SL GREEN REALTY CORP
Form 10-Q
November 09, 2011
Table of Contents

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

þ QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF

THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended September 30, 2011

¨ 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	**T13-3956775T**
(State or other jurisdiction of incorporation or organization)	**(I.R.S. Employer Identification No.)**

420 Lexington Avenue, New York, New York 10170

(Address of principal executive offices) (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 þ NO ¨

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). YES þ NO ¨

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See definitions of large accelerated filer, accelerated filer, and smaller reporting company in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer þ	Accelerated filer o	Non-accelerated filer o (Do not check if a smaller reporting company)	Smaller Reporting Company o

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

The number of shares outstanding of the registrant s common stock, $0.01 par value, was 86,149,655 as of October 31, 2011.

Table of Contents

SL GREEN REALTY CORP.

INDEX

PART I.	**FINANCIAL INFORMATION**	
ITEM 1.	**FINANCIAL STATEMENTS**	**PAGE**
	Consolidated Balance Sheets as of September 30, 2011 (unaudited) and December 31, 2010	3
	Consolidated Statements of Income for the three and nine months ended September 30, 2011 and 2010 (unaudited)	4
	Consolidated Statement of Equity for the nine months ended September 30, 2011 (unaudited)	5
	Consolidated Statements of Cash Flows for the nine months ended September 30, 2011 and 2010 (unaudited)	6
	Notes to Consolidated Financial Statements (unaudited)	7
ITEM 2.	**MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS**	38
ITEM 3.	**QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK**	55
ITEM 4.	**CONTROLS AND PROCEDURES**	55
PART II.	**OTHER INFORMATION**	56
ITEM 1.	**LEGAL PROCEEDINGS**	56
ITEM 1A.	**RISK FACTORS**	56
ITEM 2.	**UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS**	56
ITEM 3.	**DEFAULTS UPON SENIOR SECURITIES**	56
ITEM 4.	**(REMOVED AND RESERVED)**	56
ITEM 5.	**OTHER INFORMATION**	56
ITEM 6.	**EXHIBITS**	57
SIGNATURES		58

Table of Contents

PART I. **FINANCIAL INFORMATION**

ITEM 1. **Financial Statements**

SL Green Realty Corp.

Consolidated Balance Sheets

(Amounts in thousands, except per share data)

	September 30, 2011	December 31, 2010
Assets	(Unaudited)	
Commercial real estate properties, at cost:		
Land and land interests	**$ 2,581,957**	$ 1,750,220
Building and improvements	**6,731,915**	5,840,701
Building leasehold and improvements	**1,293,122**	1,286,935
Property under capital lease	**12,208**	12,208
	10,619,202	8,890,064
Less: accumulated depreciation	**(1,071,183)**	(916,293)
	9,548,019	7,973,771
Cash and cash equivalents	**394,505**	332,830
Restricted cash	**102,084**	137,673
Investment in marketable securities	**54,962**	34,052
Tenant and other receivables, net of allowance of $15,628 and $12,981 in 2011 and 2010, respectively	**31,661**	27,054
Related party receivables	**3,212**	6,295
Deferred rents receivable, net of allowance of $28,017 and $30,834 in 2011 and 2010, respectively	**265,600**	201,317
Debt and preferred equity investments, net of discount of $19,387 and $42,937 and allowance of $41,800 and $61,361 in 2011 and 2010, respectively	**897,028**	963,772
Investments in unconsolidated joint ventures	**921,146**	631,570
Deferred costs, net	**191,123**	172,517
Other assets	**753,305**	819,443
Total assets	**$ 13,162,645**	$ 11,300,294
Liabilities		
Mortgages and other loans payable	**$ 4,018,861**	$ 3,400,468
Revolving credit facility	**500,000**	650,000
Senior unsecured notes	**1,267,580**	1,100,545
Accrued interest payable and other liabilities	**126,405**	38,149
Accounts payable and accrued expenses	**146,445**	133,389
Deferred revenue/gains	**381,211**	307,678
Capitalized lease obligation	**17,094**	17,044
Deferred land leases payable	**18,382**	18,267
Dividend and distributions payable	**15,002**	14,182
Security deposits	**44,312**	38,690
Junior subordinate deferrable interest debentures held by trusts that issued trust preferred securities	**100,000**	100,000
Total liabilities	**6,635,292**	5,818,412
Commitments and contingencies	**---**	---
Noncontrolling interest in operating partnership	**114,726**	84,338

Equity				
SL Green stockholders equity:				
Series C preferred stock, $0.01 par value, $25.00 liquidation preference, 11,700 issued and outstanding at both September 30, 2011 and December 31, 2010, respectively		**274,022**		274,022
Series D preferred stock, $0.01 par value, $25.00 liquidation preference, 4,000 issued and outstanding at both September 30, 2011 and December 31, 2010, respectively		**96,321**		96,321
Common stock, $0.01 par value 160,000 shares authorized and 89,133 and 81,675 issued and outstanding at September 30, 2011 and December 31, 2010, respectively (including 3,427 and 3,369 shares at September 30, 2011 and December 31, 2010, held in Treasury, respectively)		**892**		817
Additional paid-in-capital		**4,225,903**		3,660,842
Treasury stock at cost		**(307,535)**		(303,222)
Accumulated other comprehensive loss		**(24,462)**		(22,659)
Retained earnings		**1,763,403**		1,172,963
Total SL Green stockholders equity		**6,028,544**		4,879,084
Noncontrolling interests in other partnerships		**384,083**		518,460
Total equity		**6,412,627**		5,397,544
Total liabilities and equity	**$**	**13,162,645**	$	11,300,294

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

Table of Contents

SL Green Realty Corp.

