

**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, 2006

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

For the transition period from _____ to _____.

Commission File Number: 1-13199

SL GREEN REALTY CORP.

(Exact name of registrant as specified in its charter)

**Maryland
(State or other jurisdiction of
incorporation or organization)**

**13-3956775
(I.R.S. Employer
Identification No.)**

**420 Lexington Avenue, New York, New York 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

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

Large accelerated filer Accelerated filer Non-accelerated filer

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

The number of shares outstanding of the registrant's common stock, \$0.01 par value, was 45,770,217 as of July 31, 2006.

SL GREEN REALTY CORP.

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[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, 2006 (Unaudited)	December 31, 2005
Assets		
Commercial real estate properties, at cost:		
Land and land interests	\$ 302,821	\$ 288,239
Building and improvements	1,477,106	1,440,584
Building leasehold and improvements	703,843	481,891
Property under capital lease	12,208	12,208
	<u>2,495,978</u>	<u>2,222,922</u>
Less: accumulated depreciation	(236,727)	(219,295)
	<u>2,259,251</u>	<u>2,003,627</u>
Assets held for sale	170,173	—
Cash and cash equivalents	14,184	24,104
Restricted cash	61,663	60,750
Tenant and other receivables, net of allowance of \$12,682 and \$9,681 in 2006 and 2005, respectively	27,115	23,722
Related party receivables	8,330	7,707
Deferred rents receivable, net of allowance of \$9,750 and \$8,698 in 2006 and 2005, respectively	81,561	75,294
Structured finance investments, net of discount of \$3,514 and \$1,537 in 2006 and 2005, respectively	333,989	400,076
Investments in unconsolidated joint ventures	571,418	543,189
Deferred costs, net	73,747	79,428
Other assets	90,521	91,880
Total assets	<u>\$ 3,691,952</u>	<u>\$ 3,309,777</u>
Liabilities and Stockholders' Equity		
Mortgage notes payable	\$ 1,078,999	\$ 885,252
Revolving credit facilities	54,645	32,000
Term loans	525,000	525,000
Accrued interest payable	7,991	7,711
Accounts payable and accrued expenses	84,977	87,390
Deferred revenue/gain	49,045	25,691

Capitalized lease obligation	16,325	16,260
Deferred land leases payable	16,625	16,312
Dividend and distributions payable	31,725	31,103
Security deposits	30,075	24,556
Liabilities related to assets held for sale	95,379	—
Junior subordinate deferrable interest debentures held by trusts that issued trust preferred securities	100,000	100,000
Total liabilities	2,090,786	1,751,275

Commitments and Contingencies

Minority interest in Operating Partnership	67,498	74,049
Minority interests in other partnerships	37,164	25,012

Stockholders' Equity

Series C preferred stock, \$0.01 par value, \$25.00 liquidation preference, 6,300 issued and outstanding at June 30, 2006 and December 31, 2005, respectively	151,981	151,981
Series D preferred stock, \$0.01 par value, \$25.00 liquidation preference, 4,000 issued and outstanding at June 30, 2006 and December 31, 2005, respectively	96,321	96,321
Common stock, \$0.01 par value 100,000 shares authorized and 43,226 and 42,456 issued and outstanding at June 30, 2006 and December 31, 2005, respectively	432	425
Additional paid-in-capital	991,241	959,858
Accumulated other comprehensive income	20,009	15,316
Retained earnings	236,520	235,540
Total stockholders' equity	1,496,504	1,459,441
Total liabilities and stockholders' equity	\$ 3,691,952	\$ 3,309,777

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,	
	2006	2005	2006	2005
Revenues				
Rental revenue, net	\$ 87,746	\$ 70,974	\$ 170,671	\$ 138,397
Escalation and reimbursement	16,258	13,017	31,281	24,079
Preferred equity and investment income	17,305	11,925	30,784	23,071
Other income	11,475	6,140	21,375	12,908
Total revenues	132,784	102,056	254,111	198,455
Expenses				
Operating expenses including approximately \$3,038, \$6,131 (2006) and \$2,400, \$4,300 (2005) paid to affiliates	29,258	22,729	58,738	45,312
Real estate taxes	19,090	15,111	37,513	28,915
Ground rent	4,921	4,825	9,842	9,253
Interest	22,901	19,479	41,751	36,674
Amortization of deferred financing costs	1,242	907	1,956	1,700
Depreciation and amortization	17,938	14,430	34,204	28,016
Marketing, general and administrative	13,257	10,594	26,243	18,832
Total expenses	108,607	88,075	210,247	168,702
Income from continuing operations before equity in net income of unconsolidated joint ventures, minority interest and discontinued operations	24,177	13,981	43,864	29,753
Equity in net income from unconsolidated joint ventures	10,596	13,334	20,564	25,393
Income from continuing operations before minority interest and discontinued operations	34,773	27,315	64,428	55,146
Minority interest in other partnerships	(1,115)	(22)	(1,966)	(612)
Minority interest in Operating Partnership attributable to continuing operations	(1,415)	(1,279)	(2,633)	(2,177)
Income from continuing operations	32,243	26,014	59,829	52,357
Net income from discontinued operations, net of minority interest	1,786	1,561	2,901	3,114
Gain on sale of discontinued operations, net of minority interest	—	33,864	—	33,846
Net income	34,029	61,439	62,730	89,317
Preferred stock dividends	(4,969)	(4,969)	(9,938)	(9,938)
Net income available to common stockholders	\$ 29,060	\$ 56,470	\$ 52,792	\$ 79,379
Basic earnings per share:				
Net income from continuing operations before discontinued operations	\$ 0.63	\$ 0.50	\$ 1.16	\$ 1.03
Net income from discontinued operations	0.04	0.04	0.07	0.07
Gain on sale of discontinued operations	—	0.81	—	0.81
Net income available to common stockholders	\$ 0.67	\$ 1.35	\$ 1.23	\$ 1.91

Diluted earnings per share:

Net income from continuing operations before discontinued operations	\$ 0.61	\$ 0.49	\$ 1.12	\$ 0.99
Net income from discontinued operations	0.04	0.03	0.07	0.07
Gain on sale of discontinued operations	—	0.79	—	0.79
Net income available to common stockholders	<u>\$ 0.65</u>	<u>\$ 1.31</u>	<u>\$ 1.19</u>	<u>\$ 1.85</u>
Dividends per share	<u>\$ 0.60</u>	<u>\$ 0.54</u>	<u>\$ 1.20</u>	<u>\$ 1.08</u>
Basic weighted average common shares outstanding	<u>43,191</u>	<u>41,790</u>	<u>43,026</u>	<u>41,547</u>
Diluted weighted average common shares and common share equivalents outstanding	<u>46,901</u>	<u>45,505</u>	<u>46,775</u>	<u>45,313</u>

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

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

	Series C Preferred Stock	Series D Preferred Stock	Common Stock		Additional Paid- In-Capital	Accumulated Other Comprehensive Income	Retained Earnings	Total	Comprehensive Income
			Shares	Par Value					
Balance at December 31, 2005	<u>\$ 151,981</u>	<u>\$ 96,321</u>	<u>42,456</u>	<u>\$ 425</u>	<u>\$ 959,858</u>	<u>\$ 15,316</u>	<u>\$ 235,540</u>	<u>\$ 1,459,441</u>	
Comprehensive Income:									
Net income							62,730	62,730	\$ 62,730
Net unrealized gain on derivative instruments						4,693		4,693	4,693
SL Green's share of joint venture net unrealized gain on derivative instruments									1,588
Preferred dividends							(9,938)	(9,938)	
Redemption of units and DRIP proceeds			265	2	11,121			11,123	
Deferred compensation plan & stock award, net			94	1	320			321	
Amortization of deferred compensation plan					4,866			4,866	
Proceeds from stock options exercised			411	4	13,000			13,004	
Stock-based compensation — fair value					2,076			2,076	
Cash distribution declared (\$1.20 per common share of which none represented a return of capital for federal income tax purposes)							(51,812)	(51,812)	
Balance at June 30, 2006	<u>\$ 151,981</u>	<u>\$ 96,321</u>	<u>43,226</u>	<u>\$ 432</u>	<u>\$ 991,241</u>	<u>\$ 20,009</u>	<u>\$ 236,520</u>	<u>\$ 1,496,504</u>	<u>\$ 69,011</u>

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

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SL Green Realty Corp.
Condensed Consolidated Statements of Cash Flows
(Unaudited, and amounts in thousands, except per share data)

