of insured amounts with high quality financial institutions. The collateral securing our structured finance investments is primarily located in the greater New York area. (See Note 5). We perform ongoing credit evaluations of our tenants and require certain tenants to provide security deposits or letters of credit. Though these security deposits and letters of credit are insufficient to meet the total value of a tenant s lease obligation, they are a measure of good faith and a source of funds to offset the economic costs associated with lost rent and the costs associated with re-tenanting the space. Although the properties in our real estate portfolio are primarily located in Manhattan, we also have properties located in Westchester County, Connecticut, New Jersey, Brooklyn, Queens and Long Island. The tenants located in our buildings operate in various industries. Other than one tenant at One Madison Avenue who contributed approximately 6.2% of our annualized rent, no other tenant in the portfolio contributed more than 5.2% of our annualized rent, including our share of joint venture annualized rent, at September 30, 2007.

Approximately 6.9%, 6.4%, 6.0%, 5.9% and 5.7% of our annualized rent, including our share of joint venture annualized rent, was attributable to 1221 Avenue of the Americas, One Madison Avenue, 1515 Broadway, 420 Lexington Avenue and 1185 Avenue of the Americas, respectively, for the quarter ended September 30, 2007. Two borrowers accounted for more than 10.0% of the revenue earned on structured finance investments during the three months ended September 30, 2007.

Reclassification

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

New Accounting Pronouncements

In July 2006, the FASB issued Interpretation No. 48, Accounting for Uncertainty in Income Taxes, or FIN 48. This interpretation, among other things, creates a two-step approach for evaluating uncertain tax positions. Recognition (step one) occurs when an enterprise concludes that a tax position, based solely on its technical merits, is more-likely-than-not to be sustained upon examination. Measurement (step two) determines the amount of benefit that more-likely-than-not will be realized upon settlement. Derecognition of a tax position that was previously recognized would occur when a company subsequently determines that a tax position no longer meets the more-likely-than-not threshold of being sustained. FIN 48 specifically prohibits the use of a valuation allowance as a substitute for derecognition of tax positions, and it has expanded disclosure requirements. We adopted FIN 48 on January 1, 2007. The adoption had no impact on our consolidated financial statements.

3. Property Acquisitions

In January 2007, we acquired Reckson for approximately $6.0 billion, inclusive of transaction costs. Simultaneously, we sold approximately $2.0 billion of the Reckson assets to an asset purchasing venture led by certain of Reckson s former executive management. The transaction included the acquisition of 30 properties encompassing approximately 9.2 million square feet, of which five properties encompassing approximately 4.2 million square feet are located in Manhattan.

In January 2007, we acquired 300 Main Street in Stamford, Connecticut and 399 Knollwood Road in White Plains, New York for approximately $46.6 million, from affiliates of RPW Group. These commercial office buildings encompass 275,000 square feet, inclusive of 50,000 square feet of garage parking at 300 Main Street.

In April 2007, we completed the acquisition of 331 Madison Avenue and 48 East 43rd Street for a total of $73.0 million. Both 331 Madison Avenue and 48 East 43rd Street are located adjacent to 317 Madison Avenue, a property that SL Green acquired in 2001. 331 Madison Avenue is an approximately 92,000-square foot, 14-story office building. The 22,850-square-foot 48 East 43rd Street property is a seven-story loft building that was later converted to office use.

In April 2007, we acquired the fee interest in 333 West 34th Street for approximately $183.0 million from Citigroup Global Markets Inc. The property encompasses approximately 345,000 square feet. At closing, Citigroup entered into a full building triple net lease through December 2009.

SL Green Realty Corp.

Notes to Condensed Consolidated Financial Statements

(Unaudited)

September 30, 2007

In June 2007, we, through a joint venture, acquired the second and third floors in the office tower at 717 Fifth Avenue for approximately $16.9 million.

In June 2007, we acquired 1010 Washington Avenue, CT, a 143,400 square foot office tower. The fee interest was purchased for approximately $38.0 million.

In June 2007, we acquired an office property located at 500 West Putnam Avenue in Greenwich, Connecticut. The Greenwich property, a four-story, 121,500-square-foot office building, was purchased for approximately $56.0 million.

In August 2007, we acquired Gramercy s 45% equity interest in the joint venture that owns the 1,176,000 square foot office building located at One Madison Avenue, or One Madison, for approximately $147.2 million and the assumption of their proportionate share of the debt encumbering the property of approximately $305.3 million. We previously acquired our 55% interest in the property in April 2005.

In August 2007, we, through a joint venture with Jeff Sutton, acquired the fee interest in a building at 180 Broadway for an aggregate purchase price of $13.7 million, excluding closing costs. The building comprises approximately 24,307 square feet. We own approximately 50% of the equity in the joint venture. We loaned approximately $6.8 million to Jeff Sutton to fund a portion of his equity. This loan is secured by a pledge of Jeff Sutton s partnership interest in the joint venture. As we have been designated as the primary beneficiary of the joint venture under FIN 46(R), we have consolidated the accounts of the joint venture.

Pro Forma

The following table (in thousands, except per share amounts) summarizes, on an unaudited pro forma basis, our combined results of operations for the nine months ended September 30, 2007 and 2006 as though the acquisitions of 521 Fifth Avenue (March 2006), the investment in 609 Fifth Avenue (June 2006), the July and November 2006 common stock offerings as well as the Reckson Merger and the acquisition of the 45% interest in One Madison were completed on January 1, 2006. The supplemental pro forma operating data is not necessarily indicative of what the actual results of operations would have been assuming the transactions had been completed as set forth above, nor do they purport to represent our results of operations for future periods. In addition, the following supplemental pro forma operating data does not present the sale of assets through September 30, 2007. We accounted for the acquisition of assets utilizing the purchase method of accounting.