Consolidated Statements of Income

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2011	**2010**	**2011**	**2010**
Revenues				
Rental revenue, net	**$ 244,888**	$ 195,863	**$ 714,443**	$ 581,326
Escalation and reimbursement	**39,176**	30,846	**104,445**	89,595
Investment and preferred equity income	**18,433**	84,377	**98,256**	125,543
Other income	**6,077**	8,065	**23,257**	25,140
Total revenues	**308,574**	319,151	**940,401**	821,604
Expenses				
Operating expenses (including approximately $4,335 and $10,948 (2011) and $3,391 and $9,572 (2010) paid to affiliates)	**69,097**	58,068	**191,807**	167,602
Real estate taxes	**44,915**	35,806	**128,957**	109,972
Ground rent	**8,463**	7,860	**24,110**	23,360
Interest expense, net of interest income	**75,428**	56,442	**209,491**	170,171
Amortization of deferred financing costs	**2,992**	2,581	**9,488**	6,448
Depreciation and amortization	**73,358**	56,011	**202,394**	166,909
Loan loss and other investment reserves, net of recoveries	**---**	1,338	**(1,870)**	12,323
Transaction related costs	**169**	3,254	**3,820**	8,416
Marketing, general and administrative	**18,900**	18,474	**61,375**	55,251
Total expenses	**293,322**	239,834	**829,572**	720,452
Income from continuing operations before equity in net income of unconsolidated joint ventures, noncontrolling interests and discontinued operations	**15,252**	79,317	**110,829**	101,152
Equity in net (loss) income from unconsolidated joint ventures	**(2,728)**	7,544	**7,663**	32,925
Equity in net gain on sale of interest in unconsolidated joint venture	**3,032**	520	**3,032**	127,289
Purchase price fair value adjustment	**999**	---	**489,889**	---
Loss on investment in marketable securities	**---**	---	**(133)**	(285)
Gain (loss) on early extinguishment of debt	**(67)**	(511)	**904**	(1,900)
Income from continuing operations	**16,488**	86,870	**612,184**	259,181
Net income from discontinued operations	**---**	2,211	**1,298**	6,531
Gain on sale of discontinued operations	**---**	35,485	**46,085**	35,485
Net income	**16,488**	124,566	**659,567**	301,197
Net income attributable to noncontrolling interests in the operating partnership	**(169)**	(1,786)	**(13,946)**	(4,544)
Net income attributable to noncontrolling interests in other partnerships	**(1,695)**	(3,735)	**(8,564)**	(10,831)
Net income attributable to SL Green	**14,624**	119,045	**637,057**	285,822
Preferred stock dividends	**(7,545)**	(7,545)	**(22,634)**	(22,205)
Net income attributable to SL Green common stockholders	**$ 7,079**	$ 111,500	**$ 614,423**	$ 263,617
Amounts attributable to SL Green common stockholders:				
Income from continuing operations	**$ 4,113**	$ 73,866	**$ 565,122**	$ 97,180
Net income from discontinued operations	**---**	2,178	**1,269**	6,420
Gain on sale of discontinued operations	**---**	34,944	**45,067**	34,884
Gain on sale of unconsolidated joint ventures/ real estate	**2,966**	512	**2,965**	125,133
Net income	**$ 7,079**	$ 111,500	**$ 614,423**	$ 263,617
Basic earnings per share:				
Net income from continuing operations before discontinued operations	**$ 0.05**	$ 0.95	**$ 6.81**	$ 1.25
Net income from discontinued operations	**---**	0.03	**0.01**	0.08
Gain on sale of discontinued operations	**---**	0.44	**0.54**	0.45

Gain on sale of interest in unconsolidated joint venture		**0.03**		0.01		**0.04**		1.60
Net income attributable to SL Green common stockholders	**$**	**0.08**	$	1.43	**$**	**7.40**	$	3.38
Diluted earnings per share:								
Net income from continuing operations before discontinued operations	**$**	**0.05**	$	0.94	**$**	**6.77**	$	1.24
Net income from discontinued operations		**---**		0.03		**0.01**		0.07
Gain on sale of discontinued operations		**---**		0.44		**0.54**		0.45
Gain on sale of interest in unconsolidated joint venture		**0.03**		0.01		**0.04**		1.60
Net income attributable to SL Green common stockholders	**$**	**0.08**	$	1.42	**$**	**7.36**	$	3.36
Dividends per share	**$**	**0.10**	$	0.10	**$**	**0.30**	$	0.30
Basic weighted average common shares outstanding		**85,696**		78,227		**83,001**		78,034
Diluted weighted average common shares and common share equivalents outstanding		**88,081**		79,781		**85,384**		79,722

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

Table of Contents

SL Green Realty Corp.

Consolidated Statement of Equity

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

	SL Green Realty Corp. Stockholders										
			Common Stock								
	Series C Preferred Stock	Series D Preferred Stock	Shares	Par Value	Additional Paid-In-Capital	Treasury Stock	Accumulated Other Comprehensive Income (Loss)	Retained Earnings	Noncontrolling Interests	Total	Comprehensive Income
Balance at December 31, 2010	$ 274,022	$ 96,321	78,307	$ 817	$ 3,660,842	$ (303,222)	$ (22,659)	$ 1,172,963	$ 518,460	$ 5,397,544	
Comprehensive Income:											
Net income								637,057	8,564	645,621	$ 645,621
Net unrealized loss on derivative instruments							(3,757)			(3,757)	(3,757)
SL Green s share of joint venture net unrealized gain on derivative instruments							416			416	416
Unrealized gains on marketable securities							1,538			1,538	1,538
Preferred dividends								(22,634)		(22,634)	
Redemption of units and DRIP proceeds			13	-	886					886	
Reallocation of noncontrolling interest in the operating partnership								1,168		1,168	
Deferred compensation plan & stock award, net			249	3	618	(4,313)				(3,692)	
Amortization of deferred compensation plan					24,025					24,025	
Proceeds from issuance of common stock			6,957	70	531,418					531,488	
Proceeds from stock options exercised			180	2	8,114					8,116	
Consolidation of joint venture interest									533	533	
Cash distributions to noncontrolling									(143,474)	(143,474)	

interests											
Cash distribution declared ($0.30 per common share, none of which represented a return of capital for federal income tax purposes)								(25,151)		(25,151)	
Balance at September 30, 2011	**$ 274,022**	**$ 96,321**	**85,706**	**$ 892**	**$ 4,225,903**	**$ (307,535)**	**$ (24,462)**	**$ 1,763,403**	**$ 384,083**	**$ 6,412,627**	**$ 643,818**

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

Table of Contents

SL Green Realty Corp.

