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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

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

For the quarterly period ended June 30, 2002

or

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 No. 1-13199

SL GREEN REALTY CORP.

(Exact name of registrant as specified in its charter)

Maryland	**13-3956775**
(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 ☒ No o.

The number of shares outstanding of the registrant's common stock, $0.01 par value was 30,317,941 at July 18, 2002.

SL GREEN REALTY CORP.

INDEX

PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

	PAGE
Condensed Consolidated Balance Sheets as of June 30, 2002 (unaudited) and December 31, 2001	3
Condensed Consolidated Statements of Income for the three and six months ended June 30, 2002 and 2001 (unaudited)	4
Condensed Consolidated Statement of Stockholders' Equity and Comprehensive Income for the six months ended June 30, 2002 (unaudited)	5
Condensed Consolidated Statements of Cash Flows for the six months ended June 30, 2002 and 2001 (unaudited)	6
Notes to Condensed Consolidated Financial Statements (unaudited)	7

ITEM 2.	MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS	20
ITEM 3.	QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK	31
PART II.	OTHER INFORMATION	
ITEM 1.	LEGAL PROCEEDINGS	33
ITEM 2.	CHANGES IN SECURITIES AND USE OF PROCEEDS	33
ITEM 3.	DEFAULTS UPON SENIOR SECURITIES	33
ITEM 4.	SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS	33
ITEM 5.	OTHER INFORMATION	33
ITEM 6.	EXHIBITS AND REPORTS ON FORM 8-K	33
Signatures		34

PART I. FINANCIAL INFORMATION

ITEM 1. Financial Statements

SL Green Realty Corp.
Condensed Consolidated Balance Sheets
(Amounts in thousands, except per share data)

	June 30, 2002	December 31, 2001
	(Unaudited)	(Note 1)
Assets		
Commercial real estate properties, at cost:		
Land and land interests	$ 138,337	$ 138,337
Buildings and improvements	701,721	689,094
Building leasehold	145,264	144,736
Property under capital lease	12,208	12,208
	997,530	984,375
Less accumulated depreciation	(115,555)	(100,776)
	881,975	883,599
Cash and cash equivalents	20,486	13,193
Restricted cash	34,491	38,424
Tenant and other receivables, net of allowance of $5,081 and $3,629 in 2002 and 2001, respectively	8,619	8,793
Related party receivables	3,515	3,498
Deferred rents receivable, net of allowance of $5,406 and $5,264 in 2002 and 2001, respectively	55,975	51,855
Investment in and advances to affiliates	2,949	8,211
Structured finance investments, net of discount of $400 and $593 in 2002 and 2001, respectively	195,248	188,638
Investments in unconsolidated joint ventures	223,354	123,469
Deferred costs, net	34,571	34,901
Other assets	18,691	16,996
Total assets	$ 1,479,874	$ 1,371,577
Liabilities and Stockholders' Equity		
Mortgage notes payable	$ 397,371	$ 409,900
Revolving credit facilities	197,931	94,931
Derivative instruments at fair value	4,991	3,205
Accrued interest payable	1,951	1,875
Accounts payable and accrued expenses	27,259	22,819
Deferred compensation awards	671	1,838
Deferred revenue/gain	2,920	1,381
Capitalized lease obligations	15,802	15,574
Deferred land lease payable	14,406	14,086
Dividend and distributions payable	16,706	16,570
Security deposits	19,261	18,829
Total liabilities	699,269	601,008
Commitments and Contingencies		
Minority interest in Operating Partnership	45,644	46,430
8% Preferred Income Equity Redeemable Shares[SM] $0.01 par value $25.00 mandatory liquidation preference, 25,000 authorized and 4,600 outstanding at June 30, 2002 and December 31, 2001	111,474	111,231

Stockholders' Equity		
Common stock, $0.01 par value 100,000 shares authorized, 30,307 and 29,978 issued and outstanding at June 30, 2002 and December 31, 2001, respectively	**303**	300
Additional paid in-capital	**590,197**	583,350
Deferred compensation plans	**(6,165)**	(7,515)
Accumulated other comprehensive loss	**(4,709)**	(2,911)
Retained earnings	**43,861**	39,684
Total stockholders' equity	**623,487**	612,908
Total liabilities and stockholders' equity	**$ 1,479,874**	$ 1,371,577

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 June 30,		Six Months Ended June 30,	
	2002	**2001**	**2002**	**2001**
Revenues				
Rental revenue	**$ 48,184**	$ 53,405	**$ 95,968**	$ 108,408
Escalation and reimbursement revenues	**6,536**	7,296	**13,262**	15,353
Signage rent	**267**	179	**733**	529
Investment income	**3,828**	5,046	**7,548**	8,320
Preferred equity income	**1,934**	—	**3,845**	—
Other income	**1,528**	550	**2,604**	860
Total revenues	**62,277**	66,476	**123,960**	133,470
Expenses				
Operating expenses including $1,824 and $3,346 (2002) and $1,462 and $2,825 (2001) to affiliates	**14,195**	14,081	**27,914**	29,907
Real estate taxes	**7,348**	7,958	**14,703**	16,138
Ground rent	**3,159**	3,159	**6,318**	6,318
Interest	**9,519**	13,171	**18,631**	27,166
Depreciation and amortization	**9,753**	9,189	**19,350**	18,909
Marketing, general and administrative	**3,357**	3,668	**6,559**	7,215
Total expenses	**47,331**	51,226	**93,475**	105,653
Income before equity in net income (loss) from affiliates, equity in net income of unconsolidated joint ventures, gain on sale, minority interest and cumulative effect adjustment	**14,946**	15,250	**30,485**	27,817
Equity in net income (loss) from affiliates	**307**	(658)	**223**	(927)
Equity in net income of unconsolidated joint ventures	**3,998**	1,756	**7,331**	3,269
Operating earnings	**19,251**	16,348	**38,039**	30,159
Gain on sale of rental properties	**—**	3,002	**—**	4,516
Minority interest in operating partnership	**(1,153)**	(1,405)	**(2,305)**	(2,486)
Income before cumulative effect adjustment	**18,098**	17,945	**35,734**	32,189
Cumulative effect of change in accounting principle	**—**	—	**—**	(532)
Net income	**18,098**	17,945	**35,734**	31,657
Preferred stock dividends	**(2,300)**	(2,300)	**(4,600)**	(4,600)
Preferred stock accretion	**(123)**	(115)	**(246)**	(229)
Net income available to common shareholders	**$ 15,675**	$ 15,530	**$ 30,888**	$ 26,828
Basic earnings per share:				
Net income before gain on sale	**$ 0.52**	$ 0.51	**$ 1.03**	$ 0.93
Gain on sale	**—**	0.12	**—**	0.18
Cumulative effect of change in accounting principle	**—**	—	**—**	(0.02)
Net income	**$ 0.52**	$ 0.63	**$ 1.03**	$ 1.09
Diluted earnings per share:				
Net income before gain on sale	**$ 0.51**	$ 0.51	**$ 1.00**	$ 0.94
Gain on sale	**—**	0.09	**—**	0.14
Cumulative effect of change in accounting principle	**—**	—	**—**	(0.02)
Net income	**$ 0.51**	$ 0.60	**$ 1.00**	$ 1.06
Dividends per common share	**$ 0.4425**	$ 0.3875	**$ 0.8850**	$ 0.7750
Basic weighted average common shares outstanding	**30,200**	24,706	**30,097**	24,706
Diluted weighted average common shares and common share equivalents outstanding	**33,183**	32,183	**33,051**	32,170

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

SL Green Realty Corp.
Condensed Consolidated Statement of Stockholders' Equity and Comprehensive Income
(Unaudited, and amounts in thousands, except per share data)

	Common Stock							
	Shares	Par Value	Additional Paid-In-Capital	Deferred Compensation Plans	Accumulated Other Comprehensive Loss	Retained Earnings	Total	Comprehensive Income
Balance at December 31, 2001	29,978	$ 300	$ 583,350	$ (7,515)	$ (2,911)	$ 39,684	$ 612,908	
Comprehensive Income:								
Net income						35,734	35,734	$ 35,734
SL Green's share of joint venture unrealized loss on derivative instruments								(983)
Unrealized loss on derivative instruments					(1,798)		(1,798)	(1,798)
Preferred dividend and accretion requirement						(4,846)	(4,846)	
Deferred compensation plan and stock award, net	(32)		(534)	534			—	
Amortization of deferred compensation plan				816			816	
Proceeds from stock options exercised	274	3	5,635				5,638	
Redemption of units	87		1,746				1,746	
Cash distributions declared ($0.885 per common share)						(26,711)	(26,711)	
Balance at June 30, 2002	30,307	$ 303	$ 590,197	$ (6,165)	$ (4,709)	$ 43,861	$ 623,487	$ 32,953

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)

	Six Months Ended June 30,	
	2002	**2001**
Operating Activities		
Net income	**$ 35,734**	$ 31,755
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	**19,350**	18,909
Amortization of discount on structured finance investments	**193**	(2,105)
Cumulative effect of change in accounting principle	**—**	532
Gain on sale of rental properties/preferred investment	**—**	(4,516)
Equity in net (income) loss from affiliates	**(223)**	927
Equity in net income from unconsolidated joint ventures	**(7,331)**	(3,269)
Minority interest	**2,305**	2,486
Deferred rents receivable	**(5,178)**	(7,576)
Allowance for bad debts	**1,452**	2,165
Amortization for deferred compensation	**816**	698
Changes in operating assets and liabilities:		
Restricted cash—operations	**3,233**	4,650
Tenant and other receivables	**(1,770)**	(754)
Related party receivables	**(17)**	(1,066)
Deferred lease costs	**(2,806)**	(2,872)
Other assets	**(1,140)**	(3,030)
Accounts payable, accrued expenses and other liabilities	**2,910**	(2,945)
Deferred revenue	**(141)**	475
Deferred land lease payable	**320**	708
Net cash provided by operating activities	**47,707**	35,172
Investing Activities		
Acquisitions of real estate property	**—**	(390,000)
Additions to real estate property	**(8,848)**	(14,100)

Restricted cash—capital improvements/acquisitions	**700**	44,657
Investment in and advances to affiliates	**609**	(2,486)
Distribution from affiliate	**739**	—
Investments in unconsolidated joint ventures	**(93,807)**	(9,741)
Distributions from unconsolidated joint ventures	**4,478**	2,406
Net proceeds from disposition of rental property	**—**	80,997
Structured finance investments, net of repayments/participations	**(6,610)**	(48,644)
Net cash used in investing activities	**(102,739)**	(336,911)
Financing Activities		
Proceeds from mortgage notes payable	**—**	150,000
Repayments of mortgage notes payable	**(12,529)**	(29,240)
Proceeds from revolving credit facilities	**143,000**	343,053
Repayments of revolving credit facilities	**(40,000)**	(106,188)
Proceeds from stock options exercised	**5,638**	3,365
Capitalized lease obligation	**228**	134
Dividends and distributions paid	**(33,180)**	(25,457)
Deferred loan costs	**(832)**	(979)
Net cash provided by financing activities	**62,325**	334,688
Net increase in cash and cash equivalents	**7,293**	32,949
Cash and cash equivalents at beginning of period	**13,193**	10,793
Cash and cash equivalents at end of period	**$ 20,486**	$ 43,742
Supplemental cash flow disclosures		
Interest paid	**$ 18,555**	$ 26,884
Supplemental disclosure of non-cash investing and financing activities		
Issuance of common stock as deferred compensation	**$ 588**	$ 3,705
Cancellation of common stock as deferred compensation	**$ 1,122**	—
Unrealized loss on derivative instruments	**$ 1,798**	$ 1,085

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

SL Green Realty Corp.
Notes To Condensed Consolidated Financial Statements
(Unaudited, and dollars in thousands, except per share data)
June 30, 2002

1. Organization and Basis of Presentation

SL Green Realty Corp. (the "Company" or "SL Green"), a Maryland corporation, and SL Green Operating Partnership, L.P. (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 (the "Service Corporation"). The Company has qualified, and expects to qualify in its current fiscal year, as a real estate investment trust ("REIT") under the Internal Revenue Code of 1986, as amended (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 shareholders, is permitted to reduce or avoid the payment of Federal income taxes at the corporate level.