	2007	2006
Pro forma revenues	$ 877,763	$ 729,480
Pro forma net income	$ 500,950	$ 121,776

Pro forma earnings per common share-basic	$	8.44	$	2.05
Pro forma earnings per common share and common share equivalents-diluted	$	8.34	$	2.03
Pro forma common shares-basic		59,339		59,296
Pro forma common share and common share equivalents-diluted		62,605		63,028

4. Property Dispositions and Assets Held for Sale

In February 2007, we sold the fee interests in 70 West 36th Street for approximately $61.5 million, excluding closing costs. The property is approximately 151,000 square feet. We recognized a gain on sale of approximately $47.2 million.

In June 2007, we sold our office condominium interest in floors six through eighteen at 110 East 42nd Street for approximately $111.5 million, excluding closing costs. The property encompasses approximately 181,000 square feet. The sale does not include approximately 112,000 square feet of developable air rights, which we retained along with the ability to transfer these rights off-site. We recognized a gain on sale of approximately $84.0 million.

In June 2007, we sold our condominium interests in 125 Broad Street for approximately $273.0 million, excluding closing costs. The property is approximately 525,000 square feet. We recognized a gain on sale of approximately $167.9 million.

In July 2007, we sold our property located at 292 Madison Avenue for approximately $140.0 million, excluding closing costs. The property encompasses approximately 187,000 square feet. The sale generated a gain of approximately $99.8 million, of which $15.7 million was deferred as a result of financing provided to the buyer by Gramercy.

SL Green Realty Corp.

Notes to Condensed Consolidated Financial Statements

(Unaudited)

September 30, 2007

In July 2007, we sold an 85% interest in 1372 Broadway, New York, to Wachovia Corporation (NYSE:WB), for approximately $284.8 million. This sale generated a gain of $254.4 million. We retained a 15% interest in the property. We have the ability to earn incentive fees based on the financial performance of the property. We are accounting for this property as a profit sharing arrangement. We deferred recognition of the gain on sale due to our continuing involvement with the property and because we have an option to reacquire the property under certain limited circumstances. As the property was unencumbered at the time of sale, no debt is recorded on our books. The co-venture expense is included in operating expenses in the Consolidated Statements of Income. The equity contributed by our partner is included in Deferred Revenue on our Consolidated Balance Sheets. In July 2007, the joint venture that now owns 1372 Broadway closed on a $235.2 million, five-year, floating rate mortgage. The mortgage carries an interest rate of 125 basis points over the 30-day LIBOR. This mortgage is recorded off-balance sheet.

At September 30, 2007, discontinued operations included the results of operations of real estate assets sold prior to that date. This included 286 and 290 Madison Avenue, sold in July 2006, 1140 Avenue of the Americas, sold in August 2006, 125 Broad Street and 110 East 42nd Street sold in June 2007, and 292 Madison Avenue, which was sold in August 2007.

The following table summarizes income from discontinued operations (net of minority interest) and the related realized gain on sale of discontinued operations (net of minority interest) for the three and nine months ended September 30, 2007 and 2006 (in thousands).

	Three months Ended September 30,		Nine months Ended September 30,	
	2007	2006	**2007**	2006
Revenues				
Rental revenue	**$ 380**	$ 9,157	**$ 14,410**	$ 30,372
Escalation and reimbursement revenues	**147**	2,306	**3,211**	7,091
Other income		155	**70**	383
Total revenues	**527**	11,618	**17,691**	37,846
Operating expense	**169**	4,006	**6,448**	12,693
Real estate taxes	**79**	1,599	**2,441**	5,804
Ground rent		75		249
Interest		1,377	**2,535**	4,110
Depreciation and amortization		1,269	**1,502**	4,398
Total expenses	**248**	8,326	**12,926**	27,254
Income from discontinued operations	**279**	3,292	**4,765**	10,592
Gain on disposition of discontinued operations	**83,388**	99,268	**382,568**	99,268
Minority interest in operating partnership	**(3,185)**	(4,791)	**(15,754)**	(5,376)
Income from discontinued operations, net of minority interest	**$ 80,482**	$ 97,769	**$ 371,579**	$ 104,484

5. Structured Finance Investments

During the nine months ended September 30, 2007 and 2006, we originated approximately $449.8 million and $143.2 million in structured finance and preferred equity investments (net of discount), respectively. In addition, in 2007 we assumed approximately $136.9 million of

structured finance investments as part of the Reckson Merger. There were approximately $348.6 million and $195.7 million in repayments and participations during those periods, respectively. At September 30, 2007 and December 31, 2006 all loans were performing in accordance with the terms of the loan agreements.

Preferred equity and investment income consists of the following (in thousands):

	Three months Ended September 30, 2007	2006	Nine months Ended September 30, 2007	2006
Preferred Equity and Investment income	**$ 20,284**	$ 13,571	**$ 63,437**	$ 42,977
Interest income	**1,572**	2,407	**7,571**	3,785
Total	**$ 21,856**	$ 15,978	**$ 71,008**	$ 46,762

13

SL Green Realty Corp.

Notes to Condensed Consolidated Financial Statements

(Unaudited)

September 30, 2007

As of September 30, 2007 and December 31, 2006, we held the following structured finance investments, excluding preferred equity investments, with an aggregate weighted average current yield of approximately 10.4% (in thousands):