Consolidated Statements of Cash Flows

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

	Nine Months Ended September 30,	
	2011	**2010**
Operating Activities		
Net income	**$ 659,567**	$ 301,197
Adjustment to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	**212,558**	178,404
Equity in net income from unconsolidated joint ventures	**(7,663)**	(32,925)
Distributions of cumulative earnings from unconsolidated joint ventures	**9,787**	19,423
Equity in net gain on sale of interest in unconsolidated joint venture	**(3,032)**	(127,289)
Purchase price fair value adjustment	**(489,889)**	---
Gain on sale of discontinued operations	**(46,085)**	(35,485)
Gain on sale of debt securities	**(19,840)**	---
Loan loss and other investment reserves, net of recoveries	**(1,870)**	12,323
Loss on investments in marketable securities	**133**	285
(Gain) loss on early extinguishment of debt	**(904)**	1,900
Deferred rents receivable	**(64,600)**	(30,472)
Other non-cash adjustments	**3,158**	(12,607)
Changes in operating assets and liabilities:		
Restricted cash operations	**1,757**	(5,717)
Tenant and other receivables	**(3,130)**	(3,352)
Related party receivables	**524**	1,609
Deferred lease costs	**(25,483)**	(27,331)
Other assets	**(11,994)**	(1,404)
Accounts payable, accrued expenses and other liabilities	**12,692**	10,272
Deferred revenue and land leases payable	**12,010**	5,218
Net cash provided by operating activities	**237,696**	254,049
Investing Activities		
Acquisitions of real estate property	**(331,972)**	(183,750)
Additions to land, buildings and improvements	**(111,485)**	(55,389)
Escrowed cash capital improvements/acquisition deposits	**39,886**	(5,979)
Investments in unconsolidated joint ventures	**(95,611)**	(83,355)
Distributions in excess of cumulative earnings from unconsolidated joint ventures	**107,753**	15,160
Net proceeds from disposition of real estate/joint venture interest	**160,548**	623,121
Other investments	**(16,374)**	(7,811)
Debt and preferred equity and other investments, net of repayments/participations	**(254,264)**	(127,007)
Net cash (used in) provided by investing activities	**(501,519)**	174,990
Financing Activities		
Proceeds from mortgages and other loans payable	**740,000**	166,892
Repayments of mortgages and other loans payable	**(754,358)**	(133,887)
Proceeds from revolving credit facility and senior unsecured notes	**1,401,068**	303,306
Repayments of revolving credit facility and senior unsecured notes	**(1,393,144)**	(873,940)
Proceeds from stock options exercised and DRIP issuance	**8,278**	14,245
Net proceeds from sale of common stock	**516,350**	---
Net proceeds from sale of preferred stock	**---**	122,019
Purchase of treasury stock	**(4,313)**	(517)
Distributions to noncontrolling interests in other partnerships	**(143,474)**	(10,952)
Contributions from noncontrolling interests in other partnerships	**---**	2,782
Redemption of noncontrolling interest in operating partnership	**---**	(11,096)
Distributions to noncontrolling interests in operating partnership	**(572)**	(387)
Dividends paid on common and preferred stock	**(47,684)**	(43,607)
Deferred loan costs, capitalized lease obligation and other obligations	**3,347**	(36,809)
Net cash provided by (used in) financing activities	**325,498**	(501,951)
Net increase (decrease) in cash and cash equivalents	**61,675**	(72,912)

Cash and cash equivalents at beginning of period		**332,830**		343,715
Cash and cash equivalents at end of period	**$**	**394,505**	$	270,803

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

Table of Contents

SL Green Realty Corp.

Notes to Consolidated Financial Statements

September 30, 2011

(Unaudited)

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, a consolidated variable interest entity. 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. 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 the Company, we, our and us means the Company and all entities owne 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, 2011, noncontrolling investors held, in the aggregate, a 2.2% limited partnership interest in the operating partnership. We refer to this as the noncontrolling interests in the operating partnership. See Note 13.

Reckson Operating Partnership, L.P., or ROP, is a subsidiary of the Operating Partnership.

As of September 30, 2011, we owned the following interests in commercial office properties in the New York Metropolitan area, primarily in midtown Manhattan, a borough of New York City, or Manhattan. Our investments in the New York Metropolitan 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	17,197,945	93.2%
	Unconsolidated properties	7	6,191,673	92.3%
Suburban	Consolidated properties	25	3,863,000	80.1%
	Unconsolidated properties	6	2,941,700	93.6%
		62	30,194,318	91.4%

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

We also owned investments in nine stand-alone retail properties encompassing approximately 319,182 square feet, seven development properties encompassing approximately 1,395,838 square feet and three land interests as of September 30, 2011. In addition, we manage four office properties owned by third parties and affiliated companies encompassing approximately 1.3 million rentable square feet.

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 has the right to redeem units of limited partnership interests for cash, or if we so elect, shares of our common stock on a one-for-one basis.

Basis of Quarterly Presentation

The accompanying unaudited 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

SL Green Realty Corp.

Notes to Consolidated Financial Statements

September 30, 2011

(Unaudited)

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 2011 operating results for the period presented are not necessarily indicative of the results that may be expected for the year ending December 31, 2011. 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, 2010.

The balance sheet at December 31, 2010 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. Entities which we do not control through our voting interest and entities which are variable interest entities, but where we are not the primary beneficiary, are accounted for under the equity method or as debt and preferred equity investments. See Notes 5 and 6. All significant intercompany balances and transactions have been eliminated.

The FASB amended the guidance for determining whether an entity is a variable interest entity, or VIE, and requires the performance of a qualitative rather than a quantitative analysis to determine the primary beneficiary of a VIE. Under this guidance, an entity would be required to consolidate a VIE if it has (i) the power to direct the activities that most significantly impact the entity s economic performance and (ii) the obligation to absorb losses of the VIE or the right to receive benefits from the VIE that could be significant to the VIE.

A noncontrolling interest in a consolidated subsidiary is defined as the portion of the equity (net assets) in a subsidiary not attributable, directly or indirectly, to a parent. Noncontrolling interests are required to be presented as a separate component of equity in the consolidated balance sheet and modifies the presentation of net income by requiring earnings and other comprehensive income to be attributed to controlling and noncontrolling interests.

We assess the accounting treatment for each joint venture and debt and preferred equity investment. This assessment includes a review of each joint venture or partnership limited liability company agreement to determine which party has what rights and whether those rights are protective or participating. For all VIE s, we review such agreements in order to determine which party has the power to direct the activities that most

significantly impact the entity s economic performance. In situations where we or our partner approves, among other things, the annual budget, receives a detailed monthly reporting package from us, meets 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 that result in shared power of the activities that most significantly impact the performance of our joint venture. 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.

Investment in Commercial Real Estate Properties

On a periodic basis, we assess whether there are any indicators that the value of our real estate properties may be impaired or that their carrying value may not be recoverable. A property s value is considered impaired if management s estimate of the aggregate future cash flows (undiscounted and without interest charges for consolidated properties) to be generated by the property are less than the carrying value of the property. To the extent impairment has occurred and is considered to be other than temporary, the loss will be measured as the excess of the carrying amount of the property over the calculated fair value of the property. In addition, we assess our investments in unconsolidated joint ventures for recoverability, and if it is determined that a loss in value of the investment is other than temporary, we write down the investment to its fair value. We evaluate our equity investments for impairment based on the joint venture s projected discounted cash flows. We do not believe that the value of any of our consolidated properties was impaired at September 30, 2011 or December 31, 2010, respectively.

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 and from one to 14 years, respectively. 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

SL Green Realty Corp.

Notes to Consolidated Financial Statements

September 30, 2011

(Unaudited)

lease, which generally range from one to 14 years. The value associated with in-place leases are amortized over the expected term of the associated lease, which generally range from one to 14 years. 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 recognized an increase of approximately $3.4 million, $15.6 million, $6.1 million and $18.9 million in rental revenue for the three and nine months ended September 30, 2011 and 2010, respectively, for the amortization of aggregate below-market leases in excess of above-market leases and a reduction in lease origination costs, resulting from the allocation of the purchase price of the applicable properties. We recognized a reduction in interest expense for the amortization of the above-market rate mortgages assumed of approximately $0.4 million, $3.6 million, $0.3 million and $1.2 million for the three and nine months ended September 30, 2011 and 2010, respectively.