Substantially all of the Company's assets are held by, and its operations are conducted through, the Operating Partnership. The Company is the sole managing general partner of the Operating Partnership. As of June 30, 2002, minority investors held, in the aggregate, a 6.8% limited partnership interest in the Operating Partnership.

As of June 30, 2002, the Company's wholly-owned portfolio (the "Properties") consisted of 19 commercial properties encompassing approximately 6.9 million rentable square feet located primarily in midtown Manhattan ("Manhattan"), a borough of New York City. As of June 30, 2002, the weighted average occupancy (total occupied square feet divided by total available square feet) of the Properties was 96.5%. The Company's portfolio also includes ownership interests in unconsolidated joint ventures which own six commercial properties in Manhattan, encompassing approximately 4.6 million rentable square feet which were 98.2% occupied as of June 30, 2002. The Company also owns one triple-net leased property located in Shelton, Connecticut. In addition, the Company continues to manage three office properties owned by third-parties and affiliated companies encompassing approximately 1.0 million rentable square feet.

Partnership Agreement

In accordance with the partnership agreement of the Operating Partnership (the "Operating Partnership Agreement"), all allocations of distributions and profits and losses are made in proportion to the percentage ownership interests of the respective partners. As the managing general partner of the Operating Partnership, the Company is required to take such reasonable efforts, as determined by it in its sole discretion, to cause the Operating Partnership to distribute sufficient amounts to enable the payment of sufficient dividends by the Company 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 limited partnership units ("Units") for cash, or if the Company so elects, shares of common stock. Under the Operating Partnership Agreement, the Company is prohibited from selling 673 First Avenue and 470 Park Avenue South through August 2009.

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 2002 operating results

for the period presented are not necessarily indicative of the results that may be expected for the year ending December 31, 2002. These financial statements should be read in conjunction with the financial statements and accompanying notes included in the Company's annual report on Form 10-K for the year ended December 31, 2001.

The balance sheet at December 31, 2001 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 the accounts of the Company and its subsidiaries, which are wholly-owned or controlled by the Company. Entities which are not controlled by the Company are accounted for under the equity method. All significant intercompany balances and transactions have been eliminated.

New Accounting Pronouncements

On January 1, 2002, the Company adopted Statement of Financial Accounting Standards ("SFAS") No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets." The adoption did not have a material impact on the Company's results of operations or financial position.

On May 15, 2002, the Company adopted SFAS No. 145, which rescinded SFAS No. 4, "Reporting Gains and Losses from Extinguishment of Debt." The adoption did not have a material impact on the Company's results of operations or financial position. As a result of the adoption of this standard, the Company reclassified an extraordinary loss from the write-off of unamortized financing costs ($98), previously recorded in the six months ended June 2001, to interest expense.

Income Taxes

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

Pursuant to amendments to the Code that became effective January 1, 2001, the Company has elected to treat certain of its existing or newly created corporate subsidiaries as taxable REIT subsidiaries (each a "TRS"). In general, a TRS of the Company may perform non-customary services for tenants of the Company, hold assets that the Company cannot hold directly and generally may engage in any real estate or non-real estate related business (except for the operation or management of health care facilities or lodging facilities or the provision to any person, under a franchise, license or otherwise, rights to any brand name under which any lodging facility or health care facility is operated). A TRS is subject to corporate Federal income tax.

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.

Reclassification

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

3. Property Acquisitions

During the six months ended June 30, 2002, the Company did not acquire any Property.

Pro Forma

The following table summarizes, on an unaudited pro forma basis, the combined results of operations of the Company for the six months ended June 30, 2002 and 2001 as though the 2001 acquisition of 317 Madison Avenue (June 2001) and the offering of 5,000,000 shares of common stock (July 2001) and the equity investment in 1515 Broadway (See Note 6) (May 2002) were made on January 1, 2001.

	2002	2001
Pro forma revenues	$ 123,960	$ 140,266
Pro forma net income	$ 34,877	$ 29,631
Pro forma basic earnings per common share	$ 1.16	$ 1.00
Pro forma diluted earnings per common share	$ 1.12	$ 1.00
Common share—basic	30,097	29,706
Common and common equivalent share—diluted	37,750	37,170

4. Property Dispositions

During the six months ended June 30, 2002, the Company did not dispose of any Property.

5. Structured Finance Investments

During the six months ended June 30, 2002, the Company originated $26,989 in structured finance investments (net of discount). There was also $20,379 in repayments and participations during the period. At June 30, 2002, all loans were performing in accordance with the terms of the loan agreements. All collateral securing the mortgage loans receivable is located in Manhattan.

As of June 30, 2002, the Company held the following variable rate structured finance investments:

Loan Type	Interest Rate	Gross Investment	Senior Financing	Principal Outstanding	Initial Maturity Date
Mezzanine Loan	12.09%	$ 40,265	$ 130,000	$ 40,150	January 2003
Mezzanine Loan(1)	13.38%	25,000	107,000	24,716	April 2004
Mezzanine Loan	12.00%	10,300	25,600	10,300	June 2006
Junior Participation	14.00%	10,000	80,000	10,000	September 2002
Junior Participation(2)	14.49%	27,723	67,277	27,723	November 2002
Junior Participation(3)	13.40%	15,000	178,000	14,925	November 2004
				$ 127,814	

(1) On July 20, 2001 this loan was contributed to a joint venture with the Prudential Real Estate Investors ("PREI"). The Company retained a 50% interest in the loan.

(2) In connection with the acquisition of a subordinate first mortgage interest, the Company obtained $22,178 of financing from the senior participant which is co-terminous with the mortgage loan. As a result, the Company's net investment is $5,545. This financing carries a variable interest rate of 100 basis points over the 30-day LIBOR.

(3) On April 12, 2002 this loan, whose original investment was $30,000, was contributed to a joint venture with PREI. The Company retained a 50% interest in the loan.

Preferred Equity Investments

The Company made an $8,000 preferred equity investment. This investment entitles the Company to receive a preferential 10% yield. The initial redemption date is May 2006. The Company will also participate in the appreciation of the property upon sale to a third party above a specified threshold. The balance on the investment was $7,934 at June 30, 2002. The property is encumbered by $65,000 of senior financing.

The Company made a $53,500 preferred equity investment with an initial redemption date of September 2006. This variable rate investment had a yield of 12.6% at June 30, 2002. The Company will also participate in the appreciation of the property upon sale to a third party above a specified threshold. The Company also receives asset management fees. The property is encumbered by $186,500 of senior financing.

The Company made a $6,000 preferred equity investment with a mandatory redemption date of June 2007. There is a one year redemption lockout until June 2003. This variable rate investment had a yield of 13.1% at June 30, 2002. The property is encumbered by $38,000 of senior financing.

6. Investments in Unconsolidated Joint Ventures

SITQ Immobilier Joint Venture

On May 15, 2002, the Company acquired 1515 Broadway, New York, NY ("1515 Broadway") for a gross purchase price of approximately $483,500. The property is a 1.75 million square foot, 54-story office tower located on Broadway between 44th and 45th Streets. The property was acquired in a joint venture with SITQ Immobilier, with SL Green retaining an approximate 55% non-controlling interest in the asset.

The property was acquired with $335,000 of financing of which $275,000 was provided by Lehman Brothers and Bear Stearns and $60,000 was provided by Goldman Sachs and Wells Fargo (the "Mezzanine Loans"). The balance of the proceeds were funded from the Company's unsecured line of credit and from proceeds of the sale of the joint venture interest to SITQ. The $275,000 first mortgage, which carries an interest rate of 145 basis points over the 30-day LIBOR (3.29% at June 30, 2002), matures in June 2004. The mortgage has five 1-year extension options. The Mezzanine Loans consist of two $30,000 loans. The first mezzanine loan, which carries an interest rate of 350 basis points over the 30-day LIBOR (5.34% at June 30, 2002), matures in May 2007. The second mezzanine loan, which carries an interest rate of 450 basis points over the 30-day LIBOR (6.34% at June 30, 2002), matures in May 2007.

Morgan Stanley Joint Ventures

On June 20, 2002, the Company and Morgan Stanley Real Estate Fund, through their MSSG II joint venture, sold 469 Seventh Avenue for a gross sales price of $53,100, excluding closing costs. MSSG II realized a gain of approximately $4,808 on the sale of which the Company's share was approximately $1,680. In addition the $36,000 mortgage was repaid in full. As part of the sale, the Company made a preferred equity investment of $6,000 in the entity acquiring the asset. As a result of this continuing investment, the Company will defer recognition of its share of the gain until its preferred investment has been redeemed.

The condensed combined balance sheets for the unconsolidated joint ventures at June 30, 2002 and December 31, 2001 are as follows:

	June 30, 2002	December 31, 2001
Assets		
Commercial real estate property	**$ 1,092,367**	$ 656,222
Other assets	**110,529**	63,634
Total assets	**$ 1,202,896**	$ 719,856
Liabilities and members' equity		
Mortgage payable	**$ 743,201**	$ 444,784
Other liabilities	**24,577**	19,564
Members' equity	**435,118**	255,508
Total liabilities and members' equity	**$ 1,202,896**	$ 719,856
Company's net investment in unconsolidated joint ventures	**$ 223,354**	$ 123,469

The condensed combined statements of operations for the unconsolidated joint ventures for the three and six months ended June 30, 2002 and 2001 are as follows:

	Three Months Ended		Six Months Ended	
	2002	2001	2002	2001
Total revenues	**$ 35,899**	$ 20,711	**$ 64,121**	$ 38,981
Operating expense	**8,851**	5,015	**16,149**	9,703
Real estate taxes	**5,507**	3,320	**9,760**	6,175
Interest	**7,475**	6,040	**13,396**	11,411
Depreciation and amortization	**5,938**	2,920	**10,034**	5,209
Total expenses	**27,771**	17,295	**49,339**	32,498
Net income	**$ 8,128**	$ 3,416	**$ 14,782**	$ 6,483
Company's equity in earnings of unconsolidated joint ventures	**$ 3,998**	$ 1,756	**$ 7,331**	$ 3,269

7. Investment in and Advances to Affiliates

	June 30, 2002	December 31, 2001
Investment in and advances to Service Corporation, net	**$ 2,949**	$ 3,781
Investment in and advances to e.Emerge, net	**—**	4,430
Investments in and advances to affiliates	**$ 2,949**	$ 8,211

Service Corporation

In order to maintain the Company's qualification as a REIT while realizing income from management, leasing and construction contracts from third parties and joint venture properties, all of the management operations are conducted through an unconsolidated company, the Service Corporation. The Company, through the Operating Partnership, owns 100% of the non-voting common stock (representing 95% of the total equity) of the Service Corporation. Through dividends on its equity interest, the Operating Partnership receives substantially all of the cash flow from the Service Corporation's operations. All of the voting common stock of the Service Corporation (representing 5%

of the total equity) is held by a Company affiliate. This controlling interest gives the affiliate the power to elect all directors of the Service Corporation. The Company accounts for its investment in the Service Corporation on the equity basis of accounting because it has significant influence with respect to management and operations, but does not control the entity. Effective January 1, 2001, the Service Corporation elected to be taxed as a TRS.