Loan Type	Gross Investment	Senior Financing	2007 Principal Outstanding	2006 Principal Outstanding	Initial Maturity Date
Mezzanine Loan [1]	$ 3,500	$ 15,000	**$ 3,500**	$ 3,500	September 2021
Mezzanine Loan [1] [2]	85,000	225,000	**91,496**	31,226	December 2020
Mezzanine Loan [1]	28,500	-	**28,500**	28,500	August 2008
Mezzanine Loan [1]	60,000	205,000	**58,130**	58,013	February 2016
Mezzanine Loan [1]	25,000	200,000	**25,000**	25,000	May 2016
Mezzanine Loan [1]	35,000	165,000	**33,170**	33,082	October 2016
Mezzanine Loan [1] [3]	75,000	4,200,000	**64,706**	64,100	December 2016
Mezzanine Loan [1]	15,000		**15,000**		February 2010
Mezzanine Loan [1] [5]	10,000	4,500	**10,000**		October 2007
Mezzanine Loan [3]	9,753	30,000	**9,753**		February 2009
Mezzanine Loan [1] [2]	25,000	314,830	**27,398**		November 2009
Mezzanine Loan	16,000	90,000	**15,639**		August 2017
Mezzanine Loan [3]	12,500	210,000	**12,500**		August 2008
Mezzanine Loan [3]	12,500	357,616	**12,500**		September 2009
Mezzanine Loan [1]	1,000		**1,000**		January 2010
Mezzanine Loan	500		**500**		December 2009
Mezzanine Loan [1]	14,189	15,661	**9,938**		April 2008
Mezzanine Loan [1]	67,000	1,139,000	**66,027**		March 2017
Junior Participation [1]	37,500	477,500	**37,500**	37,500	January 2014
Junior Participation [1] [4]	4,000	44,000	**3,893**	3,911	August 2010
Junior Participation [1]	11,000	53,000	**11,000**	11,000	November 2009
Junior Participation [1]	21,000	115,000	**21,000**	21,000	November 2009
Junior Participation	12,000	73,000	**12,000**	12,000	December 2007
	$ 580,942	$ 7,934,107	**$ 570,150**	$ 328,832	

(1) This is a fixed rate loan.

(2) The difference between the pay and accrual rates is included as an addition to the principal balance outstanding.

(3) Gramercy holds a pari passu interest in this asset.

(4) This is an amortizing loan.

(5) This loan was repaid in October 2007.

Preferred Equity Investments

As of September 30, 2007 and December 31, 2006, we held the following preferred equity investments with an aggregate weighted average current yield of approximately 10.9% (in thousands):

Type	Gross Investment	Senior Financing	2007 Amount Outstanding	2006 Amount Outstanding	Initial Mandatory Redemption
Preferred equity[1]	$ 75,000	$ 69,724	**$ 3,694**	$ 3,694	July 2014
Preferred equity[1]	15,000	2,350,000	**15,000**	15,000	February 2015
Preferred equity[1] [2]	51,000	224,000	**51,000**	51,000	February 2014
Preferred equity[1]	7,000	75,000	**7,000**	7,000	August 2015
Preferred equity	34,120	190,300	**29,240**		March 2010
Preferred equity[1]	7,000		**7,000**	7,000	June 2009
Preferred equity[3]				32,500	
	$ 189,120	$ 2,909,024	**$ 112,934**	$ 116,194	

(1) This is a fixed rate investment.

(2) Gramercy holds a mezzanine loan on the underlying asset.

(3) Gramercy held a pari passu preferred equity investment in this asset. This investment was redeemed in July 2007.

14

SL Green Realty Corp.

Notes to Condensed Consolidated Financial Statements

(Unaudited)

September 30, 2007

6. Investment in Unconsolidated Joint Ventures

We have investments in several real estate joint ventures with various partners, including The Rockefeller Group International Inc., or RGII, The City Investment Fund, or CIF, SITQ Immobilier, a subsidiary of Caisse de depot et placement du Quebec, or SITQ, a fund managed by JP Morgan Investment Management, or JP Morgan, Prudential Real Estate Investors, or Prudential, Onyx Equities, or Onyx, The Witkoff Group, or Witkoff, Credit Suisse Securities (USA) LLC, or Credit Suisse, Mack-Cali Realty Corporation, or Mack-Cali, Jeff Sutton, or Sutton, and Gramercy, as well as private investors. As we do not control these joint ventures, we account for them under the equity method of accounting.

We assess the accounting treatment for each joint venture on a stand-alone basis. This includes a review of each joint venture or partnership LLC agreement to determine which party has what rights and whether those rights are protective or participating under EITF 04-5 and EITF 96-16. In situations where our minority partner approves the annual budget, receives a detailed monthly reporting package from us, meets with us on a quarterly basis to review the results of the joint venture, reviews and approves the joint venture s tax return before filing, and approves all leases that cover more than a nominal amount of space relative to the total rentable space at each property we do not consolidate the joint venture as we consider these to be substantive participation rights. Our joint venture agreements also contain certain protective rights such as the requirement of partner approval to sell, finance or refinance the property and the payment of capital expenditures and operating expenditures outside of the approved budget or operating plan.

SL Green Realty Corp.

Notes to Condensed Consolidated Financial Statements

(Unaudited)

September 30, 2007

The table below provides general information on each joint venture as of September 30, 2007 (in thousands):

Property	Partner	Ownership Interest	Economic Interest	Square Feet	Acquired		Acquisition Price (1)
1221 Avenue of the Americas [2]	RGII	45.00%	45.00%	2,550	12/03	$	1,000,000
1250 Broadway[3]	SITQ	55.00%	66.18%	670	08/99	$	121,500
1515 Broadway[4]	SITQ	55.00%	68.45%	1,750	05/02	$	483,500
100 Park Avenue	Prudential	49.90%	49.90%	834	02/00	$	95,800
379 West Broadway	Sutton	45.00%	45.00%	62	12/05	$	19,750
Mack-Green joint venture	Mack-Cali	48.00%	48.00%	900	05/06	$	127,500
21 West 34th Street[5]	Sutton	50.00%	50.00%	30	07/05	$	22,400
800 Third Avenue[6]	Private Investors	47.34%	47.34%	526	12/06	$	285,000
521 Fifth Avenue	CIF	50.10%	50.10%	460	12/06	$	240,000
One Court Square	JP Morgan	30.00%	30.00%	1,402	01/07	$	533,500
1604-1610 Broadway[7]	Onyx/Sutton	45.00%	63.00%	30	11/05	$	4,400
1745 Broadway[8]	Witkoff/SITQ	32.26%	32.26%	674	04/07	$	520,000
1 and 2 Jericho Plaza	Onyx/Credit Suisse	20.26%	20.26%	640	04/07	$	210,000
2 Herald Square[9]	Gramercy	55.00%	55.00%	354	04/07	$	225,000
885 Third Avenue[10]	Gramercy	55.00%	55.00%	607	07/07	$	317,000
16 Court Street	CIF	35.00%	35.00%	318	07/07	$	107,500
The Meadows	Onyx	25.00%	25.00%	582	09/07	$	111,500

(1) Acquisition price represents the actual or implied purchase price for the joint venture.