The following summarizes our identified intangible assets (acquired above-market leases and in-place leases) and intangible liabilities (acquired below-market leases) (amounts in thousands):

		September 30, 2011		December 31, 2010
Identified intangible assets (included in other assets):				
Gross amount	**$**	**690,224**	$	758,300
Accumulated amortization		**(177,685)**		(133,737)
Net	**$**	**512,539**	$	624,563
Identified intangible liabilities (included in deferred revenue):				
Gross amount	**$**	**621,664**	$	508,339
Accumulated amortization		**(273,413)**		(220,417)
Net	**$**	**348,251**	$	287,922

Fair Value Measurements

Fair value is a market-based measurement, not an entity-specific measurement, and should be determined based on the assumptions that market participants would use in pricing the asset or liability. As a basis for considering market participant assumptions in fair value measurements, FASB guidance establishes a fair value hierarchy that distinguishes between market participant assumptions based on market data obtained from sources independent of the reporting entity (observable inputs that are classified within levels one and two of the hierarchy) and the reporting entity s own assumptions about market participant assumptions (unobservable inputs classified within level three of the hierarchy).

We determined the fair value of our current investments in marketable securities using level one, level two and level three inputs. Additionally, we determined the valuation allowance for loan losses based on level three inputs. See Note 5 Debt and Preferred Equity Investments.

The estimated fair values of tangible and intangible assets and liabilities recorded in connection with business combinations are based on level three inputs. We estimate fair values based on cash flow projections utilizing appropriate discount and/or capitalization rates and available market information.

We determine impairment in real estate investments and debt and preferred equity investments, including intangibles, utilizing cash flow projections that apply estimated revenue and expense growth rates, discount rates and capitalization rates, which are classified as level three inputs.

We use the following methods and assumptions in estimating fair value disclosures for financial instruments.

- *Cash and cash equivalents:* The carrying amount of unrestricted cash and cash equivalents reported in our Consolidated Balance Sheets approximates fair value due to the short maturity of these instruments.

- *Debt and Preferred Equity Investments:* The fair value of debt and preferred equity investments is estimated by discounting the future cash flows using current interest rates at which similar loans with the same maturities would be made to borrowers with similar credit ratings. See Note 5 regarding valuation allowances for loan losses.

Table of Contents

SL Green Realty Corp.

Notes to Consolidated Financial Statements

September 30, 2011

(Unaudited)

- *Mortgage and other loans payable and other debt:* The fair value of borrowings is estimated by discounting the future cash flows using current interest rates at which similar borrowings could be made by us.

The methodologies used for valuing financial instruments have been categorized into three broad levels as follows:

Level 1 Quoted prices in active markets for identical instruments.

Level 2 Valuations based principally on other observable market parameters, including

- Quoted prices in active markets for similar instruments,
- Quoted prices in less active or inactive markets for identical or similar instruments,
- Other observable inputs (such as interest rates, yield curves, volatilities, prepayment speeds, loss severities, credit risks and default rates), and
- Market corroborated inputs (derived principally from or corroborated by observable market data).

Level 3 Valuations based significantly on unobservable inputs.

- Valuations based on third-party indications (broker quotes or counterparty quotes) which were, in turn, based significantly on unobservable inputs or were otherwise not supportable as Level 2 valuations.
- Valuations based on internal models with significant unobservable inputs.

These levels form a hierarchy. We follow this hierarchy for our financial instruments measured at fair value on a recurring and nonrecurring basis. The classifications are based on the lowest level of input that is significant to the fair value measurement.

Investment in Marketable Securities

We invest in marketable securities. At the time of purchase, we are required to designate a security as held-to-maturity, available-for-sale, or trading depending on ability and intent. We do not have any securities designated as held-to-maturity or trading at this time. Securities

available-for-sale are reported at fair value pursuant to ASC 820-10, with the net unrealized gains or losses reported as a component of accumulated other comprehensive loss. Unrealized losses that are determined to be other-than-temporary are recognized in earnings up to their credit component. Included in accumulated other comprehensive loss at September 30, 2011 is approximately $11.6 million in net unrealized gains related to marketable securities.

The basis on which the cost of bonds and marketable securities sold is determined based on the specific identification method.

At September 30, 2011 and December 31, 2010, we held the following marketable securities (in thousands):

		September 30, 2011		December 31, 2010
Level 1 Equity marketable securities	$	**16,797**	$	12,357
Level 2 Commercial mortgage-backed securities		**14,232**		17,445
Level 3 Rake bonds		**23,933**		4,250
Total marketable securities available-for-sale	$	**54,962**	$	34,052

The cost basis of the Level 3 securities was $26.4 million at September 30, 2011 and $4.3 million at December 31, 2010. There were no sales of Level 3 securities during the nine months ended September 30, 2011. The Level 3 securities mature at various times through 2041.

Revenue Recognition

Interest income on debt and preferred equity investments is recognized over the life of the investment using the effective interest method and recognized on the accrual basis. Fees received in connection with loan commitments are deferred until the loan is funded and are then recognized over the term of the loan as an adjustment to yield. Anticipated exit fees, whose collection is expected, are also recognized over the term of the loan as an adjustment to yield. Fees on commitments that expire unused are recognized at expiration.

Income recognition is generally suspended for debt and preferred equity investments at the earlier of the date at which payments become 90 days past due or when, in the opinion of management, a full recovery of income and principal becomes doubtful. Income recognition is resumed when the loan becomes contractually current and performance is demonstrated to be resumed. Interest is recorded as income on impaired loans only to the extent cash is received. Several of the debt and preferred equity investments provide for accrual of interest at specified rates, which differ from current payment terms. Interest is recognized on such loans at the accrual rate subject to management s determination that accrued interest and outstanding principal are ultimately collectible, based on the

Table of Contents

SL Green Realty Corp.

Notes to Consolidated Financial Statements

September 30, 2011

(Unaudited)

underlying collateral and operations of the borrower. If management cannot make this determination, interest income above the current pay rate is recognized only upon actual receipt.

If we purchase a debt or preferred equity investment at a discount, intend to hold it until maturity and expect to recover the full value of the investment, we accrete the discount as an adjustment to yield over the term of the investment. If we purchase a debt or preferred equity investment at a discount with the intention of foreclosing on the collateral, we do not accrete the discount.

Reserve for Possible Credit Losses

The expense for possible credit losses in connection with debt and preferred equity investments is the charge to earnings to increase the allowance for possible credit losses to the level that we estimate to be adequate, based on Level 3 data, considering delinquencies, loss experience and collateral quality. Other factors considered relate to geographic trends and product diversification, the size of the portfolio and current economic conditions. Based upon these factors, we establish the provision for possible credit losses on each individual investment. When it is probable that we will be unable to collect all amounts contractually due, the investment is considered impaired.