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

e.Emerge

On May 11, 2000, the Operating Partnership formed e.Emerge, Inc., a Delaware corporation ("e.Emerge"). e.Emerge is a separately managed, self-funded company that provides fully-wired and furnished office space, services and support to help businesses grow.

The Company, through the Operating Partnership, owned all of the non-voting common stock of e.Emerge. Through dividends on its equity interest, the Operating Partnership received approximately 100% of the cash flow from e.Emerge operations. All of the voting common stock was held by a Company affiliate. This controlling interest gave the affiliate the power to elect all the directors of e.Emerge. The Company accounted for its investment in e.Emerge on the equity basis of accounting because it had significant influence with respect to management and operations, but did not control the entity. Effective March 26, 2002, the Company acquired all the voting common stock previously held by the Company affiliate. As a result, the Company controls all the common stock of e.Emerge. Effective with the quarter ended March 31, 2002, the Company consolidates the accounts of e.Emerge.

Effective January 1, 2001, e.Emerge elected to be taxed as a TRS.

On June 8, 2000, e.Emerge and EUREKA BROADBAND CORPORATION ("Eureka") formed eEmerge.NYC LLC, a Delaware limited liability company ("ENYC") whereby e.Emerge has a 95% interest and Eureka has a 5% interest in ENYC. ENYC was formed to build and operate a 45,000 square foot fractional office suites business marketed to the technology industry. ENYC entered into a 10-year lease with the Operating Partnership for its premises, which is located at 440 Ninth Avenue, Manhattan. Allocations of net profits, net losses and distributions shall be made in accordance with the limited liability company agreement of ENYC. Effective with the quarter ended March 31, 2002, the Company consolidates the accounts of ENYC.

8. Deferred Costs

Deferred costs consist of the following:

	June 30, 2002	December 31, 2001
Deferred financing	**$ 15,644**	$ 16,086
Deferred leasing	**42,249**	40,856
	57,893	56,942
Less accumulated amortization	**(23,322)**	(22,041)
Total deferred costs, net	**$ 34,571**	$ 34,901

9. Mortgage Notes Payable

The mortgage notes payable collateralized by the respective properties and assignment of leases at June 30, 2002 and December 31, 2001 are as follows:

Property	Maturity Date	Interest Rate	2002	2001
50 West 23rd Street	8/1/07	7.33%	**$ 21,000**	$ 21,000
673 First Avenue	12/13/03	9.0%	**7,363**	8,977
470 Park Avenue South(4)	4/1/04	8.25%	**—**	9,356
1414 Avenue of the Americas & 70 West 36th St.(1)	5/1/09	7.9%	**25,855**	26,023
711 Third Avenue(1)	9/10/05	8.13%	**48,633**	48,824
875 Bridgeport Ave., Shelton, CT	5/10/25	8.32%	**14,849**	14,867
420 Lexington Avenue(1)	11/1/10	8.44%	**123,900**	124,745
555 West 57th Street(2)	11/4/04	LIBOR + 2.09%	**68,593**	68,930
317 Madison Avenue(1)(3)	8/20/04	LIBOR + 1.8%	**65,000**	65,000
Total fixed rate debt			**375,193**	387,722
Total floating rate debt			**—**	—
Total mortgage notes payable(5)			**$ 375,193**	$ 387,722

(1) Held in bankruptcy remote special purpose entity.

(2) The Company entered into an interest rate protection agreement which fixed the LIBOR interest rate at 6.10% at June 30, 2002 since LIBOR was 1.84% at that date. If LIBOR exceeds 6.10%, the loan will float until the maximum LIBOR rate of 6.58% is reached.

(3) Based on LIBOR rate of 1.84% at June 30, 2002. The Company obtained a first mortgage secured by the property on August 16, 2001. The mortgage has two one-year extension options. On October 18, 2001, the Company entered into a swap agreement effectively fixing the LIBOR rate at 4.01% for four years.

(4) This loan was repaid on June 5, 2002.

(5) Excludes $22,178 loan obtained to fund a structured finance transaction (See Note 5(2)).

Principal Maturities

Combined aggregate principal maturities of mortgages and notes payable, revolving credit facilities and the Company's share of joint venture debt as of June 30, 2002 are as follows:

	Scheduled Amortization	Principal Repayments	Revolving Credit Facilities	Total	Joint Venture Debt
2002	$ 3,291	$ 22,178	—	$ 25,469	$ 289
2003	7,282	2,002	$ 197,931	207,215	628
2004	3,734	132,015	—	135,749	321,866
2005	3,366	47,247	—	50,613	16,079
2006	3,270	—	—	3,270	608
Thereafter	21,065	151,921	—	172,986	57,180
	$ 42,008	$ 355,363	$ 197,931	$ 595,302	$ 396,650

Mortgage Recording Tax—Hypothecated Loan

The Operating Partnership mortgage tax credit loans totaled approximately $206,576 from Lehman Brothers Holdings, Inc. ("LBHI") at June 30, 2002. These loans were collateralized by the mortgage encumbering the Operating Partnership's interests in 290 Madison Avenue. The loans were also collateralized by an equivalent amount of the Company's cash which was held by LBHI and invested in US Treasury securities. Interest earned on the cash collateral was applied by LBHI to service the loans with interest rate commensurate with that of a portfolio of six month US Treasury securities, which will mature on May 15, 2003. The Operating Partnership and LBHI each had the right of offset and therefore the loans and the cash collateral were presented on a net basis in the consolidated balance sheet at June 30, 2002. The purpose of these loans was to temporarily preserve mortgage recording tax credits for future potential acquisitions of real property which the Company may make, the financing of which may include property level debt, for which these credits would be applicable and provide a financial savings. None of these mortgage tax credit loans had been utilized as of June 30, 2002.

10. Revolving Credit Facilities

2000 Unsecured Credit Facility

On June 27, 2000, the Company repaid in full and terminated its $140 million credit facility and obtained a new senior unsecured revolving credit facility in the amount of $250,000 (the "2000 Unsecured Credit Facility") from a group of 9 banks. In March 2001, the Company exercised an option to increase the capacity under this credit facility to $300,000. The 2000 Unsecured Credit Facility has a term of three years and bears interest at a spread ranging from 137.5 basis points to 175 basis points over LIBOR, based on the Company's leverage ratio. If the Company was to receive an investment grade rating, the spread over LIBOR will be reduced to 125 basis points. The 2000 Unsecured Credit Facility also requires a 15 to 25 basis point fee on the unused balance payable quarterly in arrears. At June 30, 2002, $164,000 was outstanding and carried an effective interest rate of 3.39%. Availability under the 2000 Unsecured Credit Facility at June 30, 2002 was further reduced by the issuance of letters of credit in the amount of $5,000 for acquisition deposits.

The terms of the 2000 Unsecured Credit Facility 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, the minimum amount of fixed charge coverage, the minimum 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 the Company to continue to qualify as a REIT under the Code, the Company 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.

2001 Secured Credit Facility

On December 20, 2001, the Company repaid in full and retired its $60,000 secured credit facility in connection with the Company obtaining a $75,000 secured credit facility (the "2001 Secured Credit Facility"). The 2001 Secured Credit Facility has a term of two years with a one year extension option. It bears interest at the rate of 150 basis points over LIBOR and is secured by various structured finance investments. At June 30, 2002, $33,931 was outstanding and carried a weighted average interest rate of 3.46%. The 2001 Secured Credit Facility includes certain restrictions and covenants which are similar to those under the 2000 Unsecured Credit Facility.

11. Stockholders' Equity

Common Shares

As of June 30, 2002, the Company had 30,307,275 shares of common stock issued and outstanding.

Preferred Shares

The Company's 4,600,000 8% Preferred Income Equity Redeemable Shares (''PIERS') are non-voting and are convertible at any time at the option of the holder into the Company's common stock at a conversion price of $24.475 per share. The conversion of all PIERS would result in the issuance of 4,699,000 of the Company's common stock which have been reserved for issuance. The PIERS receive annual dividends of $2.00 per share paid on a quarterly basis and dividends are cumulative, subject to certain provisions. On or after July 15, 2003 the PIERS may be redeemed at the option of the Company at a redemption price of $25.889 and thereafter at prices declining to the par value of $25.00 on or after July 15, 2007, with a mandatory redemption on April 15, 2008 at a price of $25.00 per share. The Company may pay the redemption price out of the sale proceeds of other shares of stock of the Company. The PIERS were recorded net of underwriters discount and issuance costs. These costs are being accreted over the expected term of the PIERS using the interest method.

Common Unitholders

On May 15, 2002, the Company issued 28,786 units in connection with the acquisition of 1515 Broadway. As of June 30, 2002, there were 2,212,690 common units outstanding.

The common unitholders represent the minority interest ownership in the Operating Partnership. They held approximately 6.8% and 7.0% ownership interest in the Operating Partnership as of June 30, 2002 and December 31, 2001, respectively.

Rights Plan

On February 16, 2000, the Board of Directors of the Company authorized a distribution of one preferred share purchase right ("Right") for each outstanding share of common stock under a shareholder rights plan. This distribution was made to all holders of record of the common stock on March 31, 2000. Each Right entitles the registered holder to purchase from the Company one one-hundredth of a share of Series B junior participating preferred stock, par value $0.01 per share ("Preferred Shares"), at a price of $60.00 per one one-hundredth of a Preferred Share ("Purchase Price"), subject to adjustment as provided in the rights agreement. The Rights expire on March 5, 2010, unless the expiration date is extended or the Right is redeemed or exchanged earlier by the Company.

The Rights are attached to each share of common stock. The rights are generally exercisable only if a person or group becomes the beneficial owner of 17% or more of the outstanding common stock or announces a tender offer for 17% or more of the outstanding stock ("Acquiring Person"). In the event that a person or group becomes an Acquiring Person, each holder of a Right, excluding the Acquiring Person, will have the right to receive, upon exercise, common stock having a market value equal to two times the Purchase Price of the Preferred Shares.

Dividend Reinvestment and Stock Purchase Plan

The Company filed a registration statement with the SEC for the Company's dividend reinvestment and stock purchase plan ("DRIP") which was declared effective on September 10, 2001, and commenced on September 24, 2001. The Company registered 3,000,000 shares of common stock under the DRIP.

During the six months ended June 30, 2002, 41 common shares were issued and $1 of proceeds were received from dividend reinvestments and/or stock purchases under the DRIP.

Earnings Per Share

Earnings per share is computed as follows (in thousands):

	Three Months Ended June 30,		Six Months Ended June 30,	
Numerator (Income)	**2002**	**2001**	**2002**	**2001**
Basic Earnings:				
Income available to common shareholders	**$ 15,675**	$ 15,530	**$ 30,888**	$ 26,828
Effect of Dilutive Securities:				
Redemption of units to common shares	**1,153**	1,405	**2,305**	2,486
Preferred stock (if converted to common stock)	**—**	2,415	**—**	4,829
Stock options	**—**	—	**—**	—
Diluted Earnings:				
Income available to common shareholders	**$ 16,828**	$ 19,350	**$ 33,193**	$ 34,143

	Three Months Ended June 30,		Six Months Ended June 30,	
Denominator (Shares)	**2002**	**2001**	**2002**	**2001**
Basic Earnings:				
Income available to common shareholders	**30,200**	24,706	**30,097**	24,706
Effect of Dilutive Securities:				
Redemption of units to common shares	**2,222**	2,295	**2,247**	2,289
Preferred stock (if converted to common stock)	**—**	4,699	**—**	4,699
Stock options	**761**	483	**707**	476
Diluted Earnings:				
Income available to common shareholders	**33,183**	32,183	**33,051**	32,170

The PIERS outstanding in 2002 were not included in the 2002 computations of earnings per share as they were anti-dilutive during those periods.