(2) We acquired our interest from The McGraw-Hill Companies, or MHC. MHC is a tenant at the property and accounted for approximately 15.3% of property s annualized rent at September 30, 2007. We do not manage this joint venture.

(3) As a result of exceeding the performance thresholds set forth in our joint venture agreement with SITQ, our economic stake in the property was increased to 66.175% in August 2006.

(4) Under a tax protection agreement established to protect the limited partners of the partnership that transferred 1515 Broadway to the joint venture, the joint venture has agreed not to adversely affect the limited partners tax positions before December 2011. One tenant, whose leases end between 2008 and 2015, represents approximately 86.1% of this joint venture s annualized rent at September 30, 2007.

(5) Effective November 2006, we deconsolidated this investment. As a result of the recapitalization of the property, we were no longer the primary beneficiary under FIN 46(R). Both partners had the same amount of equity at risk and neither partner controlled the joint venture.

(6) We invested approximately $109.5 million in this asset through the origination of a loan secured by up to 47% of the interests in the property s ownership, with an option to convert the loan to an equity interest. Certain existing members have the right to re-acquire approximately 4% of the property s equity.

(7) Effective April 1, 2007, we deconsolidated this investment. As a result of the recapitalization of the property, we were no longer the primary beneficiary under FIN 46(R). Both partners had the same amount of equity at risk and neither partner controlled the joint venture.

(8) We have the ability to syndicate our interest down to 14.79%.

(9) We, along with Gramercy, together as tenants-in-common, acquired a fee interest in 2 Herald Square. The fee interest is subject to a long-term operating lease.

(10) We, along with Gramercy, together as tenants-in-common, acquired a fee and leasehold interest in 885 Third Avenue. The fee and leasehold interests are subject to a long-term operating lease.

SL Green Realty Corp.

Notes to Condensed Consolidated Financial Statements

(Unaudited)

September 30, 2007

In March 2007, a joint venture between our company, SITQ and SEB Immobilier Investment GmbH sold One Park Avenue for $550.0 million. We received approximately $108.7 million in proceeds from the sale, approximately $77.2 million of which represented an incentive distribution under our joint venture arrangement with SEB and the balance of approximately $31.5 million was recognized as gain on sale.

In June 2007, a joint venture between our company, Ian Schrager, RFR Holding LLC and Credit Suisse, sold Five Madison Avenue-Clock Tower for $200.0 million. We realized an incentive distribution of approximately $5.5 million upon the winding down of the joint venture.

In August 2007, we acquired Gramercy s 45% equity interest in the joint venture that owns One Madison Avenue for approximately $147.2 million (and the assumption of Gramercy s proportionate share of the debt encumbering the property of approximately $305.3 million). In August 2007, an affiliate of ours loaned approximately $146.7 million to GKK Capital L.P. This loan was to be repaid with interest at an annual rate of 5.80% on the earlier of September 1, 2007 or the closing of our purchase from Gramercy of its 45% interest in One Madison Avenue. As a result of our acquisition of Gramercy's interest in August 2007, the loan was repaid with interest on such date. As a result of the acquisition of this interest we own 100% of One Madison Avenue. We accounted for our share of the incentive fee earned from Gramercy of approximately $19.0 million as well as our proportionate share of the gain on sale of approximately $18.3 million as a reduction in the basis of One Madison. See Note 3.

We finance our joint ventures with non-recourse debt. The first mortgage notes payable collateralized by the respective joint venture properties and assignment of leases at September 30, 2007 and December 31, 2006, respectively, are as follows (in thousands):

Property	Maturity date	Interest rate(1)	2007	2006
1221 Avenue of the Americas [2]	12/2010	5.86%	$ 170,000	$ 170,000
1250 Broadway [3]	08/2008	6.12%	$ 115,000	$ 115,000
1515 Broadway [4]	11/2008	6.23%	$ 625,000	$ 625,000
100 Park Avenue	11/2015	6.52%	$ 175,000	$ 175,000
379 West Broadway	01/2010	7.40%	$ 20,750	$ 12,872
Mack-Green joint venture [5]	08/2014	7.86%	$ 102,418	$ 102,519
21 West 34th Street	12/2016	5.75%	$ 100,000	$ 100,000
800 Third Avenue	08/2008	5.95%	$ 20,910	$ 20,910
521 Fifth Avenue	04/2011	6.32%	$ 140,000	$ 140,000
One Court Square	12/2010	4.91%	$ 315,000	
2 Herald Square	04/2017	5.36%	$ 191,250	
1604-1610 Broadway	03/2012	5.66%	$ 27,000	
1745 Broadway	01/2017	5.68%	$ 340,000	
1 and 2 Jericho Plaza	03/2017	5.65%	$ 163,750	
885 Third Avenue	07/2017	6.26%	$ 267,650	
The Meadows	09/2012	7.21%	$ 81,265	

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(1) Interest rate represents the effective all-in weighted average interest rate for the quarter ended September 30, 2007.

(2) This loan has an interest rate based on the LIBOR plus 75 basis points. $65.0 million of this loan has been hedged through December 2010. The hedge fixed the LIBOR rate at 4.8%.

(3) The interest only loan carried an interest rate of 120 basis points over the 30-day LIBOR, but was reduced to 80 basis points over the 30-day LIBOR in December 2006. The loan is subject to two one-year as-of-right renewal extensions. The joint venture extended this loan for one year.

(4) The interest only loan carries an interest rate of 90 basis points over the 30-day LIBOR. The mortgage is subject to three one-year as-of-right renewal options. The joint venture extended this loan for one year.

(5) Comprised of $90.5 million variable rate debt that matures in May 2008 and $12.0 million fixed rate debt that matures in August 2014. Gramercy provided the variable rate debt.