	Six Months Ended June 30,	
	2006	2005
Operating Activities		
Net income	\$ 62,730	\$ 89,317
Adjustment to reconcile net income to net cash provided by operating activities:		
Non-cash adjustments related to income from discontinued operations	872	3,287
Depreciation and amortization	36,160	29,716
Gain on sale of discontinued operations	—	(33,846)
Equity in net income from unconsolidated joint ventures	(20,564)	(25,393)
Distributions of cumulative earnings from unconsolidated joint ventures	21,666	21,197
Minority interest	4,599	2,789
Deferred rents receivable	(8,717)	(10,415)
Other non-cash adjustments	7,398	3,167
Changes in operating assets and liabilities:		
Restricted cash — operations	(2,426)	(7,984)
Tenant and other receivables	(6,394)	(4,195)
Related party receivables	(623)	1,049

Deferred lease costs	(10,104)	(8,393)
Other assets	17,875	12,242
Accounts payable, accrued expenses and other liabilities	2,715	4,659
Deferred revenue and land lease payable	(2,111)	(1,922)
Net cash provided by operating activities	103,076	75,275
Investing Activities		
Acquisitions of real estate property	(253,758)	(295,204)
Additions to land, buildings and improvements	(26,697)	(20,150)
Escrowed cash — capital improvements/acquisition deposits	1,513	(11,235)
Investments in unconsolidated joint ventures	(55,482)	(97,555)
Distributions in excess of cumulative earnings from unconsolidated joint ventures	36,791	3,446
Proceeds from disposition of real estate	8,847	56,653
Other investments	(13,935)	—
Structured finance and other investments net of repayments/participations	52,620	(46,523)
Net cash used in investing activities	(250,101)	(410,568)
Financing Activities		
Proceeds from mortgage notes payable	152,591	218,045
Repayments of mortgage notes payable	(3,875)	(62,498)
Proceeds from revolving credit facilities, and term loans	440,645	639,000
Repayments of revolving credit facilities and term loans	(418,000)	(451,170)
Proceeds from stock options exercised	13,004	15,499
Other financing activities	16,384	—
Dividends and distributions paid	(59,497)	(49,491)
Deferred loan costs and capitalized lease obligation	(4,147)	(7,909)
Net cash provided by financing activities	137,105	301,476
Net decrease in cash and cash equivalents	(9,920)	(33,817)
Cash and cash equivalents at beginning of period	24,104	35,795
Cash and cash equivalents at end of period	\$ 14,184	\$ 1,978

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

SL Green Realty Corp.
Notes to Condensed Consolidated Financial Statements
(Unaudited)
June 30, 2006

1. Organization and Basis of Presentation

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

Substantially all of our assets are held by, and our operations are conducted through, the Operating Partnership. The Company is the sole managing general partner of the Operating Partnership. As of June 30, 2006, minority investors held, in the aggregate, a 4.9% limited partnership interest in our Operating Partnership.

As of June 30, 2006, our wholly-owned properties consisted of 23 commercial office properties encompassing approximately 10.0 million rentable square feet located primarily in midtown Manhattan, a borough of New York City, or Manhattan. As of June 30, 2006, the weighted average occupancy (total leased square feet divided by total available square feet) of the wholly-owned properties was 96.7%. Our portfolio also includes ownership interests in unconsolidated joint ventures, which own seven commercial office properties in Manhattan, encompassing approximately 8.8 million rentable square feet, and which had a weighted average occupancy of 94.9% as of June 30, 2006. We also own 439,300 square feet of retail and development properties. In addition, we manage three office properties owned by third parties and affiliated companies encompassing approximately 1.0 million rentable square feet.

We also own an approximate 25% interest in Gramercy Capital Corp. (NYSE: GKK), or Gramercy. See Note 6.

Partnership Agreement

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

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 2006 operating results for the period presented are not necessarily indicative of the results that may be expected for the year ending December 31, 2006. These financial statements should be read in conjunction with the financial statements and accompanying notes included in our annual report on Form 10-K for the year ended December 31, 2005.

The balance sheet at December 31, 2005 has been derived from the audited financial statements at that date but does not include all the information and footnotes required by accounting principles generally accepted in the United States for complete financial statements.

2. Significant Accounting Policies

Principles of Consolidation

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

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entities, but where we are not the primary beneficiary are accounted for under the equity method. We consolidate variable interest entities in which we are determined to be the primary beneficiary. All significant intercompany balances and transactions have been eliminated.

Investment in Commercial Real Estate Properties

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

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

As a result of our evaluations, under SFAS No. 141, of acquisitions made, we recognized an increase of approximately \$581,000, \$921,000, \$270,000 and \$556,000 in rental revenue for the three and six months ended June 30, 2006 and 2005, respectively, for the amortization of below market leases and a reduction in lease origination costs, resulting from the reallocation of the purchase price of the applicable properties. We recognized a reduction in interest expense for the amortization of the above market rate mortgage of approximately \$192,000, \$381,000, \$176,000 and \$350,000 for the three and six months ended June 30, 2006 and 2005, respectively.

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

	Intangible Liabilities
2006	\$ 1,206
2007	2,412
2008	2,412
2009	2,173
2010	1,695
Thereafter	270
	<u>\$ 10,168</u>

Income Taxes

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

Pursuant to amendments to the Code that became effective January 1, 2001, we have elected or may elect to treat certain of our existing or newly created corporate subsidiaries as taxable REIT subsidiaries, or TRS. In general, a TRS of ours may perform non-customary services for our tenants, hold assets that we cannot hold directly and generally may engage in any real estate or non-real estate related business. A TRS is subject to corporate Federal income tax. Our TRS's generate income, resulting in Federal income tax liability for these entities. Our TRS's paid approximately \$1.1 million and \$0.7 million in federal, state and local taxes during the six months ended June 30, 2006 and 2005.

Stock-Based Employee Compensation Plans

We have a stock-based employee compensation plan, described more fully in Note 12. Prior to 2003, we accounted for this plan under Accounting Principles Board Opinion No. 25, or APB 25, "Accounting for Stock Issued to Employees," and related interpretations. No stock-based employee compensation cost was reflected in net income prior to January 1, 2003, as all awards granted under such plan had an intrinsic value of zero on the date of grant. Effective January 1, 2003, we adopted the fair value recognition provisions of SFAS No. 123, "Accounting for Stock-Based Compensation." Under the prospective method of adoption we selected under the provisions of SFAS No. 148, "Accounting for Stock-Based Compensation - Transition and Disclosure," the recognition provisions applied to all employee awards granted, modified, or settled after January 1, 2003. In December 2004, the FASB revised SFAS No. 123 through the issuance of SFAS No. 123 "Shared Based Payment," revised, or SFAS No. 123-R. SFAS No. 123-R became effective for us in the first quarter of 2006. SFAS No. 123-R, among other things, eliminates the alternative to use the intrinsic value method of accounting for stock-based compensation and requires entities to recognize the cost of employee services received in exchange for awards of equity instruments based on the grant-date fair value of those awards (with limited exceptions). The fair-value based method in SFAS No. 123-R is similar to the fair-value based method in SFAS No. 123 in most respects, subject to certain key differences. The adoption of SFAS No. 123-R did not have any impact on us, as we have applied the fair value method of accounting for stock-based compensation since January 1, 2003.

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

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

The fair value of each stock option granted is estimated on the date of grant using the Black-Scholes option pricing model with the following weighted average assumptions for grants in 2006 and 2005.

	2006	2005
Dividend yield	2.40%	3.60%
Expected life of option	5 years	6 years
Risk-free interest rate	4.80%	3.70%
Expected stock price volatility	16.61%	17.23%

The following table illustrates the effect on net income available to common stockholders and earnings per share if the fair value method had been applied to all outstanding and unvested stock options for the three and six months ended June 30, 2006 and 2005 (in thousands, except per share amounts):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2006	2005	2006	2005
Net income available to common stockholders	\$ 29,060	\$ 56,470	\$ 52,792	\$ 79,379
Deduct stock option expense-all awards	(960)	(387)	(1,447)	(748)
Add back stock option expense included in net income	726	129	952	229
Allocation of compensation expense to minority interest	47	22	72	43
Pro forma net income available to common stockholders	<u>\$ 28,873</u>	<u>\$ 56,234</u>	<u>\$ 52,369</u>	<u>\$ 78,903</u>
Basic earnings per common share-historical	\$ 0.67	\$ 1.35	\$ 1.23	\$ 1.91
Basic earnings per common share-pro forma	\$ 0.67	\$ 1.34	\$ 1.22	\$ 1.90
Diluted earnings per common share-historical	\$ 0.65	\$ 1.31	\$ 1.19	\$ 1.85
Diluted earnings per common share-pro forma	\$ 0.65	\$ 1.30	\$ 1.18	\$ 1.84

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

Earnings Per Share

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

Use of Estimates

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

Concentrations of Credit Risk

Financial instruments that potentially subject us to concentrations of credit risk consist primarily of cash investments, structured finance investments and accounts receivable. We place our cash investments in excess of insured amounts with high quality financial institutions. The collateral securing our structured finance investments is primarily located in the greater New York area. See Note 5. We perform ongoing credit evaluations of our tenants and require certain tenants to provide security deposits or letters of credit. Though these security deposits and letters of credit are insufficient to meet the total value of a tenant's lease obligation, they are a measure of good faith and a source of funds to offset the economic costs associated with lost rent and the costs associated with re-tenanting the space. Although the properties in our real estate portfolio are primarily located in Manhattan, the tenants located in these buildings operate in various industries. Other than one tenant at 1515 Broadway that contributes approximately 7.8% of our annualized rent, no other tenant in the portfolio contributes more than 5.1% of our annualized rent, including our share of joint venture annualized rent at June 30, 2006. Approximately 13%, 10% and 10% of our annualized rent was attributable to 420 Lexington Avenue, 625 Madison Avenue and 220 East 42nd Street, respectively, for the quarter ended June 30, 2006. One borrower accounted for more than 10.0% of the revenue earned on structured finance investments during the six months ended June 30, 2006.