12. Commitments and Contingencies

The Company and the Operating Partnership are not presently involved in any material litigation nor, to their knowledge, is any material litigation threatened against them or their properties, other than routine litigation arising in the ordinary course of business. Management believes the costs, if any, incurred by the

Company and the Operating Partnership related to the routine litigation will not materially affect the financial position, operating results or liquidity of the Company and the Operating Partnership.

On October 24, 2001, an accident occurred at 215 Park Avenue South, a property which the Company manages, but does not own. Personal injury claims have been filed against the Company and others by 12 persons. The Company believes that there is sufficient insurance coverage to cover the cost of such claims, as well as any other personal injury or property claims which may arise.

13. Related Party Transactions

There are several business relationships with related parties, entities owned by Stephen L. Green or relatives of Stephen L. Green, which involve management, leasing, and construction fee revenues, rental income and maintenance, security, exterminating and messenger service expenses in the ordinary course of business. These transactions for the three and six month periods ended June 30, 2002 and 2001 include the following:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2002	2001	2002	2001
Management revenue	**$ 98**	$ 95	**$ 212**	$ 184
Maintenance expense	**1,824**	1,462	**3,346**	2,825
Rental revenue	**47**	40	**85**	78

Amounts due from related parties at June 30, 2002 and December 31, 2001, respectively, consist of:

	2002	2001
17 Battery Condominium Association	**$ 143**	$ 143
Morgan Stanley Real Estate Funds	**668**	378
SLG 100 Park LLC	**320**	347
One Park Realty Corp.	**33**	33
1250 Broadway Realty Corp.	**377**	906
Officers	**1,554**	1,484
Other	**420**	207
Related party receivables	**$ 3,515**	$ 3,498

An officer received a $1,000 loan from the Company secured by the pledge of his Company stock. Recourse for repayment of this loan is limited to those shares. The loan is forgivable upon the attainment of specific financial performance goals by December 31, 2006.

Sonnenblick-Goldman Company, a nationally recognized real estate investment banking firm, provided mortgage brokerage services with respect to securing approximately $85,000 of aggregate first mortgage financing for 1250 Broadway in 2001. Mr. Morton Holliday, the father of Mr. Marc Holliday, was a Managing Director of Sonnenblick at the time of the financing. The fees paid by the Company to Sonnenblick for such services was approximately $319 in 2001.

14. Deferred Compensation Award

Contemporaneous with the closing of 1370 Avenue of the Americas, an award of $2,833 was granted to several members of management earned and expensed in connection with the realization of this investment gain. This award, which will be paid out over a three-year period, is presented as Deferred compensation award on the balance sheet. As of June 30, 2002, $2,162 had been paid against this compensation award.

15. Financial Instruments: Derivatives and Hedging

Financial Accounting Standards Board's Statement No. 133, "Accounting for Derivative Instruments and Hedging Activities," ("SFAS 133") which became effective January 1, 2001 requires the Company to recognize all derivatives on the balance sheet at fair value. Derivatives that are not hedges must be adjusted to fair value through income. If a derivative is a hedge, depending on the nature of the hedge, changes in the fair value of the derivative will either be offset against the change in fair value of the hedged asset, liability, or firm commitment through earnings, or recognized in other comprehensive income until the hedged item is recognized in earnings. The ineffective portion of a derivative's change in fair value will be immediately recognized in earnings. The Company recorded a cumulative effect adjustment upon the adoption of SFAS 133. This cumulative effect adjustment, of which the intrinsic value of the hedge was recorded in other comprehensive income ($811) and the time value component was recorded in the statement of income ($532), was an unrealized loss of $1,343. The transition amounts were determined based on the interpretive guidance issued by the FASB at that date. The FASB continues to issue interpretive guidance that could require changes in the Company's application of the standard and adjustments to the transition amounts. SFAS 133 may increase or decrease reported net income and stockholders' equity prospectively, depending on future levels of interest rates and other variables affecting the fair values of derivative instruments and hedged items, but will have no effect on cash flows.

The following table summarizes the notional and fair value of the Company's derivative financial instruments at June 30, 2002. The notional value is an indication of the extent of the Company's involvement in these instruments at that time, but does not represent exposure to credit, interest rate or market risks.

	Notional Value	Strike Rate	Expiration Date	Fair Value
Interest Rate Collar	$ 70,000	6.580%	11/2004	$ (4,478)
Interest Rate Swap	$ 65,000	4.010%	8/2005	$ (513)

On June 30, 2002, the derivative instruments were reported as an obligation at their fair value of $4,991. Offsetting adjustments are represented as deferred gains or losses in Accumulated Other Comprehensive Loss of $4,709. Currently, all derivative instruments are designated as hedging instruments.

Over time, the unrealized gains and losses held in Accumulated Other Comprehensive Loss will be reclassified into earnings as interest expense in the same periods in which the hedged interest payments affect earnings. The Company estimates that approximately $1,949 of the current balance held in Accumulated Other Comprehensive Loss will be reclassified into earnings within the next twelve months.

The Company is not currently hedging exposure to variability in future cash flows for forecasted transactions other than anticipated future interest payments on existing debt.

16. Segment Information

The Company is a REIT engaged in owning, managing, leasing and repositioning office properties in Manhattan and has two reportable segments, office real estate and structured finance investments. The Company evaluates real estate performance and allocates resources based on earnings contribution to net operating income.

The Company's real estate portfolio is located in one geographical market of Manhattan. The primary sources of revenue are generated from tenant rents and escalations and reimbursement revenue. Real estate property operating expenses consist primarily of security, maintenance, utility costs, real estate taxes and ground rent expense (at certain applicable properties). See Note 5 for additional details on the structured finance investments.

Selected results of operations for the three and six months ended June 30, 2002 and 2001, and selected asset information as of June 30, 2002 and December 31, 2001, regarding the Company's operating segments are as follows:

	Real Estate Segment	Structured Finance Segment	Total Company
Total revenues			
Three months ended:			
June 30, 2002	$ 56,515	$ 5,762	$ 62,277
June 30, 2001	61,430	5,046	66,476
Six months ended:			
June 30, 2002	112,567	11,393	123,960
June 30, 2001	125,150	8,320	133,470
Operating earnings			
Three months ended:			
June 30, 2002	$ 14,984	$ 4,267	$ 19,251
June 30, 2001	12,377	3,971	16,348
Six months ended:			
June 30, 2002	29,655	8,384	38,039
June 30, 2001	23,931	6,228	30,159
Total assets			
June 30, 2002	$ 1,284,626	$ 195,248	$ 1,479,874
December 31, 2001	1,182,939	188,638	1,371,577

Operating earnings represents total revenues less total expenses for the real estate segment and total revenues less interest expense for the structured finance segment. The Company does not allocate marketing, general and administrative expenses ($3,357 and $3,668, and $6,559 and $7,215 for the three and six months ended June 30, 2002 and 2001, respectively) to the structured finance segment, since it bases performance on the individual segments prior to allocating marketing, general and administrative expenses. All other expenses, except interest, relate entirely to the real estate assets.

There were no transactions between the above two segments.

ITEM 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

Overview

This report includes certain statements that may be deemed to be "forward-looking statements" within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended (the "Exchange Act"). Such forward-looking statements relate to, without limitation, the Company's future capital expenditures, dividends and acquisitions (including the amount and nature thereof), expansion and other development trends of the real estate industry, business strategies, expansion and growth of the Company's operations. These statements are based on certain assumptions and analyses made by the Company in light of its experience and its perception of historical trends, current conditions, expected future developments and other factors it believes are appropriate. The Company intends such forward-looking statements to be covered by the safe harbor provisions for forward-looking statements contained in Section 21E of the Exchange Act. Such statements are subject to a number of assumptions, risks and uncertainties which may cause our actual results, performance or achievements to be materially different from future results, performance or achievements expressed or implied by these forward-looking statements. Forward-looking statements are generally identifiable by the use of the words "may," "will," "should," "expect," "anticipate,"

"estimate," "believe," "intend," "project," or the negative of these words, or other similar words or terms. Readers are cautioned not to place undue reliance on these forward-looking statements. Among the factors about which the Company has made assumptions are general economic and business (particularly real estate) conditions, the business opportunities that may be presented to and pursued by the Company, changes in laws or regulations (including changes to laws governing the taxation of REITs), availability of capital (debt and equity), interest rate fluctuations, competition, supply and demand for properties in our current and any proposed market areas, tenants' ability to pay rent at current or increased levels, accounting principles, policies and guidelines applicable to REITs, environmental risks, tenant bankruptcies and defaults, the availability and cost of comprehensive insurance, including coverage for terrorist acts, and other factors, many of which are beyond the control of the Company. The Company undertakes no obligation to publicly update or revise any forward-looking statements, whether as a result of future events, new information or otherwise.

The following discussion related to the consolidated financial statements of the Company should be read in conjunction with the financial statements appearing elsewhere in this report and the financial statements included in the Company's 2001 annual report on Form 10-K.

General

SL Green Realty Corp. (the "Company"), a Maryland corporation, and SL Green Operating Partnership, L.P. (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. 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.

As of June 30, 2002, our wholly-owned portfolio (the "Properties") consisted of 19 commercial properties encompassing approximately 6.9 million rentable square feet located primarily in midtown Manhattan ("Manhattan"), a borough of New York City. As of June 30, 2002, the weighted average occupancy (total occupied square feet divided by total available square feet) of the Properties was 96.5%. Our portfolio also includes ownership interests in unconsolidated joint ventures which own six commercial properties in Manhattan, encompassing approximately 4.6 million rentable square feet. These properties were 98.2% occupied as of June 30, 2002. We also own one triple-net leased property located in Shelton, Connecticut. In addition, we continue to manage three office properties owned by third-parties and affiliated companies encompassing approximately 1.0 million rentable square feet.

Critical Accounting Policies

Our discussion and analysis of financial condition and results of operations is based on our consolidated financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States. The preparation of these financial statements requires us to make estimates and judgments that affect the reported amounts of assets, liabilities, and contingencies as of the date of the financial statements and the reported amounts of revenues and expenses during the reporting periods. We evaluate our assumptions and estimates on an on-going basis. We base our estimates on historical experience and on various other assumptions that we believe to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates under different assumptions or conditions. We believe the following critical accounting policies affect our more significant judgments and estimates used in the preparation of our consolidated financial statements.

On a periodic basis, our management team assesses whether there are any indicators that the value of our real estate properties and structured finance investments may be impaired. If the carrying amount of the property is greater than the estimated expected future cash flow (undiscounted and without interest charges) of the asset, impairment has occurred. We will then record an impairment loss equal to the difference between the carrying amount and the fair value of the asset. We do not believe that the value of any of our rental properties or structured finance investments was impaired at June 30, 2002.

Rental revenue is recognized on a straight-line basis over the term of the lease. The excess of rents recognized over amounts contractually due pursuant to the underlying leases are included in deferred rents receivable on the accompanying balance sheets. We establish, on a current basis, an allowance for future potential tenant credit losses, which may occur, against this account. The balance reflected on the balance sheet is net of such allowance.

We maintain an allowance for doubtful accounts for estimated losses resulting from the inability of our tenants to make required rent payments. If the financial condition of a specific tenant were to deteriorate, resulting in an impairment of its ability to make payments, additional allowances may be required.

Interest income on structured finance 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 advanced and are then recognized over the term of the loan as an adjustment to yield. Anticipated exit fees are also recognized over the term of the loan as an adjustment to yield.

Results of Operations

The following comparison for the three and six months ended June 30, 2002 ("2002") to the three and six months ended June 30, 2001 ("2001") makes reference to the following: (i) the effect of the "Same-Store Properties," which represents all properties owned by us at January 1, 2001 and at June 30, 2002, (ii) the effect of the "2001 Acquisitions," which represents all properties acquired in 2001, namely, 1370 Broadway (January 2001) and 317 Madison Avenue (June 2001), and (iii) the effect of the "2001 Dispositions," which represents all properties disposed of in 2001, namely, 633 Third Avenue (January 2001), One Park Avenue which was contributed to a joint venture (May 2001) and 1412 Broadway (June 2001).