Where impairment is indicated on an investment that is held to maturity, a valuation allowance is measured based upon the excess of the recorded investment amount over the net fair value of the collateral. Any deficiency between the carrying amount of an asset and the calculated value of the collateral is charged to expense. We recorded loan loss reserves of none, $2.5 million, $5.0 million and $15.0 million during the three and nine months ended September 30, 2011 and 2010, respectively, on investments being held to maturity, and $1.0 million against our held for sale investment during the three and nine months ended September 30, 2010, respectively. We also recorded approximately none, $4.4 million, $3.7 million and $3.7 million in recoveries during the three and nine months ended September 30, 2011 and 2010, respectively, in connection with the sale of investments.

Debt and preferred equity investments held for sale are carried at the lower of cost or fair market value using available market information obtained through consultation with dealers or other originators of such investments as well as discounted cash flow models based on Level 3 data pursuant to ASC 820-10. As circumstances change, management may conclude not to sell an investment designated as held for sale. In such situations, the investment will be reclassified at its net carrying value to debt and preferred equity investments held to maturity. For these reclassified investments, the difference between the current carrying value and the expected cash to be collected at maturity will be accreted into income over the remaining term of the investment.

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, and may in the future, elect to treat certain of our existing or newly created corporate subsidiaries as taxable REIT subsidiaries, or a TRS. In general, a TRS of ours may perform non-customary services for our tenants, hold assets that we cannot hold directly and generally may engage in any real estate or non-real estate related business. Our TRSs generate income, resulting in Federal income tax liability for these entities. Our TRSs recorded approximately $0.2 million and $0.9 million in Federal, state and local tax provision during the nine months ended September 30, 2011 and 2010, respectively, and made estimated tax payments of $0.1 million and $0.3 million during the nine months ended September 30, 2011 and 2010, respectively.

We follow 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 is more-likely-than-not to 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. The use of a valuation allowance as a substitute for derecognition of tax positions is prohibited.

Stock-Based Employee Compensation Plans

We have a stock-based employee compensation plan, described more fully in Note 12.

The Black-Scholes option-pricing model was developed for use in estimating the fair value of traded options, which have no vesting

Table of Contents

SL Green Realty Corp.

Notes to Consolidated Financial Statements

September 30, 2011

(Unaudited)

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 on a straight line basis 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 or restricted stock are expensed as compensation over the benefit period based on the fair value of the stock on the grant date.

For share-based awards with a performance or market measure, we recognize compensation cost over the requisite service period, using the accelerated attribution expense method. The requisite service period begins on the date the Compensation Committee authorizes the award and adopts any relevant performance measures. For programs with market measures, the total estimated compensation cost is based on the fair value of the award at the applicable reporting date estimated using a binomial model. For share-based awards for which there is no pre-established performance measure, we recognize compensation cost over the service vesting period, which represents the requisite service period, on a straight-line basis. In accordance with the provisions of our share-based incentive compensation plans, we accept the return of shares of Company common stock, at the current quoted market price, from certain key employee to satisfy minimum statutory tax-withholding requirements related to shares that vested during the period.

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 attributable to common stockholders by the weighted average number of common shares outstanding during the period. Basic EPS includes participating securities, consisting of unvested restricted stock that receive nonforfeitable dividends similar to shares of common stock. 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. The dilutive effect of the outstanding nonvested shares of common stock (nonvested shares) and restricted stock units (RSUs) that have not yet been granted but are contingently issuable under the share-based compensation programs is reflected in the weighted average diluted shares calculation by application of the treasury stock method at the beginning of the quarterly period in which all necessary conditions have been satisfied. The dilutive effect of stock options is reflected in the weighted average diluted outstanding shares calculation by application of the treasury stock method. There is no dilutive effect for the exchangeable senior debentures as the conversion premium will be paid in cash.

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.

Concentrations of Credit Risk

Financial instruments that potentially subject us to concentrations of credit risk consist primarily of cash investments, debt and preferred equity investments and accounts receivable. We place our cash investments in excess of insured amounts with high quality financial institutions. The collateral securing our debt and preferred equity investments is primarily located in the New York Metropolitan area. See Note 5. We perform ongoing credit evaluations of our tenants and require most 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 Brooklyn, Queens, Long Island, Westchester County, Connecticut and New Jersey. The tenants located in our buildings operate in various industries. Other than one tenant who accounts for approximately 7.4% of our annualized rent, no other tenant in our portfolio accounted for more than 7.1% of our annualized rent, including our share of joint venture annualized rent at September 30, 2011. Approximately 9.7%, 6.8% and 5.6% of our annualized rent, including our share of joint venture annualized rent, was attributable to 1515 Broadway, 1185 Avenue of the Americas and One Madison Avenue, respectively, for the quarter ended September 30, 2011. Two borrowers accounted for more than 10.0% of the revenue earned on debt and preferred equity investments during the three months ended September 30, 2011.

Reclassification

Certain prior year balances have been reclassified to conform to our current year presentation primarily in order to eliminate discontinued operations from income from continuing operations.

Table of Contents

SL Green Realty Corp.

Notes to Consolidated Financial Statements

September 30, 2011

(Unaudited)

Accounting Standards Updates

In July 2010, the FASB issued updated guidance on disclosures about the credit quality of financing receivables and the allowance for credit losses which will require a greater level of information disclosed about the credit quality of loans and allowance for loan losses, as well as additional information related to credit quality indicators, past due information, and information related to loans modified in trouble debt restructuring. The guidance related to disclosures of financing receivables as of the end of a reporting period is required to be adopted for interim and annual reporting periods ending on or after December 15, 2010. The financing receivables disclosures related to the activity that occurs during a reporting period are required to be adopted for interim and annual reporting periods beginning on or after December 15, 2010. In January 2011, the FASB temporarily delayed the effective date of the disclosures about troubled debt restructurings to allow the FASB the time needed to complete its deliberations on what constitutes a troubled debt restructuring. The effective date of the new disclosures about troubled debt restructurings and the guidance for determining what constitutes a troubled debt restructuring will then be coordinated. The guidance is effective for interim and annual periods ending after June 15, 2011. Adoption of the remaining guidance resulted in additional disclosures in our consolidated financial statements.

In January 2010, the FASB issued updated guidance on fair value measurements and disclosures, which requires disclosure of details of significant asset or liability transfers in and out of Level 1 and Level 2 measurements within the fair value hierarchy and inclusion of gross purchases, sales, issuances, and settlements in the rollforward of assets and liabilities valued using Level 3 inputs within the fair value hierarchy. The guidance also clarifies and expands existing disclosure requirements related to the disaggregation of fair value disclosures and inputs used in arriving at fair values for assets and liabilities using Level 2 and Level 3 inputs within the fair value hierarchy. These disclosure requirements were effective for interim and annual reporting periods beginning after December 15, 2009. Adoption of this guidance on January 1, 2010, excluding the Level 3 rollforward, resulted in additional disclosures in our consolidated financial statements. The gross presentation of the Level 3 rollforward is required for interim and annual reporting periods beginning after December 15, 2010. Adoption of this guidance did not have a material impact on our consolidated financial statements.