Reclassification

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

New Accounting Pronouncements

In February 2006, the FASB issued SFAS No. 155, "Accounting for Certain Hybrid Financial Instruments — An Amendment of FASB No. 133 and 140." The purpose of SFAS statement No. 155 is to simplify the accounting for certain hybrid financial instruments by permitting fair value re-measurement for any hybrid financial instrument that contains an embedded derivative that otherwise would require bifurcation. SFAS No. 155 also eliminates the restriction on passive derivative instruments that a qualifying special-purpose entity may hold. SFAS No. 155 is effective for all financial instruments acquired or issued after the beginning of an entity's first fiscal year beginning after September 15, 2006. We believe that the adoption of this standard on January 1, 2007 will not have a material effect on our consolidated financial statements.

In March 2006, the FASB issued SFAS No. 156, "Accounting for Servicing of Financial Assets, an Amendment of SFAS No. 140." SFAS No. 156 requires separate recognition of a servicing asset and a servicing liability each time an entity undertakes an obligation to service a financial asset by entering into a servicing contract. This statement also requires that servicing assets and liabilities be initially recorded at fair value and subsequently adjusted to the fair value at the end of each reporting period. This statement is effective in fiscal years beginning after September 15, 2006. We believe that the adoption of this standard on January 1, 2007 will not have a material effect on our consolidated financial statements.

In April 2006, the FASB issued this FASB Staff Position, or FSP, which addresses how a reporting enterprise should determine the variability to be considered in applying FIN 46. The variability that is considered in applying FIN 46 affects the determination of (a) whether the entity is a variable interest entity, or VIE, (b) which interests are variable interests in the entity, and (c) which party, if any, is the primary beneficiary of the VIE. That variability will affect any calculation of expected losses and expected residual returns, if such a calculation is necessary. We will be considering the factors discussed in this FSP when assessing our VIE's in accordance with FIN 46.

In July 2006, the FASB issued Interpretation No. 48, "Accounting for Uncertainty in Income Taxes", or FIN 48. This interpretation, among other things, creates a two-step approach for evaluating uncertain tax positions. Recognition (step one) occurs when an enterprise concludes that a tax position, based solely on its technical merits, is more-likely-than-not to be sustained upon examination. Measurement (step two) determines the amount of benefit that more-likely-than-not will be realized upon settlement. Derecognition of a tax position that was previously recognized would occur when a company subsequently determines that a tax position no longer meets the more-likely-than-not threshold of being sustained. FIN 48 specifically prohibits the use of a valuation allowance as a substitute for derecognition of tax positions, and it has expanded disclosure requirements. FIN 48 is effective for fiscal years beginning after December 15, 2006, in which the impact of adoption should be accounted for as a cumulative-effect adjustment to the beginning balance of retained earnings. We are evaluating FIN 48, but do not believe it will have a material impact on our consolidated financial statements.

3. Property Acquisitions

In January 2006, we, through a joint venture with Jeff Sutton, acquired the fee interests in three adjoining buildings at 25-27 and 29 West 34th Street for an aggregate purchase price of \$30.0 million, excluding closing costs. The buildings comprise approximately 50,900 square feet. We own approximately 50% of the equity in the joint venture. We loaned approximately \$13.3 million to Jeff Sutton to fund a portion of his equity. These loans are secured by a pledge of Jeff Sutton's partnership interest in the joint venture. As we have been designated as the primary beneficiary of the joint venture under FIN 46(R), we have consolidated the accounts of the joint venture.

In March 2006, we entered into a long term operating net leasehold interest in 521 Fifth Avenue — a 40-story, 460,000-square-foot office building — with an ownership group led by RFR Holding LLC, which retained fee ownership of the property. We also purchased an option to acquire fee ownership of the property in five years for \$15.0 million. Assuming we exercise our option, the total cost would be \$225.0 million. The acquisition was financed with a \$140.0 million loan and proceeds drawn under our revolving credit facility. The loan, which was for two years and bore interest at the London Interbank Offered Rate, or LIBOR, plus 162.5 basis points, was replaced in April with a five-year loan that bears interest at LIBOR plus 100 basis points.

In May 2005, we acquired a 10% interest in a joint venture that acquired a 670,000 square feet property located at 55 Corporate Drive, N.J. The acquisition was funded with an \$86.0 million interest-only mortgage, which was to mature in June 2007 and carried an interest rate of 215 basis points over the 30-day LIBOR. This mortgage was acquired by Gramercy in March 2006. In June 2006, we acquired an additional 40% interest in the venture, increasing our interest to 50%. Subsequent to these acquisitions, which valued the property at \$236.0 million, the property was refinanced. In June 2006, the mortgage, which Gramercy acquired in March 2006, was repaid and replaced with a \$190.0 million, ten-year interest-only mortgage with a fixed interest rate of 5.75%. The property is net-leased to a single tenant until 2015. In connection with the refinancing, the joint venture distributed out all the capital and preferred return to its majority partner. This resulted in our interest increasing from 10% to 50%. Simultaneous with this, Gramercy acquired a 49.75% interest from the other partners. These interests are held as tenant-in-common interests. This transaction valued the property at \$236.0 million. As we expect to sell our interest in the near term, we have classified this investment in assets and liabilities held for sale on the balance sheet.

On June 30, 2006, we completed the investment in the previously announced transaction involving 609 Fifth Avenue—a mixed-use property that includes New York City's American Girl Store and approximately 100,000 square feet of Class A office space—in a transaction that valued the property at approximately \$182.0 million. We issued approximately 64 million preferred units in SL Green Operating Partnership, L.P., valued at \$1.00 per unit, to subsidiaries of 609

Partners, LLC, the partnership that indirectly holds the property, and acquired all of its common partnership interests. The property remains subject to a \$102.0 million mortgage loan held by Morgan Stanley Mortgage Capital, Inc. The mortgage has a fixed annual interest rate of 5.85% and will mature in October 2013.

Pro Forma

The following table (in thousands, except per share amounts) summarizes, on an unaudited pro forma basis, our combined results of operations for the six months ended June 30, 2006 and 2005 as though the acquisitions of 28 West 44th (February 2005) and 521 Fifth Avenue (March 2006) and the investment in 609 Fifth Avenue were completed on January 1, 2005. The supplemental pro forma operating data is not necessarily indicative of what the actual results of operations of the Company would have been assuming the transactions

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had been completed as set forth above, nor do they purport to represent the Company's results of operations for future periods. In addition, the following supplemental pro forma operating data does not present the sale of assets through June 30, 2006. The Company accounted for the acquisition of assets utilizing the purchase method of accounting.

	2006	2005
Pro forma revenues	\$ 265,424	\$ 216,811
Pro forma net income	\$ 49,204	\$ 74,131
Pro forma earnings per common share-basic	\$ 1.14	\$ 1.78
Pro forma earnings per common share and common share equivalents-diluted	\$ 1.10	\$ 1.69
Pro forma common shares-basic	43,026	41,547
Pro forma common share and common share equivalents-diluted	46,775	45,313

4. Property Dispositions and Assets Held for Sale

During the six months ended June 30, 2006 and 2005, we did not dispose of any wholly-owned properties.

At June 30, 2006, discontinued operations included the results of operations of real estate assets sold prior to that date. This included 1414 Avenue of the Americas, which was sold in April 2005 and 286 and 290 Madison Avenue, 1140 Avenue of the Americas and 55 Corporate Drive, which were considered as held for sale at June 30, 2006.

The following table summarizes income from discontinued operations (net of minority interest) and the related realized gain on sale of discontinued operations (net of minority interest) for the three and six months ended June 30, 2006 and 2005 (in thousands).