Comparison of the three months ended June 30, 2002 to the three months ended June 30, 2001

Rental Revenues (in millions)

	2002	2001	$ Change	% Change

	2002	2001	$ Change	% Change
Rental revenue	$ 48.2	$ 53.4	$ (5.2)	(9.7)%
Escalation and reimbursement revenue	6.5	7.3	(0.8)	(10.9)%
Signage revenue	0.3	0.2	0.1	50.0%
Total	$ 55.0	$ 60.9	$ (5.9)	(9.7)%
Same Store Properties	$ 47.4	$ 47.8	$ (0.4)	(0.8)%
2001 Acquisitions	6.3	2.9	3.4	117.2%
2001 Dispositions	1.5	11.3	(9.8)	(86.7)%
Other	(0.2)	(1.1)	0.9	81.8%
Total	$ 55.0	$ 60.9	$ (5.9)	(9.7)%

The decrease in rental revenue in the Same-Store Properties was primarily due to a decrease in occupancy from 98.6% in 2001 to 96.8% in 2002. Over the past year, occupancy rates at our wholly- owned properties have decreased from 98.6% at June 30, 2001 to 96.5% at June 30, 2002. Annualized rents from replacement rents on previously occupied space at Same-Store Properties were 39% higher than previous fully escalated rents. The Company estimates that the difference between existing in-place fully escalated rents and current market rents on its wholly-owned properties is approximately 26.7%. Approximately 3.1% of the space leased at wholly-owned properties expires during the remainder of 2002.

The decrease in escalation and reimbursement revenue was primarily due to the decrease in electric reimbursement ($0.3 million) due to lower electric expense and operating expense recoveries ($0.8 million). On an annualized basis, the Company expects to recover approximately 85% of its electric costs.

The increase in signage revenue was primarily attributable to new temporary signs leased at 1466 Broadway and 317 Madison Avenue ($0.1 million).

Investment and Other Income (in millions)

	2002	2001	$ Change	% Change
Equity in net income of unconsolidated joint ventures	$ 4.0	$ 1.8	$ 2.2	122.2%
Investment and preferred equity income	5.8	5.0	0.8	16.0%
Other	1.5	0.6	0.9	150.0%
Total	$ 11.3	$ 7.4	$ 3.9	52.7%

The increase in equity in net income of unconsolidated joint ventures is due to the Company's five joint venture investments in 2001 comprising 2.2 million square feet and six joint venture investments in 2002 comprising 4.6 million square feet. Occupancy at the joint venture properties increased from 97.0% in 2001 to 98.2% in 2002. The Company estimates that the difference between existing in-place fully escalated rents at its joint venture properties and current market rents is approximately 49.6%. Approximately 7.0% of the space leased at joint venture properties expires during the remainder of 2002.

The increase in investment and preferred equity income primarily represents interest income from structured finance transactions ($1.1 million) for 2002. The weighted average loan balance outstanding and yield were $153.7 million and 12.7% respectively, for 2002, compared to $70.6 million and 15.0%, respectively, for 2001. This was offset by a decrease in investment income from excess cash on hand ($0.4 million).

The increase in other income is primarily due to increased management and asset management fees earned from joint ventures ($0.4 million) due to the increase in the size of the joint venture properties compared to prior periods. In addition, there was an increase in lease buyout income ($0.3 million).

Property Operating Expenses (in millions)

	2002	2001	$ Change	% Change
Operating expenses (excluding electric)	$ 10.1	$ 9.6	$ 0.5	5.2%
Electric costs	4.1	4.5	(0.4)	(8.9)%
Real estate taxes	7.3	8.0	(0.7)	(8.7)%
Ground rent	3.2	3.2	—	—
Total	$ 24.7	$ 25.3	$ (0.6)	(2.4)%
Same Store Properties	$ 20.8	$ 20.2	$ 0.6	3.0%
2001 Acquisitions	2.9	1.0	1.9	190.0%
2001 Dispositions	0.8	3.9	(3.1)	(79.5)%
Other	0.2	0.2	—	—
Total	$ 24.7	$ 25.3	$ (0.6)	(2.4)%

The increase in Same-Store Properties operating expenses ($0.3 million, excluding electric costs) was primarily due to increases in operating payroll ($0.2 million), security costs ($0.2 million), and repairs and maintenance ($0.2 million). These increases were partially offset by decreases in professional fees

($0.3 million).

The decrease in electric costs was primarily due to lower electric rates in 2002 compared to 2001.

The decrease in real estate taxes was primarily attributable to the 2001 Dispositions which decreased real estate taxes by $1.3 million. This was partially offset by an increase in real estate taxes attributable to the Same-Store Properties ($0.3 million) due to higher assessed property values and the 2001 Acquisitions ($0.4 million).

Other Expenses (in millions)

	2002	2001	$ Change	% Change
Interest expense	$ 9.5	$ 13.2	$ (3.7)	(28.0)%
Depreciation and amortization expense	9.8	9.2	0.6	6.5%
Marketing, general and administrative expense	3.4	3.7	(0.3)	(8.1)%
Total	$ 22.7	$ 26.1	$ (3.4)	(13.0)%

The decrease in interest expense was primarily attributable to lower average debt levels due to dispositions ($3.4 million) and reduced interest costs on floating rate debt ($1.4 million). This was partially offset by increases due to costs associated with new investment activity ($0.9 million) and the funding of ongoing capital projects and working capital reserves ($0.1 million) as well as yield maintenance on the early repayment of the 470 Park Avenue South mortgage ($0.2 million). The weighted average interest rate decreased from 7.19% at June 30, 2001 to 6.51% at June 30, 2002 and the weighted average debt balance decreased from $687.1 million to $539.8 million for these same periods.

Marketing, general and administrative expense decreased primarily due to lower personnel and severance costs ($0.3 million). We have reduced our marketing, general and administrative costs to 5.4% of total revenue in 2002 compared to 5.5% in 2001.

Comparison of the six months ended June 30, 2002 to the six months ended June 30, 2001

Rental Revenues (in millions)

	2002	2001	$ Change	% Change
Rental revenue	$ 96.0	$ 108.4	$ (12.4)	(11.4)%
Escalation and reimbursement revenue	13.3	15.4	(2.1)	(13.6)%
Signage revenue	0.7	0.5	0.2	40.0%
Total	$ 110.0	$ 124.3	$ (14.3)	(11.5)%
Same Store Properties	$ 95.4	$ 96.0	$ (0.6)	(0.6)%
2001 Acquisitions	12.1	4.5	7.6	168.9%
2001 Dispositions	3.1	25.9	(22.8)	(88.0)%
Other	(0.6)	(2.1)	1.5	71.4%
Total	$ 110.0	$ 124.3	$ (14.3)	(11.5)%

The decrease in rental revenue in the Same-Store Properties was primarily due to a decrease in occupancy from 98.6% in 2001 to 96.8% in 2002. Annualized rents from replacement rents on previously occupied space at Same-Store Properties were 35% higher than previous fully escalated rents. The Company estimates that the difference between existing in-place fully escalated rents and current market rents on its wholly-owned properties is approximately 26.7%. Approximately 3.1% of the space leased at wholly-owned properties expires during the remainder of 2002.

The decrease in escalation and reimbursement revenue was primarily due to the decrease in electric reimbursement ($1.4 million) due to lower electric expense and operating expense recoveries ($0.9 million). On an annualized basis, the Company expects to recover approximately 85% of its electric costs.

The increase in signage revenue was primarily attributable to new temporary signs leased at 420 Lexington Avenue, 1466 Broadway and 317 Madison Avenue ($0.2 million).

Investment and Other Income (in millions)

	2002	2001	$ Change	% Change
Equity in net income of unconsolidated joint ventures	$ 7.3	$ 3.3	$ 4.0	121.2%
Investment and preferred equity income	11.4	8.3	3.1	37.4%
Other	2.6	0.9	1.7	188.9%
Total	$ 21.3	$ 12.5	$ 8.8	70.4%

The increase in equity in net income of unconsolidated joint ventures is due to the Company's five joint venture investments in 2001 comprising 2.2 million square feet and six joint venture investments in 2002 comprising 4.6 million square feet. Occupancy at the joint venture properties increased from 97.0% in 2001 to 98.2% in 2002. The Company estimates that the difference between existing in-place fully escalated rents at its joint venture properties and current market rents is approximately 49.6%. Approximately 7.0% of the space leased at joint venture properties expires during the remainder of 2002.

The increase in investment income primarily represents interest income from structured finance transactions ($3.7 million). The weighted average loan balance outstanding and yield were $160.1 million and 12.6%, respectively, for 2002, compared to $63.9 million and 17.1%, respectively, for 2001. This was million offset by a decrease in investment income from excess cash on hand ($0.7 million).

The increase in other income is primarily due to management and asset management fees earned from joint ventures ($0.9 million) due to the increase in the size of the joint venture properties compared to prior periods. In addition, there was an increase in lease buyout income ($0.3 million).

Property Operating Expenses (in millions)

	2002	2001	$ Change	% Change
Operating expenses (excluding electric)	$ 20.6	$ 20.4	$ 0.2	0.1%
Electric costs	7.3	9.5	(2.2)	(23.2)%
Real estate taxes	14.7	16.1	(1.4)	(8.7)%
Ground rent	6.3	6.3	—	—
Total	$ 48.9	$ 52.3	$ (3.4)	(6.5)%
Same Store Properties	$ 41.5	$ 41.3	$ 0.2	0.5%
2001 Acquisitions	5.5	1.5	4.0	266.7%
2001 Dispositions	1.6	9.3	(7.7)	(82.8)%
Other	0.3	0.2	0.1	50.0%
Total	$ 48.9	$ 52.3	$ (3.4)	(6.5)%

The increase in the Same-Store Properties operating expenses ($0.1 million, excluding electric costs) was primarily due to increases in security costs and insurance ($0.5 million), operating payroll ($0.1 million), and repairs and maintenance ($0.2 million). These increases were partially offset by decreases in professional fees and advertising ($0.3 million) and lower steam costs ($0.5 million).

The decrease in electric costs was primarily due to lower electric rates in 2002 compared to 2001.

The decrease in real estate taxes was primarily attributable to the 2001 Dispositions which decreased real estate taxes by $3.1 million. This was partially offset by an increase in real estate taxes attributable to the Same-Store Properties ($0.7 million) due to higher assessed property values and the 2001 Acquisitions ($1.0 million).

Other Expenses (in millions)

	2002	2001	$ Change	% Change
Interest expense	$ 18.6	$ 27.1	$ (8.5)	(31.4)%
Depreciation and amortization expense	19.4	18.9	0.5	2.7%
Marketing, general and administrative expense	6.6	7.2	(0.6)	(8.3)%
Total	$ 44.6	$ 53.2	$ (8.6)	(16.2)%

The decrease in interest expense was primarily attributable to lower average debt levels due to dispositions ($9.7 million) and reduced interest costs on floating rate debt ($2.4 million). This was partially offset by increases due to costs associated with new investment activity ($3.3 million) and the funding of ongoing capital projects and working capital reserves ($0.3 million) as well as yield maintenance on the early repayment of the 470 Park Avenue South mortgage ($0.2 million). The weighted average interest rate decreased from 7.19% at June 30, 2001 to 6.51% at June 30, 2002 and the weighted average debt balance decreased from $687.1 million to $539.8 million for these same periods.

Marketing, general and administrative expense decreased primarily due to lower personnel and severance costs ($0.6 million). We have reduced our marketing, general and administrative costs to 5.3% of total revenues in 2002 compared to 5.4% in 2001.