In December 2010, the FASB issued guidance on the disclosure of supplementary pro forma information for business combinations. Effective for periods beginning after December 15, 2010, the guidance specifies that if a public entity enters into business combinations that are material on an individual or aggregate basis and presents comparative financial statements, the entity must present pro forma revenue and earnings of the combined entity as though the business combination(s) that occurred during the current year had occurred as of the beginning of the comparable prior annual reporting period only. Adoption of this guidance did not have a material impact on our consolidated financial statements.

In June 2011, the FASB issued guidance to increase the prominence of other comprehensive income in financial statements. The standard gives businesses two options for presenting other comprehensive income (OCI), which until now has typically been included within the statement of shareholder s equity. An OCI statement can be included with the statement of income, and together the two will make a statement of total comprehensive income. Alternatively, businesses can have an OCI statement separate from the statement of income, but the two statements will have to appear consecutively within a financial report. These disclosure requirements are effective for interim and annual reporting periods beginning after December 15, 2011. Early adoption of this guidance is permitted. Adoption of this guidance will not have a material impact on our consolidated financial statements.

In April 2011, the FASB issued updated guidance on a creditor s determination of whether a restructuring will be a troubled debt restructuring, which establishes new guidelines in evaluating whether a loan modification meets the criteria of a troubled debt restructuring. Adoption of this guidance did not have a material impact on our consolidated financial statements.

In May 2011, the FASB issued updated guidance on fair value measurement which amends U.S. GAAP to conform to IFRS measurement and disclosure requirements. The amendments change the wording used to describe the requirements in U.S. GAAP for measuring fair value, changes certain fair value measurement principles and enhances disclosure requirements. This guidance is effective as of the first quarter of 2012, applied prospectively, and its adoption is not expected to have a material effect on our consolidated financial statements.

3. Property Acquisitions

In May 2011, we acquired a substantial ownership interest in the 205,000-square-foot office condominium at 110 East 42nd Street, along with control of the asset. We provided a $16.0 million senior mezzanine loan as part of the sale of the condominium unit in 2007. The May 2011 transaction included a consensual modification of that loan. In conjunction with the transaction, we successfully

Table of Contents

SL Green Realty Corp.

Notes to Consolidated Financial Statements

September 30, 2011

(Unaudited)

restructured the in-place mortgage financing, which had previously been in default.

The following summarizes our preliminary allocation of the purchase price of the assets acquired and liabilities assumed upon the assumption of control over 110 East 42nd Street (in thousands):

Land	$	34,000
Building		46,411
Above market lease value		823
Acquired in-place leases		5,396
Assets acquired		86,630
Below market lease value		2,326
Liabilities assumed		2,326
Purchase price allocation	$	84,304
Net consideration funded at closing	$	2,744
Debt assumed	$	65,000

In April 2011, we acquired the entire interest of SITQ Immobilier, a subsidiary of Caisse de depot et placement du Quebec, or SITQ s, in 1515 Broadway, thereby consolidating full ownership of the 1,750,000 square foot building. The transaction valued the consolidated interests at $1.234 billion. We acquired the interest subject to the $458.8 million mortgage encumbering the property. We recognized a purchase price fair value adjustment of $475.1 million upon the closing of this transaction. This property, which we initially acquired in May 2002, was previously accounted for as an investment in unconsolidated joint ventures.

The following summarizes our preliminary allocation of the purchase price of the assets acquired and liabilities assumed upon the purchase of partnership interest in 1515 Broadway (in thousands):

Land	$	462,700
Building		707,938
Above market lease value		18,298
Acquired in-place leases		98,661
Other assets, net of other liabilities		27,127
Assets acquired		1,314,724

Fair value adjustment to mortgage note payable		(3,693)
Below market lease value		84,417
Liabilities assumed		80,724
Purchase price allocation	$	1,234,000
Net consideration funded at closing	$	259,228

In January 2011, we purchased City Investment Fund, or CIF s, 49.9% interest in 521 Fifth Avenue, thereby assuming full ownership of the building. The transaction valued the consolidated interest at approximately $245.7 million, excluding $4.5 million of cash and other assets acquired. We acquired the interest subject to $140.0 million of mortgage financing in connection with this acquisition. We recognized a purchase price fair value adjustment of $13.8 million upon the closing of this transaction. In April 2011, we refinanced 521 Fifth Avenue with a new $150.0 million 2-year mortgage which carries a floating rate of interest of 200 basis points over the 30-day LIBOR In connection with that refinancing, we acquired the fee interest in the property for $15.0 million.

Table of Contents

SL Green Realty Corp.

Notes to Consolidated Financial Statements

September 30, 2011

(Unaudited)

The following summarizes our preliminary allocation of the purchase price of the assets acquired and liabilities assumed upon the purchase of 521 Fifth Avenue (in thousands):

Land	$	110,100
Building		146,686
Above market lease value		3,318
Acquired in-place leases		23,016
Assets acquired		283,120
Below market lease value		25,977
Liabilities assumed		25,977
Purchase price allocation	$	257,143
Net consideration funded at closing	$	70,000

In December 2010, we completed the acquisition of investments from Gramercy Capital Corp. (NYSE:GKK), or Gramercy. This included (1) the remaining 45% interest in the leased fee at 885 Third Avenue for approximately $39.3 million plus assumed mortgage debt of approximately $120.4 million, (2) the remaining 45% interest in the leased fee at 2 Herald Square for approximately $25.6 million plus assumed mortgage debt of approximately $86.1 million and, (3) the entire leased fee interest in 292 Madison Avenue for approximately $19.2 million plus assumed mortgage debt of approximately $59.1 million. These assets are all leased to third-party operators.

The following summarizes our allocation of the purchase price of the assets acquired and liabilities assumed upon the purchase of the abovementioned investments from Gramercy (in thousands):

Land	$	501,021
Above market lease value		23,178
Acquired in-place leases		217,312
Assets acquired		741,511
Mortgage notes payable		540,805
Other liabilities, net of other assets		2,091
Liabilities assumed		542,896
		198,615
Investments in unconsolidated joint ventures		(111,751)
Net assets acquired	$	86,864

In December 2010, we acquired two retail condominiums in Williamsburg, Brooklyn, for approximately $18.4 million. The retail condominiums are fully leased with rent commencement upon completion of the redevelopment work.

The following summarizes our allocation of the purchase price of the assets acquired in connection with the purchase of the abovementioned property (in thousands):

Land	$	6,200
Building		10,158
Acquired in-place leases		2,304
Assets acquired		18,662
Below market lease value		277
Liabilities assumed		277
Purchase price allocation	$	18,385

Pro Forma

The following table (in millions, except per share amounts) summarizes, on an unaudited pro forma basis, our combined results of operations for the nine months ended September 30, 2011 and 2010 as though the acquisitions of the 49.9% interest in 521 Fifth Avenue (January 2011) and the acquisition of the 45% interest in 1515 Broadway (April 2011) were completed on January 1, 2010.

Table of Contents

SL Green Realty Corp.

Notes to Consolidated Financial Statements

September 30, 2011

(Unaudited)

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, 2011. We accounted for the acquisition of assets utilizing the purchase method of accounting.