We act as the operating partner and day-to-day manager for all our joint ventures, except for 1221 Avenue of the Americas, Mack-Green, 800 Third Avenue, 1 and 2 Jericho Plaza and The Meadows. We are entitled to receive fees for providing management, leasing, construction supervision and asset management services to our joint ventures. We earned approximately $4.4 million, $10.5 million, $2.7 million and $6.9 million from these services for the three and nine months ended September 30, 2007, and 2006, respectively. In addition, we have the ability to earn incentive fees based on the ultimate financial performance of certain of the joint venture properties.

SL Green Realty Corp.

Notes to Condensed Consolidated Financial Statements

(Unaudited)

September 30, 2007

Gramercy Capital Corp.

In April 2004, we formed Gramercy as a commercial real estate specialty finance company that focuses on the direct origination and acquisition of whole loans, subordinate interests in whole loans, mezzanine loans, preferred equity and net lease investments involving commercial properties throughout the United States. Gramercy also established a real estate securities business that focuses on the acquisition, trading and financing of commercial mortgage backed securities and other real estate related securities. Gramercy qualified as a REIT for federal income tax purposes and expects to qualify for its current fiscal year. In August 2004, Gramercy sold 12.5 million shares of common stock in its initial public offering at a price of $15.00 per share, for a total offering of $187.5 million. As part of the offering, which closed on August 2, 2004, we purchased 3,125,000 shares, or 25%, of Gramercy, for a total investment of approximately $46.9 million. During the term of Gramercy s amended and restated origination agreement, we have the right to purchase 25% of the shares in any future offering of Gramercy s common stock in order to maintain our percentage ownership interest in Gramercy. In September 2007, we purchased 1,206,250 shares, or 25%, of Gramercy s $125.4 million September offering of common stock, for a total investment of approximately $31.7 million. At September 30, 2007, we held 7,624,583 shares of Gramercy s common stock representing a total investment at book value of approximately $172.0 million. The market value of our investment in Gramercy was approximately $191.9 million at September 30, 2007. Effective November 7, 2007, our interest in Gramercy was reduced to approximately 21.96% as we did not participate in a $100 million offering by Gramercy in November 2007.

Gramercy is a variable interest entity, but we are not the primary beneficiary. Due to the significant influence we have over Gramercy, we account for our investment under the equity method of accounting.

In connection with Gramercy s initial public offering, GKK Manager LLC, or the Manager, an affiliate of ours, entered into a management agreement with Gramercy, which provided for an initial term through December 2007, with automatic one-year extension options and certain termination rights. In April 2006, Gramercy s board of directors approved, among other things, an extension of the management agreement through December 2009. Gramercy pays the Manager an annual management fee equal to 1.75% of their gross stockholders equity (as defined in the amended and restated management agreement), inclusive of the trust preferred securities. In addition, Gramercy also pays the Manager a collateral management fee (as defined in the amended management agreement). In connection with any and all collateralized debt obligations, or CDO s, formed, owned or controlled, directly or indirectly, by Gramercy, the Manager shall receive management, service and similar fees equal to (i) 0.25% per annum of the principal amount outstanding of bonds issued by a managed transitional CDO that are owned by third-party investors unaffiliated with Gramercy or the Manager, which CDO is structured to own loans secured by transitional properties, (ii) 0.15% per annum of the book value of the principal amount outstanding of bonds issued by a managed non-transitional CDO that are owned by third-party investors unaffiliated with Gramercy or the Manager, which CDO is structured to own loans secured by non-transitional properties, (iii) 0.10% per annum of the principal amount outstanding of bonds issued by a static CDO that are owned by third party investors unaffiliated with Gramercy or the Manager, which CDO is structured to own non-investment grade bonds, and (iv) 0.05% per annum of the principal amount outstanding of bonds issued by a static CDO that are owned by third-party investors unaffiliated with Gramercy or the Manager, which CDO is structured to own investment grade bonds. For the purposes of the management agreement, a managed transitional CDO means a CDO that is actively managed, has a reinvestment period and is structured to own debt collateral secured primarily by non-stabilized real estate assets that are expected to experience substantial net operating income growth, and a managed non-transitional CDO means a CDO that is actively managed, has a reinvestment period and is structured to own debt collateral secured primarily by stabilized real estate assets that are not expected to experience substantial net operating income growth. Both managed transitional and managed non-transitional CDO s may at any given time during the reinvestment period of the respective vehicles invest in and own non-debt collateral (in limited quantity) as defined by the respective indentures. For the three and nine months ended September 30, 2007 and 2006, we received an aggregate of approximately $3.3 million, $9.1

million, $2.7 million and $7.4 million, respectively, in fees under the management agreement and $1.3 million, $3.4 million, $0.8 million and $1.8 million under the collateral management agreement.

To provide an incentive for the Manager to enhance the value of Gramercy s common stock, we, along with the other holders of Class B limited partnership interests in Gramercy s operating partnership, are entitled to an incentive return payable through the Class B limited partner interests in Gramercy s operating partnership, equal to 25% of the amount by which funds from operations (as defined in Gramercy s amended and restated partnership agreement) plus certain accounting gains exceed the product of the weighted average stockholders equity of Gramercy multiplied by 9.5% (divided by 4 to adjust for quarterly calculations). We will record any distributions on the Class B limited partner interests as incentive distribution income in the period when earned and when receipt of such amounts have become probable and reasonably estimable in accordance with Gramercy s amended and restated partnership agreement as if such agreement had been terminated on that date. We earned approximately $3.9 million, $10.5 million, $1.8 million and $4.6 million under this agreement for the three and nine months ended September 30, 2007, and 2006, respectively. The 2007

SL Green Realty Corp.

Notes to Condensed Consolidated Financial Statements

(Unaudited)

September 30, 2007

incentive fees exclude approximately $19.0 million of incentive fees earned upon the sale of One Madison by Gramercy to us. We accounted for this incentive fee as a reduction of the basis in One Madison. Due to the control we have over the Manager, we consolidate the accounts of the Manager into ours.