	Three Months Ended June 30,		Six Months Ended June 30,	
	2006	2005	2006	2005
Revenues				
Rental revenue	\$ 3,368	\$ 3,273	6,630	7,606
Escalation and reimbursement revenues	687	687	1,301	1,415
Other income	26	30	42	48
Total revenues	4,081	3,990	7,973	9,069
Operating expense				
Real estate taxes	1,201	1,063	2,611	2,796
Ground rent	713	689	1,415	1,564
Interest	88	88	174	174
Depreciation and amortization	—	16	—	188
Total expenses	201	479	719	1,044
Income from discontinued operations	2,203	2,335	4,919	5,766
Gain on disposition of discontinued operations	1,878	1,655	3,054	3,303
Minority interest in operating partnership	—	35,900	—	35,900
Income from discontinued operations, net of minority interest	(92)	(2,130)	(153)	(2,243)
	<u>\$ 1,786</u>	<u>\$ 35,425</u>	<u>\$ 2,901</u>	<u>\$ 36,960</u>

5. Structured Finance Investments

During the six months ended June 30, 2006 and 2005, we originated approximately \$110.4 million and \$89.6 million in structured finance and preferred equity investments (net of discount), respectively. There were approximately \$176.5 and \$42.8 million in repayments and participations during those periods, respectively. At June 30, 2006 and December 31, 2005 all loans were performing in accordance with the terms of the loan agreements.

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As of June 30, 2006 and December 31, 2005, we held the following structured finance investments, excluding preferred equity investments, with an aggregate weighted average current yield of approximately 9.8% (in thousands):

Loan Type	Gross Investment	Senior Financing	2006 Principal Outstanding	2005 Principal Outstanding	Initial Maturity Date
Mezzanine Loan (1)	\$ 3,500	\$ 15,000	\$ 3,500	\$ 3,500	September 2021
Mezzanine Loan (1)(2)	29,750	225,000	30,726	30,249	December 2020

Mezzanine Loan (1)	28,500	—	28,500	28,500	August 2008
Mezzanine Loan	60,000	205,000	57,932	—	February 2016
Mezzanine Loan (5)	3,000	22,000	3,000	—	January 2016
Mezzanine Loan	25,000	200,000	25,000	—	May 2016
Mezzanine Loan (1)(3)(4)	—	—	—	13,927	—
Mezzanine Loan	—	—	—	20,000	—
Junior Participation (1)	37,500	477,500	37,500	37,500	January 2014
Junior Participation (1)(3)	4,000	44,000	3,925	3,939	August 2010
Junior Participation (1)	6,994	133,000	5,384	5,336	June 2014
Junior Participation (1)	11,000	53,000	11,000	11,000	November 2009
Junior Participation (1)	21,000	115,000	21,000	21,000	November 2009
Junior Participation (1)	12,000	73,000	12,000	—	June 2007
Junior Participation (4)	—	—	—	36,000	—
Junior Participation (4)	—	—	—	25,000	—
	<u>\$ 242,244</u>	<u>\$ 1,562,500</u>	<u>\$ 239,467</u>	<u>\$ 235,951</u>	

(1) This is a fixed rate loan.

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

(3) This is an amortizing loan.

(4) This investment was repaid during the second quarter of 2006.

(5) This investment was redeemed in July 2006.

Preferred Equity Investments

As of June 30, 2006 and December 31, 2005, we held the following preferred equity investments with an aggregate weighted average current yield of approximately 11.5% (in thousands):

Type	Gross Investment	Senior Financing	2006 Amount Outstanding	2005 Amount Outstanding	Initial Maturity Date
Preferred equity (1)(2)	\$ 75,000	\$ 69,724	\$ 14,522	\$ 75,000	July 2014
Preferred equity (1)	15,000	2,350,000	15,000	15,000	February 2015
Preferred equity (4)	51,000	224,000	51,000	51,000	February 2014
Preferred equity (1)	7,000	75,000	7,000	7,000	August 2015
Preferred equity (1)	7,000	—	7,000	—	June 2009
Preferred equity (3)	—	—	—	10,000	—
Preferred equity (1)(2)(3)	—	—	—	6,125	—
	<u>\$ 155,000</u>	<u>\$ 2,718,724</u>	<u>\$ 94,522</u>	<u>\$ 164,125</u>	

(1) This is a fixed rate investment.

(2) Gramercy owned an interest in the first mortgage of the underlying property.

(3) This investment was repaid during the second quarter of 2006.

(4) Gramercy holds a mezzanine loan on this asset.

6. Investment in Unconsolidated Joint Ventures

We have investments in several real estate joint ventures with various partners, including The Rockefeller Group International Inc., or RGII, The City Investment Fund, or CIF, the Witkoff Group, or Witkoff, SITQ Immobilier, a subsidiary of Caisse de depot et placement du Quebec, or SITQ, SEB Immobilier — Investment GmbH, or SEB, Prudential Real Estate Investors, or Prudential, Ian Schragger, or Schragger, RFR Holding LLC, or RFR, Credit Suisse Securities (USA) LLC, or Credit Suisse, Mack-Cali Realty

Corporation, or Mack-Cali, and Gramercy. As we do not control these joint ventures, we account for them under the equity method of accounting. The table below provides general information on each joint venture as of June 30, 2006 (in thousands):

Property	Partner	Ownership Interest	Economic Interest	Square Feet	Acquired	Acquisition Price(1)
1221 Avenue of the Americas(2)	RGII	45.00%	45.00%	2,550	12/03	\$ 1,000,000
485 Lexington Avenue(3)	CIF and Witkoff	30.00%	50.00%	921	07/04	225,000
One Park Avenue(4)	SEB	16.67%	16.67%	913	05/01	318,500
1250 Broadway	SITQ	55.00%	55.00%	670	08/99	121,500
1515 Broadway(5)	SITQ	55.00%	68.45%	1,750	05/02	483,500
100 Park Avenue	Prudential	49.90%	49.90%	834	02/00	95,800
One Madison Avenue—South Building	Gramercy	55.00%	55.00%	1,176	04/05	803,000
One Madison Avenue—Clock Tower(6)	Schragger/RFR/ Credit Suisse	30.00%	30.00%	220	04/05	116,000
379 West Broadway	Jeff Sutton	45.00%	45.00%	62	12/05	19,750
Mack-Green joint venture	Mack-Cali	48.00%	48.00%	900	05/06	127,500

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

- (2) We acquired our interest from The McGraw-Hill Companies, or MHC. MHC is a tenant at the property and accounted for approximately 14.4% of property's annualized rent at June 30, 2006. We do not manage this joint venture.
- (3) As a result of exceeding the performance thresholds set forth in our joint venture agreement with CIF, our economic stake in the property increased to 50% in January 2006.
- (4) In May 2004, Credit Suisse, through a wholly owned affiliate, acquired a 75% interest in One Park. The interest was acquired from a joint venture comprised of SITQ and us. Credit Suisse's affiliated entity transferred its interest to SEB in April 2005.
- (5) Under a tax protection agreement established to protect the limited partners of the partnership that transferred 1515 Broadway to the joint venture, the joint venture has agreed not to adversely affect the limited partners' tax positions before December 2011. One tenant, whose leases end between 2008 and 2015, represents approximately 83.2% of this joint venture's annualized rent at June 30, 2006.
- (6) In March 2006, we, along with Credit Suisse, sold a 40.0% interest in the joint venture to Schragger and RFR. They will perform the redevelopment and residential conversion of the Clock Tower. The arrangement provides Schragger and RFR with the ability to increase their ownership interest if certain incentive return thresholds are achieved.

We finance our joint ventures with non-recourse debt. The first mortgage notes payable collateralized by the respective joint venture properties and assignment of leases at June 30, 2006 and December 31, 2005, respectively, are as follows (in thousands):

Property	Maturity Date	Interest Rate(1)	2006	2005
1221 Avenue of the Americas(2)	12/2010	5.71%	\$ 170,000	\$ 170,000
485 Lexington Avenue(3)	01/2009	6.33%	\$ 321,149	\$ 188,347
One Park Avenue	05/2014	5.80%	\$ 238,500	\$ 238,500
1250 Broadway(4)	08/2006	6.19%	\$ 115,000	\$ 115,000
1515 Broadway(5)	11/2007	5.96%	\$ 625,000	\$ 625,000
100 Park Avenue(6)	11/2015	6.52%	\$ 175,000	\$ 135,998
One Madison Avenue—South Building	05/2020	5.91%	\$ 686,035	\$ 687,984
379 West Broadway	12/2007	7.31%	\$ 12,838	\$ 12,837
One Madison Avenue—Clock Tower(7)	11/2007	6.63%	\$ 126,621	—
Mack-Green joint venture(8)	08/2014	7.57%	\$ 102,500	—