Liquidity and Capital Resources

We currently expect that our principal sources of working capital and funds for acquisition and redevelopment of properties and for structured finance investments will include: (1) cash flow from operations; (2) borrowings under our secured and unsecured credit facilities; (3) other forms of secured or unsecured financing; (4) proceeds from equity or debt offerings by us or the operating partnership (including issuances of limited partnership units in the operating partnership); and (5) net proceeds from divestitures of properties. Additionally, we believe that our joint venture investment programs will also continue to serve

as a source of capital for acquisitions and structured finance investments. We believe that our sources of working capital, specifically our cash flow from operations and borrowings available under our unsecured and secured credit facilities, and our ability to access private and public debt and equity capital, are adequate for us to meet our liquidity requirements for the foreseeable future.

Cash Flows

Net cash provided by operating activities increased $12.5 million to $47.7 million for the six months ended June 30, 2002 compared to $35.2 million for the six months ended June 30, 2001. Operating cash flow was primarily generated by the Same-Store Properties and 2001 Acquisitions, as well as the structured finance investments, but was reduced by the decrease in operating cash flow from the 2001 Dispositions and contributions to a joint venture.

Net cash used in investing activities decreased $234.2 million to $102.7 million for the six months ended June 30, 2002 compared to $336.9 million for the six months ended June 30, 2001. The decrease was due primarily to the acquisitions of One Park Avenue ($233.9 million) and 1370 Broadway ($50.5 million) in January 2001 compared to no acquisitions of wholly-owned properties in 2002. Approximately $51 million of the 2001 acquisitions was funded out of restricted cash set aside from the sale of 17 Battery Place South. The increase in joint venture investments was due to the acquisition of 1515 Broadway in May 2002. The increase in structured finance investments relates primarily to the timing of originations and repayments or participations of these investments.

Net cash provided by financing activities decreased $272.3 million to $62.4 million for the six months ended June 30, 2002 compared to $334.7 million for the six months ended June 30, 2001. The decrease was primarily due to lower borrowing requirements due to the decrease in acquisitions which would have been funded with mortgage debt and draws under the line of credit.

Capitalization

On July 25, 2001, we sold 5,000,000 shares of common stock under our shelf registration statement. The net proceeds from this offering ($148.4 million) were used to pay down our 2000 Unsecured Credit Facility. After this offering, we still have the ability to issue up to an aggregate amount of $251 million of our common and preferred stock.

Rights Plan

On February 16, 2000, our Board of Directors authorized a distribution of one preferred share purchase right ("Right") for each outstanding share of common stock under a shareholder rights plan. This distribution was made to all holders of record of the common stock on March 31, 2000. Each Right entitles the registered holder to purchase from us one one-hundredth of a share of Series B junior participating preferred stock, par value $0.01 per share ("Preferred Shares"), at a price of $60.00 per one one-hundredth of a Preferred Share ("Purchase Price"), subject to adjustment as provided in the rights agreement. The Rights expire on March 5, 2010, unless the expiration date is extended or the Right is redeemed or exchanged earlier by us.

The Rights are attached to each share of common stock. The Rights are generally exercisable only if a person or group becomes the beneficial owner of 17% or more of the outstanding common stock or announces a tender offer for 17% or more of the outstanding stock ("Acquiring Person"). In the event that a person or group becomes an Acquiring Person, each holder of a Right, excluding the Acquiring Person, will have the right to receive, upon exercise, common stock having a market value equal to two times the Purchase Price of the Preferred Shares.

Dividend Reinvestment and Stock Purchase Plan

We filed a registration statement with the SEC for our dividend reinvestment and stock purchase plan ("DRIP") which was declared effective on September 10, 2001. The DRIP commenced on September 24, 2001. We registered 3,000,000 shares of common stock under the DRIP.

During the six months ended June 30, 2002, we were issued 41 common shares and received $1,084 of proceeds from dividend reinvestments and/or stock purchases under the DRIP.

Indebtedness

At June 30, 2002, borrowings under our mortgage loans and credit facilities (excluding our share of joint venture debt of $397 million) represented 31.8% of our market capitalization of $1.9 billion (based on a common stock price of $35.65 per share, the closing price of our common stock on the New York Stock Exchange on June 30, 2002). Market capitalization includes debt, common and preferred stock and conversion of all operating partnership units.

The tables below summarize our mortgage debt and lines of credit indebtedness outstanding at June 30, 2002 and December 31, 2001, respectively (in thousands).

	June 30, 2002	December 31, 2001
Debt Summary:		
Balance		
Fixed rate	$ **241,600**	$ 253,792
Variable rate—hedged	**133,593**	133,930
Total fixed rate	**375,193**	387,722
Variable rate	**186,178**	60,000
Variable rate—supporting variable rate assets	**33,931**	57,109

Total variable rate	**220,109**	117,109
Total	**$ 595,302**	$ 504,831
Percent of Total Debt:		
Total fixed rate	**63.03%**	76.80%
Variable rate	**36.97%**	23.20%
Total	**100.00%**	100.00%
Effective Interest Rate at End of Period		
Fixed rate	**7.79%**	8.23%
Variable rate	**3.39%**	3.49%
Effective interest rate	**6.51%**	7.13%

The variable rate debt shown above bears interest at an interest rate based on LIBOR (1.84% at June 30, 2002). Our total debt at June 30, 2002 had a weighted average term to maturity of approximately 4.2 years.

As of June 30, 2002, we had four variable rate structured finance investments collateralizing the secured credit facility. These structured finance investments, totaling $87.7 million, mitigate our exposure to interest rate changes on its unhedged variable rate debt.

Market Rate Risk

We are exposed to changes in interest rates primarily from our floating rate debt arrangements. We use interest rate derivative instruments to manage exposure to interest rate changes. A hypothetical 100 basis point increase in interest rates along the entire interest rate curve would increase our annual interest cost by approximately $2.6 million and would increase our share of joint venture annual interest cost by approximately $2.7 million.

We recognize all derivatives on the balance sheet at fair value. Derivatives that are not hedges must be adjusted to fair value through income. If a derivative is a hedge, depending on the nature of the hedge, changes in the fair value of the derivative will either be offset against the change in fair value of the hedged asset, liability, or firm commitment through earnings, or recognized in other comprehensive income until the hedged item is recognized in earnings. The ineffective portion of a derivative's change in fair value is immediately recognized in earnings.

Approximately $375 million of our long-term debt bears interest at fixed rates, and therefore the fair value of these instruments is affected by changes in the market interest rates. The interest rate on our variable rate debt as of June 30, 2002 ranged from LIBOR plus 100 basis points to LIBOR plus 200 basis points.

Mortgage Financing

As of June 30, 2002, our total mortgage debt (excluding our share of joint venture debt of approximately $397 million) consisted of approximately $375 million of fixed rate debt with an effective interest rate of approximately 7.79% and no unhedged variable rate debt. Our mortgage debt at June 30, 2002, encumbering 9 of our wholly-owned properties, will mature as follows (in thousands):

	Scheduled Amortization	Principal Payment	Total
2002	$ 3,291	$ —	$ 3,291
2003	7,282	2,002	9,284
2004	3,734	132,015	135,749
2005	3,366	47,247	50,613
2006	3,270	—	3,270
Thereafter	21,065	151,921	172,986
Total	$ 42,008	$ 333,185	$ 375,193

Revolving Credit Facilities

2000 Unsecured Credit Facility

We currently have a $300 million unsecured credit facility, which matures in June 2003. At June 30, 2002, $164 million was outstanding under this unsecured credit facility and carried an effective interest rate of 3.39%. Availability under our unsecured credit facility at June 30, 2002 was further reduced by the issuance of letters of credit in the amount of $5 million for acquisition deposits.

2001 Secured Credit Facility

We also have a $75 million secured credit facility, which matures in December 2003. This secured credit facility is secured by various structured finance investments. At June 30, 2002, $33.9 million was outstanding under this secured credit facility and carried a weighted average interest rate of 3.46%.

Restrictive Covenants

The terms of the unsecured and secured credit facilities 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, the minimum amount of fixed charge coverage, the minimum 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 under the Federal Income Tax code, 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.

Insurance

The real estate industry has been experiencing a significant change in the property insurance markets that has resulted in significantly higher premiums for landlords whose policies are subject to renewal in 2002, primarily in the area of terrorism insurance coverage. We carry comprehensive all risk (fire, flood, extended coverage and rental loss insurance) and liability insurance with respect to our property portfolio. This policy, which includes full coverage for acts of terrorism, expires in October 2002. Additionally, a property we recently purchased for a gross purchase price of $483.5 million, 1515 Broadway, has stand-alone insurance coverage, which provides for full all risk coverage but has a limit of $250 million in terrorism coverage. While we believe this is sufficient coverage, in the event of a major catastrophe resulting from an act of terrorism, we may not have sufficient coverage to replace the asset. This policy will expire in May 2003. We do not know if sufficient insurance coverage will be available when the current policies expire, nor do we know the costs for obtaining renewal policies containing terms similar to our current policies. Our policies may not cover newly acquired properties, and additional insurance may need to be obtained prior to October 2002.

Our debt instruments, consisting of mortgage loans secured by our properties (which are generally non-recourse to us), ground leases and our revolving credit agreements, contain customary covenants requiring us to maintain insurance. There can be no assurance that the lenders or ground lessors under these instruments will not take the position that a total or partial exclusion from all risk insurance coverage for losses due to terrorist acts is a breach of these debt and ground lease instruments that allows the lenders or ground lessors to declare an event of default and accelerate repayment of debt or recapture of ground lease positions. In addition, if lenders insist on full coverage for these risks, it could adversely affect our ability to finance and/or refinance our properties and to expand our portfolio.

Capital Expenditures

We estimate that for the six months ending December 31, 2002, we will incur approximately $21.2 million of capital expenditures (including tenant improvements) on properties currently owned. Of that total, over $7.2 million of the capital investments are dedicated to redevelopment costs, including New York City local law 11, associated with properties acquired after our IPO. We expect to fund these capital expenditures with operating cash flow, borrowings under our credit facilities, additional property level mortgage financings, and cash on hand. Future property acquisitions may require substantial capital investments for refurbishment and leasing costs. We expect that these financing requirements will be met in a similar fashion. We believe that we will have sufficient resources to satisfy our capital needs during the next 12-month period. Thereafter, we expect that our capital needs will be met through a combination of net cash provided by operations, borrowings, potential asset sales or additional equity or debt issuances.

Dividends

We expect to pay dividends to our stockholders primarily based on the distributions we receive from the Operating Partnership primarily from property revenues net of operating expenses or, if necessary, from working capital or borrowings.

To maintain our qualification as a REIT, we must pay annual dividends to our stockholders of at least 90% of our REIT taxable income, determined before taking into consideration the dividends paid deduction and net capital gains. We intend to continue to pay regular quarterly dividends to our stockholders. Based on our current annual dividend rate of $1.77 per share, we would pay approximately $53.6 million in dividends. Before we pay any dividend, whether for Federal income tax purposes or otherwise, which would only be paid out of available cash to the extent permitted under the 2000 Unsecured Credit Facility and the 2001 Secured Credit Facility, we must first meet both our operating requirements and scheduled debt service on our mortgages and loans payable.