In May 2005, our Compensation Committee approved long-term incentive performance awards pursuant to which certain of our officers and employees, including some of whom are our senior executive officers, were awarded a portion of the interests previously held by us in the Manager as well as in the Class B limited partner interests in Gramercy s operating partnership. These awards are dependent upon, among other things, tenure of employment and the performance by SL Green Realty Corp. of its investment in Gramercy. We recorded compensation expense of approximately $0.7 million, $2.1 million, $0.5 million and $1.2 million for the three and nine months ended September 30, 2007 and 2006, respectively, related to these awards. After giving effect to these awards, we own 65.83 units of the Class B limited partner interests and 65.83% of the Manager. The officers and employees who received these awards own 15.75 units of the Class B limited partner interests and 15.75% of the Manager.

Gramercy is obligated to reimburse the Manager for its costs incurred under an asset servicing agreement and an outsourcing agreement between the Manager and us. The asset servicing agreement, which was amended and restated in April 2006, provides for an annual fee payable to us of 0.05% of the book value of all Gramercy s credit tenant lease assets and non-investment grade bonds and 0.15% of the book value of all other Gramercy assets. We may reduce the asset-servicing fee for fees that Gramercy pays directly to outside servicers. The outsourcing agreement currently provides for a fee of $1.36 million per year, increasing 3% annually over the prior year. For the three and nine months ended September 30, 2007 and 2006, the Manager received an aggregate of approximately $1.4 million, $3.7 million, $1.0 million and $2.6 million, respectively, under the outsourcing and asset servicing agreements.

During the three months ended March 31, 2006, we paid our proportionate share of an advisory fee of approximately $162,500 to Gramercy in connection with a transaction.

All fees earned from Gramercy are included in other income in the Consolidated Statements of Income.

Effective May 1, 2005 Gramercy entered into a lease agreement with an affiliate of ours, for their corporate offices at 420 Lexington Avenue, New York, NY. The lease is for approximately five thousand square feet with an option to lease an additional approximately two thousand square feet and carries a term of ten year with rents of approximately $249,000 per annum for year one rising to $315,000 per annum in year ten.

See above for a discussion on Gramercy s tenancy-in-common interests along with us in 55 Corporate Drive, NJ, 2 Herald Square and 885 Third Avenue. See Notes 3 and 6 for information on the sale of Gramercy s interest in One Madison to us. See Note 5 for information of our structured finance investments in which Gramercy also holds an interest.

The condensed combined balance sheets for the unconsolidated joint ventures, including Gramercy, at September 30, 2007 and December 31, 2006, are as follows (in thousands):

	September 30, 2007	December 31, 2006
Assets		
Commercial real estate property, net	**$ 4,662,763**	$ 3,760,477
Structured finance investments	**3,271,777**	2,144,151
Other assets	**1,067,524**	783,754
Total assets	**$ 9,002,064**	$ 6,688,382
Liabilities and members equity		
Mortgages payable	**$ 3,008,617**	$ 2,605,023
Other loans	**3,204,304**	2,156,662
Other liabilities	**299,112**	141,504
Members equity	**2,490,031**	1,785,193
Total liabilities and members equity	**$ 9,002,064**	$ 6,688,382
Company s net investment in unconsolidated joint ventures	**$ 886,672**	$ 686,069

SL Green Realty Corp.

Notes to Condensed Consolidated Financial Statements

(Unaudited)

September 30, 2007

The condensed combined statements of operations for the unconsolidated joint ventures, including Gramercy, from acquisition date through September 30, 2007 and 2006 are as follows (in thousands):

	Three months Ended September 30,		Nine months Ended September 30,	
	2007	**2006**	**2007**	**2006**
Total revenues	**$ 233,385**	$ 169,007	**$ 639,704**	$ 467,551
Operating expenses	**67,115**	36,269	**153,533**	102,065
Real estate taxes	**19,375**	17,706	**59,369**	52,727
Interest	**104,063**	63,043	**269,427**	168,169
Depreciation and amortization	**28,536**	21,680	**79,286**	57,572
Total expenses	**219,089**	138,698	**561,615**	380,533
Net income before gain on sale	**$ 14,296**	$ 30,309	**$ 78,089**	$ 87,018
Company s equity in net income of unconsolidated joint ventures	**$ 11,302**	$ 9,679	**$ 32,715**	$ 30,243

7. Investment in and Advances to Affiliates

Service Corporation

Income from management, leasing and construction contracts from third parties and joint venture properties is realized by the Service Corporation. In order to maintain our qualification as a REIT, we, through our operating partnership, own 100% of the non-voting common stock (representing 95% of the total equity) of the Service Corporation our operating partnership receives substantially all of the cash flow from the Service Corporation s operations through dividends on its equity interest. All of the voting common stock of the Service Corporation (representing 5% of the total equity) is held by our affiliate. This controlling interest gives the affiliate the power to elect all directors of the Service Corporation. Effective July 1, 2003, we consolidated the operations of the Service Corporation because it is considered to be a variable interest entity under FIN 46R and we are the primary beneficiary. For the three and nine months ended September 30, 2007 and 2006, the Service Corporation earned approximately $3.6 million, $9.9 million, $2.4 million and $6.1 million of revenue and incurred approximately $3.1 million, $7.8 million, $1.9 million and $5.4 million in expenses, respectively. Effective January 1, 2001, the Service Corporation elected to be treated as a TRS.

All of the management, leasing and construction services with respect to the properties wholly-owned by us are conducted through SL Green Management LLC which is 100% owned by our Operating Partnership.

eEmerge

In May 2000, our operating partnership formed eEmerge, Inc., a Delaware corporation, or eEmerge. eEmerge is a separately managed, self-funded company that provides fully-wired and furnished office space, services and support to businesses.

In March 2002, we acquired all the voting common stock of eEmerge Inc. As a result, we control all the common stock of eEmerge. Effective with the quarter ended March 31, 2002, we consolidated the operations of eEmerge. Effective January 1, 2001, eEmerge elected to be taxed as a TRS.