- (1) Interest rate represents the effective all-in weighted average interest rate for the quarter ended June 30, 2006.
- (2) This loan has an interest rate based on the LIBOR plus 75 basis points. \$65.0 million of this loan has been hedged through December 2010. The hedge fixed the LIBOR rate at 4.8%.
- (3) Simultaneous with the closing, the joint venture closed on a \$240.0 million loan. The loan, which bore interest at 200 basis points over the 30-day LIBOR, was for three years and had two one-year extension options. At closing, the joint venture drew down approximately \$175.3 million. In January 2006, the joint venture obtained a \$390.0 million three-year loan, which bears interest at LIBOR plus 1.35%, and which can be extended for an additional two years. The initial funding of the loan was approximately \$293.0 million, which was used to repay the existing loan.
- (4) The interest only loan carries an interest rate of 120 basis points over the 30-day LIBOR. The loan is subject to three one-year as-of-right renewal extensions. The joint venture is in the process of extending this loan for one year.
- (5) The interest only loan carries an interest rate of 90 basis points over the 30-day LIBOR. The mortgage is subject to three one-year as-of-right renewal options.
- (6) In October 2005, the loan was increased by \$60.0 million to \$175.0 million. It will mature in 2015 and carries an interest rate of approximately 6.52%. Proceeds from the refinancing will be used to redevelop the property.
- (7) The interest only loan carried an interest rate of 160 basis points over the 30-day LIBOR.
- (8) Comprised of \$90.3 million variable rate debt that matures in May 2008 and \$12.2 million fixed rate debt that matures in August 2014. Gramercy provided the variable rate debt.

We act as the operating partner and day-to-day manager for all our joint ventures, except for 1221 Avenue of the Americas, Mack-Green and 55 Corporate Drive. We are entitled to receive fees for providing management, leasing, construction supervision and asset management services to our joint ventures. We earned approximately \$2.7 million, \$4.2 million, \$2.8 million and \$6.3 million from these services for the three and six months ended June 30, 2006 and 2005, respectively. In addition, we have the ability to earn incentive fees based on the ultimate financial performance of the joint venture properties.

Gramercy Capital Corp.

In April 2004, we formed Gramercy as a national commercial real estate specialty finance company that focuses on the direct origination and acquisition of whole loans, subordinate interests in whole loans, mezzanine loans, preferred equity and net lease investments involving commercial properties throughout the United States. Gramercy qualified as a REIT under the Code commencing with its taxable year ended December 31, 2004 and expects to qualify for its current fiscal year. In July 2004, Gramercy completed its initial public offering. As part of the offering we purchased 25% of Gramercy's common stock, for a total investment of approximately \$46.9 million. In January 2005, we purchased an additional 1,275,000 shares of common stock of Gramercy, increasing our total investment to approximately \$68.9 million. In September 2005, we purchased an additional 958,333 shares of common stock of Gramercy, increasing

our total investment to approximately \$93.6 million. In May 2006, we purchased an additional 750,000 shares of common stock of Gramercy, increasing our total investment to approximately \$113.7 million. We currently hold 6,418,333 shares of Gramercy's common stock. The market value of our investment in Gramercy was approximately \$166.2 million at June 30, 2006.

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

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GKK Manager LLC, or the Manager, an affiliate of ours, entered into a management agreement with Gramercy, which provides for an initial term through December 2007, with automatic one-year extension options and is subject to certain termination rights. Gramercy pays us an annual management fee equal to 1.75% of their gross stockholders' equity (as defined in the amended and restated management agreement). In addition, Gramercy will also pay the Manager a collateral management fee (as defined in the collateral management agreement) of 0.25% per annum on the outstanding investment grade bonds in Gramercy's July 2005 collateralized debt obligation. The amended and restated management agreement provides that in connection with formations of future collateralized debt obligations, or CDO, or other securitization vehicles, if a collateral manager is retained, the Manager or an affiliate will be the collateral manager and will receive the following fees: (i) 0.25% per annum of the book value of the assets owned for transitional "managed" CDOs, (ii) 0.15% per annum of the book value of the assets owned for non-transitional "managed" CDOs, (iii) 0.10% per annum of the book value of the assets owned for static CDOs that own primarily non-investment grade bonds, and (iv) 0.05% per annum of the book value of the assets owned for static CDOs that own primarily investment grade bonds; limited in each instance by the fees that are paid to the collateral manager. For the three and six months ended June 30, 2006 and 2005, we received an aggregate of approximately \$2.5 million, \$4.7 million, \$1.3 million and \$2.5 million, respectively, in fees under the management agreement and \$0.5 million, \$1.0 million, none and none under the collateral management agreement. In April 2006, Gramercy's board of directors, among other things, approved an extension of the management agreement through December 2009.

To provide an incentive for the Manager to enhance the value of the common stock, we, along with the Manager and other holders of Class B limited partner interests in Gramercy's operating partnership, are entitled to an incentive return payable through the Class B limited partner interests in Gramercy's operating partnership, equal to 25% of the amount by which funds from operations (as defined in Gramercy's partnership agreement) plus certain accounting gains exceed the product of the weighted average stockholders' equity of Gramercy multiplied by 9.5% (divided by 4 to adjust for quarterly calculations). We will record any distributions on the Class B limited partner interests as incentive distribution income in the period when earned and when receipt of such amounts have become probable and reasonably estimable in accordance with Gramercy's partnership agreement as if such agreement had been terminated on that date. We earned approximately \$1.6 million, \$2.8 million, none and none under this agreement for the three and six months ended June 30, 2006 and 2005, respectively. Due to the control we have over the Manager, we consolidate the accounts of the Manager into ours.

In May 2005, our Compensation Committee approved long-term incentive performance awards pursuant to which certain of our officers and employees, including some of whom are our senior executive officers, were awarded a portion of the interests previously held by us in the Manager as well as in the Class B limited partner interests in Gramercy's operating partnership. These awards are dependent upon, among other things, tenure of employment and the performance by SL Green Realty Corp. and its investment in Gramercy. We recorded compensation expense of \$0.4 million, \$0.7 million, none and none, respectively, for the three and six months ended June 30, 2006 and 2005, related to these awards. After giving effect to these awards, we own 65.83 units of the Class B limited partner interests and 65.83% of the Manager. The officers and employees who received these awards own 15.75 units of the Class B limited partner interests and 15.75% of the Manager.

Gramercy is obligated to reimburse the Manager for its costs incurred under an asset servicing agreement and an outsource agreement between the Manager and us. The asset servicing agreement, which was amended and restated in April 2006, provides for an annual fee payable to us of 0.05% of the book value of all Gramercy's credit tenant lease assets and non-investment grade bonds and 0.15% of the book value of all other Gramercy assets. We may reduce the asset-servicing fee for fees that Gramercy pays directly to outside servicers. The outsourcing agreement currently provides for a fee of \$1.29 million per year, increasing 3% annually over the prior year. For the three and six months ended June 30, 2006 and 2005, the Manager received an aggregate of approximately \$0.9 million, \$1.6 million, \$0.5 million and \$1.0 million, respectively, under the outsourcing and asset servicing agreements.

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

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

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

See above for a discussion on Gramercy's joint venture investment, along with us, in One Madison Avenue-South Building and Note 3 for a discussion on 55 Corporate Drive.

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The condensed combined balance sheets for the unconsolidated joint ventures, including Gramercy, at June 30, 2006 and December 31, 2005, are as follows (in thousands):

	June 30, 2006	December 31, 2005
Assets		
Commercial real estate property, net	\$ 3,505,760	\$ 3,327,691

Structured finance investments	1,655,566	1,205,745
Other assets	485,463	424,468
Total assets	<u>\$ 5,646,789</u>	<u>\$ 4,957,904</u>
Liabilities and members' equity		
Mortgages payable	\$ 2,572,643	\$ 2,257,667
Other loans	1,448,195	1,068,866
Other liabilities	140,286	120,959
Members' equity	1,485,665	1,510,412
Total liabilities and members' equity	<u>\$ 5,646,789</u>	<u>\$ 4,957,904</u>
Company's net investment in unconsolidated joint ventures	<u>\$ 571,418</u>	<u>\$ 543,189</u>

The condensed combined statements of operations for the unconsolidated joint ventures, including Gramercy from acquisition date through June 30, 2006 and 2005 are as follows (in thousands):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2006	2005	2006	2005
Total revenues	\$ 152,852	\$ 118,721	\$ 298,411	\$ 219,423
Operating expenses	33,077	19,933	65,460	44,119
Real estate taxes	17,605	15,917	35,022	31,831
Interest	55,511	23,196	105,126	40,702
Depreciation and amortization	17,784	17,399	35,892	32,667
Total expenses	123,977	76,445	241,500	149,319
Net income before gain on sale	<u>\$ 28,875</u>	<u>\$ 42,276</u>	<u>\$ 56,911</u>	<u>\$ 70,104</u>
Company's equity in net income of unconsolidated joint ventures	<u>\$ 10,596</u>	<u>\$ 13,334</u>	<u>\$ 20,564</u>	<u>\$ 25,393</u>

7. Investment in and Advances to Affiliates

Service Corporation

In order to maintain our 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 the Service Corporation. We, through our Operating Partnership, own 100% of the non-voting common stock (representing 95% of the total equity) of the Service Corporation. Through dividends on its equity interest, our 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 one of our affiliates. This controlling interest gives the affiliate the power to elect all directors of the Service Corporation. The Service Corporation is considered to be a variable interest entity under FIN 46 and we are the primary beneficiary. Therefore, effective July 1, 2003, we consolidated the operations of the Service Corporation. For the three and six months ended June 30, 2006 and 2005, the Service Corporation earned approximately \$2.4 million, \$3.7 million, \$2.6 million and \$6.1 million of revenue and incurred approximately \$1.6 million, \$3.6 million, \$1.8 million and \$4.0 million in expenses, respectively. 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 us are conducted through SL Green Management LLC which is 100% owned by our Operating Partnership.

eEmerge

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

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

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

The net book value of our investment as of June 30, 2006 and December 31, 2005 was approximately \$3.4 million and \$3.9 million, respectively.