		September 30, 2011		September 30, 2010
Actual revenues since acquisition	$	68.2	$	---
Actual net income since acquisition	$	13.2	$	---
Pro forma revenues	$	969.1	$	915.9
Pro forma operating income	$	117.2	$	120.6
Pro forma earnings per common share-basic	$	7.62	$	3.52
Pro forma earnings per common share and common share equivalents-diluted	$	7.40	$	3.50
Pro forma common shares-basic		83,001		78,034
Pro forma common share and common share equivalents-diluted		85,384		79,722

4. Property Dispositions and Assets Held for Sale

In May 2011, we sold our property located at 28 West 44th Street for $161.0 million. The property is approximately 359,000 square feet. We recognized a gain of $46.1 million on the sale.

At September 30, 2011, discontinued operations included the results of operations of real estate assets sold or held for sale prior to that date. This included 28 West 44th Street, which was sold in May 2011 and 19 West 44th Street, which was sold in September 2010.

The following table summarizes income from discontinued operations for the three and nine months ended September 30, 2011 and 2010, respectively (in thousands).

		Three Months Ended September 30, 2011		Three Months Ended September 30, 2010		Nine Months Ended September 30, 2011		Nine Months Ended September 30, 2010
Revenues								
Rental revenue	**$**	**---**	$	6,270	**$**	**4,835**	$	19,113

Escalation and reimbursement revenues	---	1,481	**873**	4,161
Other income	---	361	**60**	740
Total revenues	---	8,112	**5,768**	24,014
Operating expense	---	2,334	**1,633**	6,188
Real estate taxes	---	1,237	**1,034**	4,066
Interest expense, net of interest income	---	784	**980**	2,183
Amortization of deferred financing costs	---	220	**147**	661
Depreciation and amortization	---	1,326	**676**	4,385
Total expenses	---	5,901	**4,470**	17,483
Income from discontinued operations	**$** ---	$ 2,211	**$ 1,298**	$ 6,531

5. Debt and Preferred Equity Investments

During the nine months ended September 30, 2011 and 2010, our debt and preferred equity investments (net of discounts) increased approximately $516.1 million and $437.7 million, respectively, due to originations, purchases, accretion of discounts and paid-in-kind interest. We recorded approximately $582.8 million and $315.3 million in repayments, participations, sales, foreclosures and loan loss reserves during those periods, respectively, which offset the increases in debt and preferred equity investments.

Table of Contents

SL Green Realty Corp.

Notes to Consolidated Financial Statements

September 30, 2011

(Unaudited)

As of September 30, 2011 and December 31, 2010, we held the following debt investments with an aggregate weighted average current yield of approximately 6.38% (in thousands):

Loan Type	September 30, 2011 Senior Financing	September 30, 2011 Principal Outstanding	December 31, 2010 Principal Outstanding	Initial Maturity Date
Other Loan(1)	$ 15,000	**$ 3,500**	$ 3,500	September 2021
Mezzanine Loan(1)	205,000	**64,506**	60,407	February 2016
Mortgage/ Mezzanine Loan(1)	172,126	**46,400**	46,358	May 2016
Mezzanine Loan(1)	165,000	**40,328**	39,711	November 2016
Mezzanine Loan(1)(2)(3)(6)(7)	---	**---**	27,187	---
Mezzanine Loan(1) (7)(14)	---	**---**	15,697	---
Junior Participation(1)(4)(6)(7)	---	**9,938**	9,938	April 2008
Mezzanine Loan(1)(7)(8)	1,139,000	**83,378**	84,062	March 2017
Junior Participation(1)(6)	53,000	**11,000**	11,000	November 2011
Junior Participation(6)	61,250	**10,875**	10,875	June 2012
Junior Participation(6)	---	**---**	5,866	---
Junior Participation(5)(6)	---	**---**	47,484	---
Mortgage/ Mezzanine Loan(2)(9)	---	**---**	137,222	---
Junior Participation(11)	---	**---**	42,439	---
Junior Participation	---	**---**	9,200	---
Mezzanine Loan(1)(12)	---	**---**	202,136	---
Mezzanine Loan(1)	75,000	**15,000**	15,000	July 2013
Mortgage(10)	---	**86,339**	86,339	June 2012
Mortgage(13)	28,500	**3,000**	26,000	February 2013
Mezzanine Loan(15)	796,693	**8,392**	13,536	August 2012
Mezzanine Loan(1)(16)	---	**---**	38,892	---
Mezzanine Loan(1)	177,000	**17,393**	---	May 2016
Junior Participation(1)	133,000	**49,000**	---	June 2016
Mezzanine Loan	170,000	**60,000**	---	August 2014
Mezzanine Loan(1)	55,000	**35,000**	---	July 2016
Other Loan	48,300	**3,092**	---	May 2012
Loan loss reserve(6)	---	**(18,400)**	(40,461)	---
	$ 3,293,869	**$ 528,741**	$ 892,388	

(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) This loan was sold in February 2011. We realized $6.2 million of additional income upon the sale. A portion of this income is included in loan loss and other reserves, net of recoveries.
(4) This loan is in default. The lender has begun foreclosure proceedings. Another participant holds a $12.2 million pari-pasu interest in this loan.

(5) Gramercy was the borrower under this loan. We sold this loan, which consisted of mortgage and mezzanine financing, for $35.8 million, in May 2011. We realized $1.2 million of additional income upon the sale, which is included in loan loss and other reserves, net of recoveries.

(6) Loan loss reserves are specifically allocated to investments. Our reserves reflect management s judgment of the probability and severity of losses based on Level 3 data. We cannot be certain that our judgment will prove to be correct or that reserves will be adequate over time to protect against potential future losses.

(7) This loan is on non-accrual status.

(8) Interest is added to the principal balance for this accrual only loan.

(9) Gramercy held a pari passu interest in the mezzanine loan. This loan was repaid in March 2011.

(10) We hold an 88% interest in the consolidated joint venture that acquired this loan. This investment is denominated in British Pounds.

(11) This loan was repaid in January 2011. We realized $1.3 million of additional income upon the sale. This income is included in preferred equity and investment income.

(12) In March 2011, we contributed our debt investment with a carrying value of $286.6 million to a newly formed joint venture in which we hold a 50% interest. We realized $38.7 million of additional income upon the contribution. This income is included in preferred equity and investment income. The joint venture paid us approximately $111.3 million and also assumed $30 million of related floating rate financing which matures in June 2016 and carried a weighted average interest rate for the quarter of 1.16%. In May 2011, this joint venture took control of the underlying property as part of a recapitalization transaction. See Note 6.

(13) In June 2011, we funded an additional $5.5 million and extended the maturity date of this loan to February 2013. In September 2011, we entered into a loan participation in the amount of $28.5 million on a $31.5 million mortgage. Due to our continued involvement with the loan, the portion that was participated out has been recorded in other assets and other liabilities in the accompanying consolidated balance sheet.