In September 2000, eEmerge and Eureka Broadband Corporation, or Eureka, formed eEmerge.NYC LLC, a Delaware limited liability company, or ENYC, whereby eEmerge has a 95% interest and Eureka has a 5% interest in ENYC. During the third quarter of 2006, ENYC acquired the interest held by Eureka. As a result, eEmerge owns 100% of ENYC. ENYC operates a 71,700 square foot fractional office suites business. ENYC entered into a 10-year lease with our Operating Partnership for its 50,200 square foot premises, which is located at 440 Ninth Avenue, Manhattan. ENYC entered into another 10-year lease with our Operating Partnership for its 21,500 square foot premises at 28 West 44PthP Street, Manhattan. Allocations of net profits, net losses and distributions are made in accordance with the Limited Liability Company Agreement of ENYC. Effective with the quarter ended March 31, 2002, we consolidated the operations of ENYC.

The net book value of our investment as of September 30, 2007 and December 31, 2006 was approximately $3.0 million and $3.6 million, respectively.

8. Deferred Costs

Deferred costs at September 30, 2007 and December 31, 2006 consisted of the following (in thousands):

		2007		2006
Deferred financing	$	63,223	$	28,584
Deferred leasing		130,147		115,147
		193,370		143,731
Less accumulated amortization		(66,017)		(45,881)
	$	127,353	$	97,850

SL Green Realty Corp.

Notes to Condensed Consolidated Financial Statements

(Unaudited)

September 30, 2007

9. Mortgage Notes Payable

The first mortgage notes payable collateralized by the respective properties and assignment of leases at September 30, 2007 and December 31, 2006, respectively, were as follows (in thousands):

Property	Maturity Date	Interest Rate(2)	2007	2006
711 Third Avenue[1]	06/2015	4.99%	$ **120,000**	$ 120,000
420 Lexington Avenue[1]	11/2010	8.44%	**113,342**	115,182
673 First Avenue[1]	02/2013	5.67%	**33,294**	33,816
125 Broad Street[3]				73,985
220 East 42nd Street[1]	12/2013	5.24%	**207,373**	210,000
625 Madison Avenue[1]	11/2015	6.27%	**100,302**	101,834
55 Corporate Drive	12/2015	5.75%	**95,000**	95,000
609 Fifth Avenue[1]	10/2013	5.85%	**100,906**	101,807
609 Partners, LLC	07/2014	5.00%	**63,891**	63,891
485 Lexington Avenue[1]	02/2017	5.61%	**450,000**	
120 West 45th Street[1]	02/2017	6.12%	**170,000**	
919 Third Avenue[4]	07/2018	6.87%	**232,836**	
300 Main Street	02/2017	5.75%	**11,500**	
399 Knollwood Rd	03/2014	5.75%	**19,097**	
70 West 36th Street[5]				11,199
500 West Putnam	01/2016	5.52%	**25,000**	
141 Fifth Avenue[1] [6]	06/2017	5.70%	**25,000**	10,457
One Madison Avenue[1] [7]	05/2020	5.91%	**676,029**	
Total fixed rate debt			**2,443,570**	937,171
1551/1555 Broadway	08/2008	7.16%	**82,459**	78,208
717 Fifth Avenue[8]	09/2008	7.43%	**192,500**	175,000
Landmark Square[1]	02/2009	7.51%	**128,000**	
Total floating rate debt			**402,959**	253,208
Total mortgage notes payable			$ **2,846,529**	$ 1,190,379

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(1) Held in bankruptcy remote special purpose entity.

(2) Effective interest rate for the quarter ended September 30, 2007.

(3) We sold this property in June 2007.

(4) We own a 51% interest in the joint venture that is the borrower on this loan. This loan is non-recourse to us.

(5) We sold this property in March 2007.

(6) We own a 50% interest in the joint venture that is the borrower on this loan. This loan is non-recourse to us. This loan was refinanced in June 2007.

(7) From April 2005 until August 2007, we held a 55% partnership interest in the joint venture that owned this property. We now own 100% of the property.

(8) See Note 3 for a description of our ownership interest in this property.

In May 2007, the Company repaid, at maturity, the $12.3 million mortgage that had encumbered 100 Summit Road, Westchester.

At September 30, 2007 and December 31, 2006 the gross book value of the properties collateralizing the mortgage notes was approximately $4.6 billion and $1.6 billion, respectively.

For the three and nine months ended September 30, 2007 and 2006, we incurred approximately $71.4 million, $204.1 million, $24.5 million and $65.5 million of interest expense, respectively, excluding interest which was capitalized of approximately $2.8 million, $9.7 million, $2.8 million and $6.8 million, respectively.

SL Green Realty Corp.

Notes to Condensed Consolidated Financial Statements

(Unaudited)

September 30, 2007

10. Corporate Indebtedness

2005 Unsecured Revolving Credit Facility

We have a $1.25 billion unsecured revolving credit facility. We increased the capacity under the 2005 unsecured revolving credit facility by $300.0 million in January 2007 and by an additional $450.0 million in June 2007. The 2005 unsecured revolving credit facility bears interest at a spread ranging from 70 basis points to 110 basis points over LIBOR, based on our leverage ratio. This facility matures in June 2011 and has a one-year extension option. The 2005 unsecured revolving credit facility also requires a 12.5 to 20 basis point fee on the unused balance payable annually in arrears. The 2005 unsecured revolving credit facility had $590.0 million outstanding and carried a spread over LIBOR of 80 basis points at September 30, 2007. Availability under the 2005 unsecured revolving credit facility was further reduced by the issuance of approximately $41.6 million in letters of credit. The effective all-in interest rate on the 2005 unsecured revolving credit facility was 6.05% for the three months ended September 30, 2007. The 2005 unsecured revolving credit facility includes certain restrictions and covenants (see restrictive covenants below).

Term Loans

We had a $325.0 million unsecured term loan, which was scheduled to mature in August 2009. This term loan bore interest at a spread ranging from 110 basis points to 140 basis points over LIBOR, based on our leverage ratio. This unsecured term loan was repaid and terminated in March 2007.

We had $200.0 million five-year non-recourse term loan secured by a pledge of our ownership interest in 1221 Avenue of the Americas. This term loan had a floating rate of 125 basis points over the current LIBOR rate and was scheduled to mature in May 2010. This secured term loan was repaid and terminated in June 2007.