8. Deferred Costs

Deferred costs at June 30, 2006 and December 31, 2005 consisted of the following (in thousands):

	2006	2005
Deferred financing	\$ 31,286	\$ 40,118
Deferred leasing	85,348	78,086
	116,634	118,204
Less accumulated amortization	<u>(42,887)</u>	<u>(38,776)</u>

9. Mortgage Notes Payable

The first mortgage notes payable collateralized by the respective properties and assignment of leases at June 30, 2006 and December 31, 2005, respectively, were as follows (in thousands):

Property	Maturity Date	Interest Rate	2006	2005
70 West 36th Street (1)	5/2009	7.87%	\$ 11,307	\$ 11,414
711 Third Avenue (1)	6/2015	4.99%	120,000	120,000
420 Lexington Avenue (1)	11/2010	8.44%	116,334	117,466
673 First Avenue (1)	2/2013	5.67%	34,147	34,474
125 Broad Street (2)	10/2007	8.29%	74,386	74,787
220 East 42nd Street (1)	12/2013	5.23%	210,000	210,000
625 Madison Avenue (1)	11/2015	6.27%	102,000	102,000
609 Fifth Avenue (1)	10/2013	5.85%	102,000	—
609 Partners, LLC	7/2014	5.00%	63,891	—
Total fixed rate debt			<u>834,065</u>	<u>670,141</u>
One Madison Avenue — Clock Tower (3)	—	—	—	113,546
521 Fifth Avenue (1)	4/2011	5.99%	140,000	—
1551/1555 Broadway and West 21st 34th Street (4)	8/2008	6.98%	94,630	91,532
141 Fifth Avenue (4)	9/2007	7.31%	10,304	10,033
Total floating rate debt			<u>244,934</u>	<u>215,111</u>
Total mortgage notes payable			<u>\$ 1,078,999</u>	<u>\$ 885,252</u>

- (1) Held in bankruptcy remote special purpose entity.
- (2) This mortgage has an initial maturity date of October 2007 and a contractual maturity date of October 2030.
- (3) This mortgage was assumed by the joint venture. See Note 6.
- (4) We own a 50% interest in the joint venture that holds these loans. These loans are non-recourse to us. See Note 6.

At June 30, 2006 and December 31, 2005 the gross book value of the properties collateralizing the mortgage notes was approximately \$1.5 billion and \$1.2 billion, respectively.

For the three and six months ended June 30, 2006 and 2005, we incurred approximately \$24.1 million, \$43.7 million, \$20.4 and \$38.4 million of interest expense, respectively, excluding interest which was capitalized of approximately \$2.5 million, \$6.0 million, \$1.0 million and \$1.0 million, respectively.

Principal Maturities

Combined aggregate principal maturities of mortgages and notes payable, 2005 unsecured revolving credit facility, term loans and trust preferred securities and our share of joint venture debt as of June 30, 2006, excluding extension options, were as follows (in thousands):

	Scheduled Amortization	Principal Repayments	Revolving Credit Facility	Term Loans and Trust Preferred Securities	Total	Joint Venture Debt
2006	\$ 2,368	\$ —	\$ —	\$ —	\$ 2,368	\$ 64,840
2007	10,688	83,645	—	—	94,333	393,363
2008	10,931	94,630	54,645	1,766	161,972	51,285
2009	11,545	10,628	—	327,648	349,821	102,936
2010	11,380	104,691	—	195,586	311,657	83,578
Thereafter	33,289	705,205	—	100,000	838,494	483,330
	<u>\$ 80,201</u>	<u>\$ 998,799</u>	<u>\$ 54,645</u>	<u>\$ 625,000</u>	<u>\$ 1,758,645</u>	<u>\$ 1,179,332</u>

10. Credit Facilities

2005 Unsecured Revolving Credit Facility

We have a \$500.0 million unsecured revolving credit facility. We have an option to increase the capacity under the 2005 unsecured revolving credit facility to \$800.0 million at any time prior to the maturity date in September 2008. The 2005 unsecured revolving credit facility bears interest at a spread ranging from 85 basis points to 125 basis points over LIBOR, based on our leverage ratio, and has a one-year extension option. The 2005 unsecured revolving credit facility also requires a 12.5 to 25 basis point fee on the unused balance payable annually in arrears. The 2005 unsecured revolving credit facility had an outstanding balance of \$54.6 million and carried a spread over LIBOR of 95 basis points at June 30, 2006. Availability under the 2005 unsecured revolving credit facility was further reduced by the issuance of approximately \$13.5 million in letters of credit. The effective all-in interest rate on the 2005 unsecured revolving credit facility was 6.03% for the three months ended June 30, 2006. The 2005 unsecured revolving credit facility includes certain restrictions and covenants (see restrictive covenants below).

Term Loans

We have a \$325.0 million unsecured term loan, which matures in August 2009. This term loan bears interest at a spread ranging from 110 basis points to 140 basis points over LIBOR, based on our leverage ratio. As of June 30, 2006, we had \$325.0 million outstanding under the unsecured term loan at the rate of

125 basis points over LIBOR. To limit our exposure to the variable LIBOR rate we entered into various swap agreements to fix the LIBOR rate on the entire unsecured term loan. The LIBOR rate was fixed for a blended all-in rate of 4.50%. The effective all-in interest rate on the unsecured term loan was 4.64% for the three months ended June 30, 2006.

We have a \$200.0 million five-year non-recourse term loan secured by a pledge of our ownership interest in 1221 Avenue of the Americas. This term loan has a floating rate of 125 basis points over the current LIBOR rate and matures in May 2010 effective all-in interest rate on this secured term loan was 5.33% for the three months ended June 30, 2006.

Restrictive Covenants

The terms of the 2005 unsecured revolving credit facility and the term loans include certain restrictions and covenants which limit, among other things, the payment of dividends (as discussed below), the incurrence of additional indebtedness, the incurrence of liens and the disposition of assets, and which require compliance with financial ratios relating to the minimum amount of tangible net worth, the minimum amount of debt service coverage, and fixed charge coverage, the maximum amount of unsecured indebtedness, the minimum amount of unencumbered property debt service coverage and certain investment limitations. The dividend restriction referred to above provides that, except to enable us to continue to qualify as a REIT for Federal Income Tax purposes, we will not

during any four consecutive fiscal quarters make distributions with respect to common stock or other equity interests in an aggregate amount in excess of 90% of funds from operations for such period, subject to certain other adjustments. As of June 30, 2006 and December 31, 2005, we were in compliance with all such covenants.

Junior Subordinate Deferrable Interest Debentures

In June 2005, we issued \$100.0 million in unsecured floating rate trust preferred securities through a newly formed trust, SL Green Capital Trust I, or Trust, that is a wholly-owned subsidiary of our Operating Partnership. The securities mature in 2035 and bear interest at a fixed rate of 5.61% for the first ten years ending July 2015, a period of up to eight consecutive quarters if our Operating Partnership exercises its right to defer such payments. The trust preferred securities are redeemable, at the option of our Operating Partnership, in whole or in part, with no prepayment premium any time after July 2010. Our interest in the Trust is accounted for using the equity method and the assets and liabilities of that entity is not consolidated into our financial statements. Interest on the junior subordinated notes is included in interest expense on our consolidated statements of income while the value of the junior subordinated notes, net of our investment in the trusts that issued the securities, is presented as a separate item in our consolidated balance sheets.