(14) In May 2011, we acquired a substantial ownership interest in the 205,000-square-foot office condominium along with control of the asset. We provided a senior mezzanine loan as part of the sale of the condominium unit in 2007. The transaction included a consensual modification of that loan. See Note 3.

(15) In connection with the extension of this loan, a portion of the mezzanine loan was converted to preferred equity. See note 6 to the next table.

(16) In conection with the recapitalization of the investment, our mezzanine loan was converted to preferred equity. See note 7 to the next table.

Table of Contents

SL Green Realty Corp.

Notes to Consolidated Financial Statements

September 30, 2011

(Unaudited)

Preferred Equity Investments

As of September 30, 2011 and December 31, 2010, we held the following preferred equity investments, with an aggregate weighted average current yield of approximately 10.4% (in thousands):

Type		September 30, 2011 Senior Financing		September 30, 2011 Amount Outstanding		December 31, 2010 Amount Outstanding	Initial Mandatory Redemption
Preferred equity(1)(4)(5)(7)	$	475,000	$	**139,246**	$	45,912	July 2014
Preferred equity(3)(4)(6)		978,257		**51,150**		46,372	August 2012
Preferred equity(4)		926,260		**201,291**		---	July 2016
Loan loss reserve(2)		---		**(23,400)**		(20,900)	---
	$	2,379,517	**$**	**368,287**	$	71,384	

(1) This is a fixed rate investment.
(2) Loan loss reserves are specifically allocated to investments. Our reserves reflect management s judgment of the probability and severity of losses based on Level 3 data. We cannot be certain that our judgment will prove to be correct and that reserves will be adequate over time to protect against potential future losses.
(3) This investment is on non-accrual status.
(4) The difference between the pay and accrual rates is included as an addition to the principal balance outstanding.
(5) This investment was classified as held for sale at June 30, 2009, but as held-to-maturity for all periods subsequent to June 30, 2009. The reserve previously taken against this loan is being accreted up to the face amount through the maturity date.
(6) In connection with the extension of this loan, a portion of the mezzanine loan was converted to preferred equity. See note 15 to the prior table.
(7) In connection with the recapitalization of the investment, our mezzanine loan was converted to preferred equity. We also made an additional $50.0 million preferred equity loan. See note 16 to the prior table.

The following table is a rollforward of our total loan loss reserves at September 30, 2011 and December 31, 2010 (in thousands):

		September 30, 2011		December 31, 2010
Balance at beginning of year	$	**61,361**	$	93,844
Expensed		**2,500**		24,418
Recoveries		**(4,370)**		(3,662)
Charge-offs		**(17,691)**		(53,239)
Balance at end of period	$	**41,800**	$	61,361

At September 30, 2011 and December 31, 2010, all debt and preferred equity investments, other than as noted above, were performing in accordance with the terms of the loan agreements.

We have determined that we have one portfolio segment of financing receivables at September 30, 2011 and December 31, 2010 comprising commercial real estate which is primarily recorded in debt and preferred equity investments. Included in other assets is an additional amount of financing receivables totaling approximately $105.4 million at September 30, 2011 and $78.7 million at December 31, 2010. The nonaccrual balance of financing receivables at September 30, 2011 and December 31, 2010 was $85.9 million and $140.8 million, respectively. The recorded investment for financing receivables past due 90 days at September 30, 2011 was $20.4 million associated with two financing receivables and at December 31, 2010 was $9.9 million associated with one financing receivable. All financing receivables are individually evaluated for impairment.

Table of Contents

SL Green Realty Corp.

Notes to Consolidated Financial Statements

September 30, 2011

(Unaudited)

The following table presents impaired loans, which may include non-accrual loans, as of September 30, 2011 and December 31, 2010, respectively (in thousands):

	September 30, 2011			December 31, 2010		
	Unpaid Principal Balance	Recorded Investment	Allowance Allocated	Unpaid Principal Balance	Recorded Investment	Allowance Allocated
With no related allowance recorded:						
Commercial real estate	$101,108	$83,378	$	$103,678	$99,759	$
With an allowance recorded:						
Commercial real estate	79,823	82,838	41,800	160,711	158,597	61,361
Total	$180,931	$166,216	$41,800	$264,389	$258,356	$61,361

The following table presents the average recorded investment in impaired loans, which may include non-accrual loans and the related investment and preferred equity income recognized during the three and nine months ended September 30, 2011 and 2010, respectively (in thousands):

	Three Months Ended September 30, 2011	Three Months Ended September 30, 2010	Nine Months Ended September 30, 2011	Nine Months Ended September 30, 2010
Average recorded investment in impaired loans	$ 174,790	$ 243,221	$ 214,310	$ 253,843
Investment and preferred equity income recognized	1,181	1,818	7,542	6,341

On an ongoing basis, we monitor the credit quality of our financing receivables based on payment activity. We assess credit quality indicators based on the underlying collateral.

6. Investment in Unconsolidated Joint Ventures

We have investments in several real estate joint ventures with various partners, including The City Investment Fund, or CIF, SITQ Immobilier, a subsidiary of Caisse de depot et placement du Quebec, or SITQ, Canada Pension Plan Investment Board, or CPPIB, 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, Jeff Sutton, or Sutton, Harel Insurance and Finance, or Harel, Louis Cappelli, or Cappelli, The Moinian Group, or Moinian, Vornado Realty Trust (NYSE: VNO), or Vornado, 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. In situations where we or our partner are involved in some or all of the following: approving the annual budget, receiving a detailed monthly reporting package from us, meeting with us on a quarterly basis to review the results of the joint venture, reviewing and approving the joint venture s tax return before filing, and approving 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.

In May 2010, Green Hill Acquisition LLC, our wholly owned subsidiary, sold its 45% beneficial interest in the property known as 1221 Avenue of the Americas, located in Manhattan, to a wholly owned subsidiary of CPPIB, for total consideration of $577.4 million, of which approximately $95.9 million represented payment for existing reserves and the assumption of our pro-rata share of in-place financing. The sale generated proceeds to us of approximately $500.9 million. We recognized a gain of approximately $126.8 million on the sale of our interest.

In August 2011, we sold our 10% interest in the joint venture that held 1551-1555 Broadway for approximately $9.7 million. We realized a gain of $4.0 million on the sale.

Table of Contents

SL Green Realty Corp.

Notes to Consolidated Financial Statements

September 30, 2011

(Unaudited)

The table below provides general information on each of our joint ventures as of September 30, 2011 (in thousands):

Property	Partner	Ownership Interest	Economic Interest	Square Feet	Acquired	Acquisition Price(1)
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
21 West 34th Street	Sutton	50.00%	50.00%	30	07/05	$ 22,400
800 Third Avenue(2)	Private Investors	42.95%	42.95%	526	12/06	$ 285,000
One Court Square	JP Morgan	30.00%	30.00%	1,402	01/07	$ 533,500
1604-1610 Broadway	Onyx/Sutton	45.00%				