In January 2007, we closed on a $500.0 million unsecured bridge loan, which matures in January 2010. This term loan bore interest at a spread ranging from 85 basis points to 125 basis points over LIBOR, based on our leverage ratio. This unsecured bridge loan was repaid and terminated in June 2007.

Unsecured Notes

In March 2007, we issued $750.0 million of 3.00% exchangeable senior notes which are due in 2027. The notes were offered in accordance with Rule 144A under the Securities Act of 1933, as amended. The notes will pay interest semi-annually on March 30 and September 30 at a rate of 3.00% per annum and mature on March 30, 2027. The notes will have an initial exchange rate representing an exchange price that is at a 25.0% premium to the last reported sale price of our common stock on March 20, 2007, or $173.30. The initial exchange rate is subject to adjustment under certain circumstances. The notes will be senior unsecured obligations of our operating partnership and will be exchangeable upon the

occurrence of specified events, and during the period beginning on the twenty-second scheduled trading day prior to the maturity date and ending on the second business day prior to the maturity date, into cash or a combination of cash and shares of our common stock, if any, at our option. The notes will be Redeemable, at our option on, and after April 15, 2012. We may be required to repurchase the notes on March 30, 2012, 2017 and 2022, and upon the occurrence of certain designated events. The net proceeds from the offering were approximately $736.0 million, after deducting estimated fees and expenses. The proceeds of the offering were used to repay certain of our existing indebtedness, make investments in additional properties, and make open market purchases of our common stock and for general corporate purposes.

As of September 30, 2007, we had outstanding approximately $1.8 billion (net of unamortized issuance discounts) of senior unsecured notes.

SL Green Realty Corp.
Notes to Condensed Consolidated Financial Statements
(Unaudited)
September 30, 2007

The following table sets forth our senior unsecured notes and other related disclosures by scheduled maturity date (in thousands):

Issuance		Face Amount	Coupon Rate	Term (in Years)	Maturity
March 26, 1999	$	200,000	7.75%	10	March 15, 2009
January 22, 2004		150,000	5.15%	7	January 15, 2011
August 13, 2004		150,000	5.875%	10	August 15, 2014
March 31, 2006		275,000	6.00%	10	March 31, 2016
June 27, 2005[1]		287,500	4.00%	20	June 15, 2025
March 26, 2007		750,000	3.00%	20	March 30, 2027
	$	1,812,500			

(1) Exchangeable senior debentures which are callable after June 17, 2010 at 100% of par. In addition, the debentures can be put to us, at the option of the holder at par plus accrued and unpaid interest, on June 15, 2010, 2015 and 2020 and upon the occurrence of certain change of control transactions. As a result of the Reckson Merger, the adjusted exchange rate for the debentures is 7.7461 shares of our common stock per $1,000 of principal amount of debentures and the adjusted reference dividend for the debentures is $1.3491.

On April 27, 2007, the $50.0 million 6.0% unsecured notes scheduled to mature in June 2007 and the $150.0 million, 7.20% unsecured notes scheduled to mature in August 2007, assumed as part of the Reckson Merger, were redeemed.

Interest on the senior unsecured notes is payable semi-annually with principal and unpaid interest due on the scheduled maturity dates. In addition, certain of the senior unsecured notes were issued at discounts aggregating approximately $20.1 million. Such discounts are being amortized to interest expense over the term of the senior unsecured notes to which they relate. Through September 30, 2007, approximately $0.7 million of the aggregate discounts have been amortized.

Restrictive Covenants

The terms of the 2005 unsecured revolving credit facility and unsecured bonds include certain restrictions and covenants which limit, among other things, the payment of dividends (as discussed below), the incurrence of additional indebtedness, the incurrence of liens and the disposition of assets, and which require compliance with financial ratios relating to the minimum amount of tangible net worth, the minimum amount of debt service coverage, and fixed charge coverage, the maximum amount of unsecured indebtedness, the minimum amount of unencumbered property debt service coverage and certain investment limitations. The dividend restriction referred to above provides that, except to enable us to continue to qualify as a REIT for Federal Income Tax purposes, we will not during any four consecutive fiscal quarters make distributions with respect to common stock or other equity interests in an aggregate amount in excess of 90% of funds from operations for such period, subject to certain other adjustments. As of September 30, 2007 and December 31, 2006, we were in compliance with all such covenants.

Junior Subordinate Deferrable Interest Debentures

In June 2005, we issued $100.0 million in unsecured floating rate trust preferred securities through a newly formed trust, SL Green Capital Trust I, or Trust, which is a wholly-owned subsidiary of our Operating Partnership. The securities mature in 2035 and bear interest at a fixed rate of

5.61% for the first ten years ending July 2015, a period of up to eight consecutive quarters if our Operating Partnership exercises its right to defer such payments. The trust preferred securities are redeemable, at the option of our Operating Partnership, in whole or in part, with no prepayment premium any time after July 2010. Our interest in the Trust is accounted for using the equity method and the assets and liabilities of that entity are not consolidated into our financial statements. Interest on the junior subordinated notes is included in interest expense on our consolidated statements of income while the value of the junior subordinated notes, net of our investment in the trusts that issued the securities, is presented as a separate item in our consolidated balance sheets.

SL Green Realty Corp.
Notes to Condensed Consolidated Financial Statements
(Unaudited)
September 30, 2007

Principal Maturities

Combined aggregate principal maturities of mortgages and notes payable, 2005 unsecured revolving credit facility, trust preferred securities, unsecured notes and our share of joint venture debt as of September 30, 2007, excluding extension options, were as follows (in thousands):

	Scheduled Amortization	Principal Repayments	Revolving Credit Facility	Trust Preferred Securities	Unsecured Notes	Total	Joint Venture Debt
2007	$ 6,359	$	$	$	$	$ 6,359	$ 344,137
2008	24,891	274,959				299,850	116,767
2009	26,750	128,000			200,000	354,750	438
2010	28,088	104,691				132,779	86,594
2011	26,804	216,656	590,000		150,000	983,460	72,065
Thereafter	248,801	1,760,530		100,000	1,443,100	3,552,431	661,343
	$ 361,693	**$ 2,484,836**					