11. Related Party Transactions

Cleaning/ Security/ Messenger and Restoration Services

Through Alliance Building Services, or Alliance, First Quality Maintenance, L.P., or First Quality, provides cleaning, extermination and related services, Classic Security LLC provides security services, Bright Star Couriers LLC provides messenger services, and Onyx Restoration Works provides restoration services with respect to certain properties owned by us. Alliance is owned by Gary Green, a son of Stephen L. Green, the chairman of our board of directors. First Quality also provides additional services directly to tenants on a separately negotiated basis. In addition, First Quality has the non-exclusive opportunity to provide cleaning and related services to individual tenants at our properties on a basis separately negotiated with any tenant seeking such additional services. In the first quarter of 2006, First Quality expanded its space leased to 26,800 square feet of space at 70 West 36th Street pursuant to a lease that expires on December 31, 2015 and provides for annual rental payments of approximately \$629,000. We paid Alliance approximately \$3.0 million, \$6.1 million, \$2.4 million and \$4.3 million for the three and six months ended June 30, 2006 and 2005 respectively, for these services (excluding services provided directly to tenants).

Leases

Nancy Peck and Company leases 2,013 square feet of space at 420 Lexington Avenue, pursuant to a lease that expired on June 30, 2005 and provided for annual rental payments of approximately \$66,000. This space is now leased on a month-to-month basis. Nancy Peck and Company is owned by Nancy Peck, the wife of Stephen L. Green. The rent due pursuant to the lease is offset against a consulting fee of \$11,025 per month an affiliate pays to her pursuant to a consulting agreement, which is cancelable upon 30-days notice.

Brokerage Services

Sonnenblick-Goldman Company, or Sonnenblick, a nationally recognized real estate investment banking firm, provided mortgage brokerage services to us. Mr. Morton Holliday, the father of Mr. Marc Holliday, was a Managing Director of Sonnenblick at the time of the financings. In 2005, we paid approximately \$457,000 to Sonnenblick in connection with securing a \$120.0 million first mortgage for the property located at 711 Third Avenue. In 2005, our 1515 Broadway joint venture paid approximately \$400,000 to Sonnenblick in connection with refinancing the property and increasing the first mortgage to \$625.0 million. In 2006, our 485 Lexington Avenue joint venture paid approximately \$757,000 to Sonnenblick in connection with refinancing the property and increasing the first mortgage to \$390.0 million.

Management Fees

S.L. Green Management Corp. receives property management fees from an entity in which Stephen L. Green owns an interest. The aggregate amount of fees paid to S.L. Green Management Corp. from such entity was approximately \$45,000, \$88,000, \$55,000 and \$110,000 for the three and six months ended June 30, 2006 and 2005, respectively.

Amounts due from (to) related parties at June 30, 2006 and December 31, 2005 consisted of the following (in thousands):

	2006	2005
17 Battery Condominium Association	\$ 93	\$ 93
Due from joint ventures	4,346	3,500
Officers and employees	1,466	1,527
Other	2,425	2,587
Related party receivables	<u>\$8,330</u>	<u>\$ 7,707</u>

Management Indebtedness

In January 2001, Mr. Marc Holliday, then our president, received a non-recourse loan from us in the principal amount of \$1.0 million pursuant to his amended and restated employment and non-competition agreement he executed at the time. This loan bears interest at the applicable federal rate per annum and is secured by a pledge of certain of Mr. Holliday's shares of our common stock. The principal of and interest on this loan is forgivable upon our attainment of specified financial performance goals prior to December 31, 2006, provided that Mr. Holliday remains employed by us until January 17, 2007. In April 2000, Mr. Holliday received a loan from us in the principal amount of \$300,000 with a maturity date of July 2003. This loan bore interest at a rate of 6.60% per annum and was secured by a pledge of certain of Mr. Holliday's shares of our common stock. In May 2002, Mr. Holliday entered into a loan modification agreement with us in order to modify the repayment terms of the \$300,000 loan. Pursuant to the agreement, \$100,000 (plus accrued interest thereon) was forgivable on each of January 1, 2004, January 1, 2005 and January 1, 2006, provided that Mr. Holliday remains employed by us through each of such date. This \$300,000 loan was completely forgiven on January 1, 2006.

Gramercy Capital Corp.

See Note 6. Investment in Unconsolidated Joint Ventures — Gramercy Capital Corp. for disclosure on related party transactions between Gramercy and us.

12. Stockholders' Equity

Common Stock

Our authorized capital stock consists of 200,000,000 shares, \$.01 par value, of which we have authorized the issuance of up to 100,000,000 shares of common stock, \$.01 par value per share, 75,000,000 shares of excess stock, at \$.01 par value per share, and 25,000,000 shares of preferred stock, par value \$.01 per share. As of June 30, 2006, 43,226,364 shares of common stock and no shares of excess stock were issued and outstanding.

We filed a \$500.0 million shelf registration statement, which was declared effective by the Securities and Exchange Commission, or SEC, in March 2004. This registration statement provides us with the ability to issue common and preferred stock, depository shares and warrants. We currently have \$65.1 million available under the shelf.

Perpetual Preferred Stock

In December 2003, we sold 6,300,000 shares of our 7.625% Series C preferred stock, (including the underwriters' over-allotment option of 700,000 shares) with a mandatory liquidation preference of \$25.00 per share. Net proceeds from this offering (approximately \$152.0 million) were used principally to repay amounts outstanding under our secured and unsecured revolving credit facilities. The Series C preferred stockholders receive annual dividends of \$1.90625 per share paid on a quarterly basis and dividends are cumulative, subject to certain provisions. On or after December 12, 2008, we may redeem the Series C preferred stock at par for cash at our option. The Series C preferred stock was recorded net of underwriters discount and issuance costs.

In 2004, we sold 4,000,000 shares of our 7.875% Series D cumulative redeemable preferred stock, or the Series D preferred stock, with a mandatory liquidation preference of \$25.00 per share. Net proceeds from these offerings (approximately \$96.3 million) were used principally to repay amounts outstanding under our secured and unsecured revolving credit facilities. The Series D preferred stockholders receive annual dividends of \$1.96875 per share paid on a quarterly basis and dividends are cumulative, subject to certain provisions. On or after May 27, 2009, we may redeem the Series D preferred stock at par for cash at our option. The Series D preferred stock was recorded net of underwriters discount and issuance costs.

Rights Plan

In February 2000, our board of directors authorized a distribution of one preferred share purchase right, or 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, or Preferred Shares, at a price of \$60.00 per one one-hundredth of a Preferred Share, or Purchase Price, subject to adjustment as provided in the rights agreement. The Rights expire on March 5, 2010, unless we extend the expiration date or the Right is redeemed or exchanged earlier. 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 common stock, or 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, or DRIP, which was declared effective on September 10, 2001, and commenced on September 24, 2001. We registered 3,000,000 shares of our common stock under the DRIP.

During the six months ended June 30, 2006 and 2005, approximately 57,000 and 140,000 shares were issued and approximately \$4.8 million and \$7.7 million of proceeds were received, respectively, from dividend reinvestments and/or stock purchases under the DRIP. DRIP shares may be issued at a discount to the market price.

2003 Long-Term Outperformance Compensation Program

Our board of directors adopted a long-term, seven-year compensation program for senior management. The program, which measures our performance over a 48-month period (unless terminated earlier) commencing April 1, 2003, provides that holders of our common equity are to achieve a 40% total return during the measurement period over a base of \$30.07 per share before any restricted stock awards are granted. Management will receive an award of restricted stock in an amount between 8% and 10% of the excess return over the baseline return. At the end of the four-year measurement period, 40% of the award will vest on the measurement date and 60% of the award will vest ratably over the subsequent three years based on continued employment. Any restricted stock to be issued under the program will be allocated from our 2005 Stock Option and Incentive Plan (as defined below), which was previously approved through a stockholder vote in May 2002. We record the expense of the restricted stock award in accordance with SFAS 123-R. The fair value of the award on the date

of grant was determined to be \$3.2 million. Forty percent of the value of the award will be amortized over four years and the balance will be amortized at 20% per year over five, six and seven years, respectively, such that 20% of year five, 16.67% of year six, and 14.29% of year seven will be recorded in year one. The total value of the award (capped at \$25.5 million) will determine the number of shares assumed to be issued for purposes of calculating diluted earnings per share. Compensation expense of \$162,500 and \$325,000 was recorded during each of the three and six months ended June 30, 2006 and 2005, respectively.