Funds from Operations

The revised White Paper on Funds from Operations ("FFO") approved by the Board of Governors of NAREIT in October 1999 defines FFO as net income (loss) (computed in accordance with GAAP), excluding gains (or losses) from debt restructuring and sales of properties, plus real estate related depreciation and amortization and after adjustments for unconsolidated partnerships and joint ventures. We believe that FFO is helpful to investors as a measure of the performance of an equity REIT because, along with cash flow from operating activities, financing activities and investing activities, it provides investors with an indication of our ability to incur and service debt, to make capital expenditures and to fund other cash needs. We compute FFO in accordance with the current standards established by NAREIT, which may not be comparable to FFO reported by other REIT's that do not define the term in accordance with the current NAREIT definition or that interpret the current NAREIT definition differently than us. FFO does not represent cash generated from operating activities in accordance with GAAP and should not be considered as an alternative to net income (determined in accordance with GAAP), as an indication of our financial performance or to cash flow from operating activities (determined in accordance with GAAP) as a measure of our liquidity, nor is it indicative of funds available to fund our cash needs, including our ability to make cash distributions.

FFO for the three and six months ended June 30, 2002 and 2001, respectively, are as follows (in thousands):

	Three Months Ended		Six Months Ended	
	2002	**2001**	**2002**	**2001**
Income before minority interest, gain on sale, preferred stock dividend and cumulative effect adjustment	**$ 19,251**	$ 16,348	**$ 38,039**	$ 30,257
Add:				

Depreciation and amortization	**9,753**	9,189	**19,350**	18,909
FFO adjustment for unconsolidated joint ventures	**2,713**	1,358	**4,594**	2,354
Less:				
Dividends on preferred shares	**(2,300)**	(2,300)	**(4,600)**	(4,600)
Amortization of deferred financing costs and depreciation of non-rental real estate assets	**(1,057)**	(1,157)	**(2,044)**	(2,312)
Funds From Operations—basic	**28,360**	23,438	**55,339**	44,608
Dividends on preferred shares	**2,300**	2,300	**4,600**	4,600
Funds From Operations—diluted	**$ 30,660**	$ 25,738	**$ 59,939**	$ 49,208
Cash flows provided by operating activities	**$ 23,007**	$ 18,610	**$ 47,707**	$ 35,172
Cash flows used in investing activities	**$ (99,036)**	$ (51,605)	**$ (102,739)**	$ (336,911)
Cash flows provided by financing activities	**$ 84,086**	$ 68,659	**$ 62,325**	$ 334,688

Inflation

Substantially all of our office leases provide for separate real estate tax and operating expense escalations. In addition, many of our leases provide for fixed base rent increases. We believe that inflationary increases may be at least partially offset by the contractual rent increases and expense escalations described above.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

See Item 2, "Management's Discussion and Analysis of Financial Condition and Results of Operations—Market Rate Risk" for additional information regarding our exposure to interest rate fluctuations.

The table below presents principal cash flows based upon maturity dates of our debt obligations and mortgage receivables and the related weighted-average interest rates by expected maturity dates (in thousands) as of June 30, 2002:

	Long-Term Debt				Mortgage Receivables	
Date	**Fixed Rate**	**Average Interest Rate**	**Variable Rate**	**Average Interest Rate**	**Amount**	**Yield**
2002	$ 3,291	7.34%	$ 22,178	3.45%	$ 37,723	14.4%
2003	9,284	7.76%	197,931	3.46%	40,151	12.0%
2004	135,749	7.68%	—	—	39,641	13.5%
2005	50,613	8.23%	—	—	—	—
2006	3,270	8.24%	—	—	71,733	10.5%
Thereafter	172,986	8.33%	—	—	6,000	13.1%
Total	$ 375,193	8.23%	$ 220,109	3.45%	$ 195,248	12.7%
Fair Value	$ 391,440		$ 220,109		$ 195,248	

The table below presents the gross principal cash flows based upon maturity dates of our share of joint venture debt obligations and the related weighted-average interest rates by expected maturity dates (in thousands) as of June 30, 2002:

	Long-Term Debt			
Date	**Fixed Rate**	**Average Interest Rate**	**Variable Rate**	**Average Interest Rate**
2002	$ 289	7.44%	—	—
2003	628	7.44%	—	—
2004	47,416	7.44%	274,450	3.65%
2005	16,079	8.00%	—	—
2006	608	8.00%	—	—
Thereafter	57,180	8.00%	—	—
Total	$ 122,200	7.79%	$ 274,450	3.65%
Fair Value	$ 122,772		$ 274,450	

The table below lists all our derivative instruments and their related fair value as of June 30, 2002:

	Notional Value	Strike Rate	Expiration Date	Fair Value	SL Green's Share

Interest Rate Collar	$ 70,000	6.580%	11/2004	$ (4,478)	$ (4,478)
Interest Rate Swap	$ 65,000	4.010%	8/2005	(513)	(513)
Interest Rate Cap	$ 150,000	8.000%	1/2004	22	12
Interest Rate Cap	$ 85,000	6.500%	11/2004	214	118
Interest Rate Cap Sold	$ 46,750	6.500%	11/2004	(118)	(118)
Interest Rate Swap	$ 46,750	4.038%	1/2005	(759)	(759)
Interest Rate Cap	$ 275,000	7.000%	6/2004	304	167
Interest Rate Cap	$ 30,000	9.000%	6/2004	12	12
Interest Rate Cap	$ 30,000	9.000%	6/2004	12	12
Total				$ (5,304)	$ (5,547)

PART II OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

See Footnote 12 to the financial statements.

ITEM 2. CHANGES IN SECURITIES AND USE OF PROCEEDS

None

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

The Company held its annual meeting of stockholders on May 14, 2002, at which the following matters were voted upon:

1. To elect two Class II director of the Company to serve until the 2005 Annual Meeting of Stockholders and until their successor is duly elected and qualified.

2. To ratify the selection of Ernst & Young LLP as the independent auditors of the Company for the fiscal year ending December 31, 2002.

3. To approve the Company's Amended 1997 Stock Option and Incentive Plan, as amended.

The results of the meeting were as follows:

	For	Against	Abstain
Proposal 1:			
Marc Holliday	26,057,494	—	894,467
John S. Levy	26,566,959	—	385,002
Proposal 2:	25,619,022	1,292,457	40,482
Proposal 3:	21,594,085	3,837,265	16,257

ITEM 5. OTHER INFORMATION

None

ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K

(a) Exhibits:

10.1 Second Amendment to the First Amended and Restated Agreement of Limited Partnership of SL Green Operating Partnership.

10.2 1515 Broadway, New York, NY Contribution Agreement among Astor Plaza Venture, L.P., a Delaware limited partnership, and 1515 Broadway Associates, L.P., a Delaware limited partnership, and The Equitable Life Assurance Society of the United States, a New York Corporation and SL Green Realty Acquisition LLC, a Delaware limited liability company.

(b) Reports on Form 8-K:

The Registrant filed a Current Report on Form 8-K on April 24, 2002 in connection with its first quarter 2002 earnings release and supplemental information package.

The Registrant filed a Current Report on Form 8-K on May 16, 2002 in connection with its press release announcing the closing of 1515 Broadway.

SIGNATURES

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

SL GREEN REALTY CORP.

By: /s/ THOMAS E. WIRTH

Thomas E. Wirth
Executive Vice President,
Chief Financial Officer

Date: July 31 2002

QuickLinks

SL GREEN REALTY CORP. INDEX

PART I. FINANCIAL INFORMATION
ITEM 1. Financial Statements

SL Green Realty Corp. Condensed Consolidated Balance Sheets (Amounts in thousands, except per share data)
SL Green Realty Corp. Condensed Consolidated Statements of Income (Unaudited, and amounts in thousands, except per share data)
SL Green Realty Corp. Condensed Consolidated Statement of Stockholders' Equity and Comprehensive Income (Unaudited, and amounts in thousands, except per share data)
SL Green Realty Corp. Condensed Consolidated Statements of Cash Flows (Unaudited, and amounts in thousands, except per share data)
SL Green Realty Corp. Notes To Condensed Consolidated Financial Statements (Unaudited, and dollars in thousands, except per share data) June 30, 2002

ITEM 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

PART II OTHER INFORMATION
ITEM 1. LEGAL PROCEEDINGS
ITEM 2. CHANGES IN SECURITIES AND USE OF PROCEEDS
ITEM 3. DEFAULTS UPON SENIOR SECURITIES
ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS
ITEM 5. OTHER INFORMATION
ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K

SIGNATURES

QuickLinks -- Click here to rapidly navigate through this document

Exhibit 10.1

**SECOND AMENDMENT TO THE
FIRST AMENDED AND RESTATED
AGREEMENT OF LIMITED PARTNERSHIP OF
SL GREEN OPERATING PARTNERSHIP, L.P.**

This Second Amendment is made as of May , 2002 for the purpose of amending the First Amended and Restated Agreement of Limited Partnership of SL Green Operating Partnership, L.P., a Delaware limited partnership (the "Partnership"), dated as of August 20, 1997, as amended by the First Amendment thereto, dated as of May 14, 1998 (the "Agreement"). Capitalized terms used herein and not otherwise defined shall have the meanings given to them in the Agreement.

WHEREAS, pursuant to Section 14.1.D of the Agreement, SL Green Realty Corp., as General Partner, with the consent of affected Limited Partners, may amend the Agreement to provide that certain Limited Partners will have the obligation, upon the liquidation of their interests in the Partnership, to restore to the Partnership the amounts of their negative Capital Account balances, if any; and

WHEREAS, the General Partner has determined that such an amendment pursuant to Section 14.1.D is desirable; and

WHEREAS, the undersigned Limited Partners are hereby consenting to such amendment.

NOW, THEREFORE, in consideration of the premises set forth herein and for other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the Agreement is hereby amended as follows:

1. The list of the Exhibits to the Agreement is hereby amended by adding thereto the following:

**EXHIBIT F
RECOURSE AMOUNTS**

2. Article I of the Agreement is hereby amended by adding the following defined terms:

"*Aggregate LP Recourse Amount*" means the sum of the Recourse Amounts of all Recourse Partners.

"*Modified Adjusted Capital Account*" means the Capital Account maintained for a Partner pursuant to *Exhibit B* hereto (i) increased by any amounts which such Partner is deemed to be obligated to restore pursuant to the penultimate sentences of Regulations Sections 1.704-2(g)(1) and 1.704-2(i)(5); and (ii) decreased by the items described in Regulations Sections 1.704-1(b)(2)(ii)(d)(4), 1.704- 1(b)(2)(ii)(d)(5), and 1.704-1(b)(2)(ii)(d)(6).

"*Partnership Recourse Debt Amount*" means the amount of liabilities owed by the Partnership (other than Nonrecourse Liabilities and liabilities to which Partner Nonrecourse Deductions are attributable in accordance with Section 1.704-(2)(i) of the Regulations).

"*Recourse Amount*" means, with respect to any Partner, the amount (if any) specified on *Exhibit F* with respect to a Partner, as such *Exhibit F* may be amended from time to time.

"*Recourse Partner*" means a Limited Partner that has agreed to be included as such on Exhibit F and to thereby be obligated, upon the liquidation of its interest in the Partnership, to restore to the Partnership an amount of its negative Capital Account balance, if any, as determined under Section 13.3.

"*Recourse Debt Percentage*" means, for any Recourse Partner, the percentage of the Aggregate LP Recourse Amount represented by such Recourse Partner's Recourse Amount.

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3. Sections 6.1.A and 6.1.B of the Agreement are hereby amended to provide as follows (with additions in italics):

A. Net Income. After giving effect to the special allocations set forth in Section 1 of Exhibit C hereto, Net Income shall be allocated (i) first, to the General Partner to the extent that Net Losses previously allocated to the General Partner, on a cumulative basis, pursuant to the last sentence of Section 6.l.B below exceed Net Income previously allocated to the General Partner, on a cumulative basis, pursuant to this clause (i) of Section 6.l.A; (ii) second, *to the Recourse Partners until each Recourse Partner has been allocated, on a cumulative basis, pursuant to this clause (ii) of Section 6.1.A, Net Income equal to the amount of any prior allocations of Net Losses to such Recourse Partner, on a cumulative basis, pursuant to Section 6.1.B(v) below (pro rata in proportion to the respective percentages of cumulative Net Losses allocated to all Recourse Partners pursuant to Section 6.1.B(v) below); (iii) third, to the General Partner until the General Partner has been allocated, on a cumulative basis, pursuant to this clause (iii) of Section 6.1.A, Net Income equal to the amount of any prior allocations of Net Losses to the General Partner, on a cumulative basis, pursuant to Section 6.1.B(iv) below; (iv) fourth, with respect to classes of Partnership Interests that are entitled to any preference in distribution, on a class by class basis, Net Income equal to the amount of any prior allocations of Net Losses to such classes pursuant to Section 6.1(B)(iii) below, in the reverse order in which each such class was allocated such Net Losses (and, within each such class, pro rata in proportion to the respective interests in such class as of the last day of the period for which such allocation is being made); (v) fifth,* to the holders of any Partnership Interests that are entitled to any preference in distribution in accordance with the rights of any such class of Partnership Interests until each such Partnership Interest has been allocated, on a cumulative basis pursuant to this clause *(v) (or its predecessor)*, Net Income equal to the sum of the amount of distributions received with respect to such Partnership Interests pursuant to clause (i) of Section 5.1.B hereof and the amount of any prior allocations of Net Losses to such class of Partnership Interests pursuant to Section 6.1.B(i) below (and, within such class, pro rata in proportion to the respective interests in such class as of the last day of the period for which such allocation is being made); and *(vi) sixth*, with respect to Partnership Interests that are not entitled to any preference in

distribution, pro rata to each such class in accordance with the terms of such class (and, within such class, pro rata in proportion to the respective interests in such class as of the last day of the period for which such allocation is being made).

B. Net Losses. After giving effect to the special allocations set forth in Section 1 of Exhibit C hereto, Net Losses shall be allocated (i) first, to the holders of any Partnership Interests that are entitled to any preference in distribution, in accordance with the rights of any such class of Partnership Interests to the extent that any prior allocations of Net Income to such class of Partnership Interests pursuant to Section 6.1.A*(v)* above *(or its predecessor)* exceed, on a cumulative basis, distributions with respect to such Partnership Interests pursuant to clause (i) of Section 5.1.B hereof (and, within such class, pro rata in proportion to the respective interests in such class as of the last day of the period for which such allocation is being made); (ii) second, with respect to classes of Partnership Interests that are not entitled to any preference in distribution, pro rata to each such class in accordance with the terms of such class (and, within such class, pro rata in proportion to the respective interests in such class as of the last day of the period for which such allocation is being made), provided that, Net Losses shall not be allocated to any Limited Partner pursuant to this *clause (ii) of* Section 6.1.B to the extent that such allocation would cause such Limited Partner to have a *deficit Modified* Adjusted Capital Account *balance* (or increase any existing *deficit Modified* Adjusted Capital Account *balance*) *(calculated without regard to any interest such Limited Partner may have in Partnership Interests that are entitled to any preference distribution)* at the end of such taxable year (or portion thereof)*; (iii) third, with respect to classes of Partnership Interests that are entitled to any preference in distribution, on a class by class basis in the reverse priority in which each such class is entitled to distributions (and, within each such*

class, pro rata in proportion to the respective interests in such class as of the last day of the period for which such allocation is being made), provided that, Net Losses shall not be allocated to any Partner pursuant to this clause (iii) of Section 6.1.B to the extent that such allocation would cause such Partner to have a deficit Modified Adjusted Capital Account balance (or increase any existing deficit Modified Adjusted Capital Account Balance) at the end of such taxable year (or portion thereof); (iv) fourth, to the General Partner until the General Partner's deficit Modified Adjusted Capital Account balance is equal to the excess, if any, of the Partnership Recourse Debt Amount over the Aggregate LP Recourse Amount; and (v) fifth, to the Recourse Partners, pro rata in proportion to their respective Recourse Debt Percentages, until each such Recourse Partner's deficit Modified Adjusted Capital Account balance shall equal such Recourse Partner's Recourse Amount. All Net Losses in excess of the limitations set forth in this Section 6.l.B shall be allocated to the General Partner.

4. Section 13.3 of the Agreement is hereby amended and restated to provide as follows (with additions in italics):

Subject to Section 13.4 below, in the event the Partnership is "liquidated" within the meaning of Regulations Section 1.704-1(b)(2)(ii)(g), distributions shall be made under this Article XIII to the General Partner and Limited Partners who have positive Capital Accounts in compliance with Regulations Section 1.704-1(b)(2)(ii)(b)(2). If any Partner *other than a Recourse Partner* has a deficit balance in its Capital Account (after giving effect to all contributions, distributions and allocations for all taxable years, including the year during which such liquidation occurs), such Partner shall have no obligation to make any contribution to the capital of the Partnership with respect to such deficit, and such deficit shall not be considered to be a debt owed to the Partnership or owed to any other Person for any purpose whatsoever.

If at such time as the Partnership (or any Recourse Partner's interest therein) is "liquidated" within the meaning of Regulation Section 1.704-1(b)(2)(ii)(g), a Recourse Partner has a deficit balance in its Capital Account (after giving effect to all contributions, distributions and allocations for all taxable years, including the year during which such liquidation occurs), such Recourse Partner shall be obligated to contribute cash to the capital of the Partnership in an amount equal to the lesser of (i) the amount required to increase its Capital Account balance as of such date to zero (determined after applying the provisions of Regulations Section 1.704- 1(b)(2)(iv)(f) so as to adjust, for this purpose, each such Partner's Capital Account balance for the full amount of such Partner's unrealized gains and losses on a fair market value basis) or (ii) such Partner's Recourse Debt Percentage multiplied by the Partnership Recourse Debt Amount. Such obligation shall be for the benefit of the Partnership, the General Partner, the creditors of the Partnership and any other person to whom any debts, liabilities or obligations are owed by (or who otherwise has any claim against) the Partnership or the General Partner (in its capacity as general partner of the Partnership or as guarantor of any debts, liabilities or obligations owed by the Partnership) and shall be enforceable by such parties. No Recourse Partner shall have any right of subrogation, reimbursement or contribution or any similar right to which it might otherwise be entitled as the result of its performance of such obligation, whether such right arises with respect to the Partnership, another Partner or a third party. Any such contribution required of a Recourse Partner hereunder shall be made on or before the later of (i) the end of the Partnership Year in which the interest of such Partner is liquidated or (ii) the ninetieth (90th) day following the date of such liquidation. Notwithstanding any provision hereof to the contrary, all amounts so contributed by a Recourse Partner to the capital of the Partnership shall, upon the liquidation of the Partnership under Article XIII, be paid only to any then creditors of the Partnership, including Partners that are Partnership creditors (in the order provided in Section 13.2 hereof), and shall not be distributed to the other Partners then having positive balances in their respective Capital Accounts. After the death of a Recourse Partner, the executor of the estate of such Recourse Partner may elect to succeed to all or a portion of the deficit Capital Account restoration obligation of such Recourse Partner pursuant to this Section 13.3. Such election may be made by such executor by delivering to the General Partner within

two hundred seventy (270) days of the death of such Recourse Partner a written notice setting forth the portion, if any, of the Recourse Amount of the deceased Recourse Partner to which such executor agrees to succeed. If such executor does not make a timely election pursuant to this Section 13.3 (whether or not the balance in the deceased Recourse Partner's Capital Account is negative at such time), then such Recourse Partner's estate (and the beneficiaries thereof who receive distribution of Partnership Interests therefrom) shall not succeed to the Recourse Amount of the deceased Recourse Partner. Any Recourse Partner which is itself a partnership may elect, after the death of any of its respective partners (including indirect partners who hold indirect interests through other partnerships), to reduce (or eliminate) the portion of its deficit Capital Account restoration obligation pursuant to Section 13.3 attributable to such deceased partner by delivering a written notice to such effect to the General Partner within the time period specified above. Any such partnership which does not make any such timely election shall continue to have the same Recourse Amount as it had previously.

In the discretion of the General Partner, a pro rata portion of the distributions that would otherwise be made to the General Partner and Limited Partners pursuant to this Article XIII may be: (A) distributed to a trust established for the benefit of the General Partner and Limited Partners for the

purposes of liquidating Partnership assets, collecting amounts owed to the Partnership and paying any contingent or unforeseen liabilities or obligations of the Partnership or of the General Partner arising out of or in connection with the Partnership (in which case the assets of any such trust shall be distributed to the General Partner and Limited Partners from time to time, in the reasonable discretion of the General Partner, in the proportions as the amount distributed to such trust by the Partnership would otherwise have been distributed to the General Partner and Limited Partners pursuant to this Agreement); or (B) withheld to provide a reasonable reserve for Partnership liabilities (contingent or otherwise) and to reflect the unrealized portion of any installment obligations owed to the Partnership, provided that such withheld amounts shall be distributed to the General Partner and Limited Partners as soon as practicable.

5. Section 14.1.D. of the Agreement is hereby amended by restating the last sentence of the first paragraph to provide as follows (with additions in italics):

Moreover, this Agreement may be amended by the General Partner to provide that certain Limited Partners have the obligation, upon liquidation of their interests in the Partnership (within the meaning of Regulations Section 1.704-1(b)(2)(ii)(g)), to restore to the Partnership the amounts of their negative Capital Account balances, if any, for the benefit of creditors of the Partnership or Partners with positive Capital Account balances or both, together with any necessary corresponding amendments (including corresponding amendments to Sections 6.1.A, 6.1.B, Exhibit C *and Exhibit F*), with the consent of only such Limited Partners and of any other Limited Partners already subject to such a restoration obligation whose restoration obligation may be affected by such amendment, *provided that, the mere addition of any Limited Partner to Exhibit F or change in the Recourse Amount for any Limited Partner shall not require the consent of any other Limited Partner*.

6. The attachment hereto shall be added to the Agreement as Exhibit F.

7. This Second Amendment may be executed in counterparts.

8. Except as expressly modified by the foregoing, the Agreement remains in full force and effect.

IN WITNESS WHEREOF, the undersigned have executed this Second Amendment to the Agreement.

GENERAL PARTNER:

SL GREEN REALTY CORP.

By: ______________________________

Stephen L. Green
Chief Executive Officer

LIMITED PARTNERS:

EBG MIDTOWN SOUTH CORP.

by ______________________________

Stephen L. Green, President

____

Benjamin P. Feldman

____

Sheldon Lowe

MIAMI CORP.

by

____

Sheldon Lowe, President

____

Stanley Nelson

NORTHWEST PARTNERS

by

____

, General Partner

____

Louis A. Olsen

PLR ASSOCIATES

by

, General Partner

Nancy Ann Peck

673 FIRST REALTY CORP.

by

Stephen. L. Green, President

EXHIBIT F
RECOURSE AMOUNTS

Recourse Partner	Recourse Amount	Recourse Debt Percentage
EBG Midtown South Corp.	135,000	1.49%
Benjamin P. Feldman	600,000	6.61%
Sheldon Lowe	4,375,000	48.24%
Miami Corp.	125,000	1.38%
Stanley Nelson	1,450,000	15.99%
Northwest Partners	1,925,000	21.22%
Louis A. Olsen	75,000	0.83%
PLR Associates	175,000	1.93%
Nancy Ann Peck	175,000	1.93%
673 First Realty Corp.	35,000	0.38%
Aggregate LP Recourse Amount	$ 9,070,000	100.00%

QuickLinks

Exhibit 10.1

SECOND AMENDMENT TO THE FIRST AMENDED AND RESTATED AGREEMENT OF LIMITED PARTNERSHIP OF SL GREEN OPERATING PARTNERSHIP, L.P.
EXHIBIT F
EXHIBIT F RECOURSE AMOUNTS