2005 Long-Term Outperformance Compensation Program

In December 2005, the compensation committee of our board of directors approved a long-term incentive compensation program, the 2005 Outperformance Plan. Participants in the 2005 Outperformance Plan will share in a "performance pool" if our total return to stockholders for the period from December 1, 2005 through November 30, 2008 exceeds a cumulative total return to stockholders of 30% during the measurement period over a base share price of \$68.51 per share. The size of the pool will be 10% of the outperformance amount in excess of the 30% benchmark, subject to a maximum dilution cap equal to the lesser of 3% of our outstanding shares and units of limited partnership interest as of December 1, 2005 or \$50.0 million. In the event the potential performance pool reaches this dilution cap before November 30, 2008 and remains at that level or higher for 30 consecutive days, the performance period will end early and the pool will be formed on the last day of such 30 day period. Each participant's award under the 2005 Outperformance Plan will be designated as a specified percentage of the aggregate performance pool to be allocated to him or her assuming the 30% benchmark is achieved. Individual awards will be made in the form of partnership units, or LTIP Units, that may ultimately become exchangeable for shares of our common stock or cash, at our election. LTIP Units will be granted prior to the determination of the performance pool; however, they will only vest upon satisfaction of performance and other thresholds, and will not be entitled to distributions until after the performance pool is established. The 2005 Outperformance Plan provides that if the pool is established, each participant will also be entitled to the distributions that would have been paid on the number of LTIP Units earned, had they been issued at the beginning of the performance period. Those distributions will be paid in the form of additional LTIP Units. After the performance pool is established, the earned LTIP Units will receive regular quarterly distributions on a per unit basis equal to the dividends per share paid on our common stock, whether or not they are vested. Any LTIP Units that are not earned upon the establishment of the performance pool will be automatically forfeited, and the LTIP Units that are earned will be subject to time-based vesting, with one-third of the LTIP Units earned vesting on November 30, 2008 and each of the first two anniversaries thereafter based on continued employment. On June 14, 2006, the Compensation Committee determined that under the terms of the 2005 Outperformance Plan, as of June 8, 2006, the performance period had accelerated and the maximum performance pool of \$49,250,000, taking into account forfeitures, was established. Individual awards under the 2005 Outperformance Plan are in the form of partnership units, or LTIP Units, in SL Green Operating Partnership, L.P., that, subject to certain conditions, are convertible into shares of the Company's common stock or cash, at the Company's election. The total number of LTIP Units earned by all participants as a result of the establishment of the performance pool was 490,475.

The cost of the 2005 Outperformance Plan (approximately \$8.0 million, subject to adjustment for forfeitures) will continue to be amortized into earnings through the final vesting period in accordance with SFAS 123-R. We recorded approximately \$0.4 million, \$0.8 million, none and none of compensation expense during the three and six months ended June 30, 2006 and 2005, respectively, in connection with the 2005 Outperformance Plan.

Deferred Stock Compensation Plan for Directors

Under our Independent Director's Deferral Program, which commenced July 2004, our non-employee directors may elect to defer up to 100% of their annual retainer fee, chairman fees and meeting fees. Unless otherwise elected by a participant, fees deferred under the program shall be credited in the form of phantom stock units. The phantom stock units are convertible into an equal number of shares of common stock upon such directors' termination of service from the Board of Directors or a change in control by us, as defined by the program. Phantom stock units are credited to each non-employee director quarterly using the closing price of our common stock on the applicable dividend record date for the respective quarter. Each participating non-employee director's account is also credited for an equivalent amount of phantom stock units based on the dividend rate for each quarter.

During the six months ended June 30, 2006, 4,030 phantom stock units were earned. As of June 30, 2006, there were approximately 9,395 phantom stock units outstanding.

Stock Option Plan

During August 1997, we instituted the 1997 Stock Option and Incentive Plan, or the 1997 Plan. The 1997 Plan was amended in December 1997, March 1998, March 1999 and May 2002. The 1997 Plan, as amended, authorizes (i) the grant of stock options that qualify as incentive stock options under Section 422 of the Code, or ISOs, (ii) the grant of stock options that do not qualify, or NQSOs, (iii) the grant of stock options in lieu of cash Directors' fees and (iv) grants of shares of restricted and unrestricted common stock. The exercise price of stock options are determined by our compensation committee, but may not be less than 100% of the fair market value of the shares of our common stock on the date of grant. At June 30, 2006, approximately 0.9 million shares of our common stock were reserved for issuance under the 1997 Plan.

2005 Stock Option and Incentive Plan

Subject to adjustments upon certain corporate transactions or events, up to a maximum of 3,500,000 shares, or the Fungible Pool Limit, may be granted as Options, Restricted Stock, Phantom Shares, dividend equivalent rights and other equity-based awards under the 2005 Plan; provided that, as described below, the manner in which the Fungible Pool Limit is finally determined can ultimately result in the issuance under the 2005 Plan of up to 4,375,000 shares (subject to adjustments upon certain corporate transactions or events). Each share issued or to be issued in connection with "Full-Value Awards" (as defined below) that vest or are granted based on the achievement of certain performance goals that are based on (A) FFO growth, (B) total return to stockholders (either in absolute terms or compared with other companies in the market) or (C) a combination of the foregoing (as set forth in the 2005 Plan), shall be counted against the Fungible Pool Limit as 2.6 units. "Full-Value Awards" are awards other than Options, Stock Appreciation Rights or other awards that do not deliver the full value at grant thereof of the underlying shares (e.g., Restricted Stock). Each share issued or to be issued in connection with any other Full-Value Awards shall be counted against the Fungible Pool Limit as 3.9 units. Options, Stock Appreciation Rights and other awards that do not deliver the value at grant thereof of the underlying shares and that expire 10 years from the date of grant shall be counted against the Fungible Pool Limit as one unit. Options, Stock Appreciation Rights and other awards that do not deliver the value at grant thereof of the underlying shares and that expire five years from the date of grant shall be counted against the Fungible Pool Limit as 0.8 of a unit, or five-year option. Thus, under the foregoing rules, depending on the type of grants made, as many as 4,375,000 shares can be the subject of grants under the 2005 Plan. At the end of the third calendar year following the effective date of the 2005 Plan, (i) the three-year average of (A) the number of shares subject to awards granted in a single year, divided by (B) the number of shares of our outstanding common stock at the end of such year shall not exceed the (ii) greater of (A) 2% or (B) the mean of the applicable peer group. For purposes of calculating the number of shares granted in a year in connection with the limitation set forth in the foregoing sentence, shares underlying Full-Value Awards will be taken into account as (i) 1.5 shares if our annual common stock price volatility is 53% or higher, (ii) two shares if our annual common stock price volatility is

between 25% and 52%, and (iii) four shares if our annual common stock price volatility is less than 25%. No award may be granted to any person who, assuming exercise of all options and payment of all awards held by such person, would own or be deemed to own more than 9.8% of the outstanding shares of the Company's common stock. In addition, subject to adjustment upon certain corporate transactions or events, a participant may not receive awards (with shares subject to awards being counted, depending on the type of award, in the proportions ranging from 0.8 to 3.9, as described above) in any one year covering more than 700,000 shares; thus, under this provision, depending on the type of grant involved, as many as 875,000 shares can be the subject of option grants to any one person in any year, and as many as 269,230 shares may be granted as restricted stock (or be the subject of other Full-Value Grants) to any one person in any year. If an option or other award granted under the 2005 Plan expires or terminates, the common stock subject to any portion of the award that expires or terminates without having been exercised or paid, as the case may be, will again become available for the issuance of additional awards. Shares of our common stock distributed under the 2005 Plan may be treasury shares or authorized but unissued shares. Unless the 2005 Plan is previously terminated by the Board, no new Award may be granted under the 2005 Plan after the tenth anniversary of the date that such 2005 Plan was initially approved by the Board. At June 30, 2006, approximately 1.1 million shares of our common stock were available for issuance under the 2005 Plan, or 1.4 million if all shares available under the 2005 Plan were issued as five-year options.

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Options granted under the plans are exercisable at the fair market value on the date of grant and, subject to termination of employment, generally expire ten years from the date of grant, are not transferable other than on death, and are generally exercisable in three to five annual installments commencing one year from the date of grant.

A summary of the status of our stock options as of June 30, 2006 and December 31, 2005 and changes during the periods then ended are presented below:

	2006		2005	
	Options Outstanding	Weighted Average Exercise Price	Options Outstanding	Weighted Average Exercise Price
Balance at beginning of year	1,731,258	\$ 41.25	2,169,762	\$ 29.39
Granted	300,500	\$ 93.60	466,203	\$ 65.22
Exercised	(408,950)	\$ 31.92	(888,374)	\$ 27.34
Lapsed or cancelled	(43,166)	\$ 40.06	(16,333)	\$ 38.87
Balance at end of period	<u>1,579,642</u>	<u>\$ 53.59</u>	<u>1,731,258</u>	<u>\$ 41.25</u>
Options exercisable at end of period	406,640	\$ 64.71	599,828	\$ 50.57
Weighted average fair value of options granted during the period	\$ 4,959,000		\$ 3,538,000	

All options were granted within a price range of \$18.44 to \$98.83. The remaining weighted average contractual life of the options was 7.8 years.

Earnings Per Share

Earnings per share for the three and six months ended June 30, is computed as follows (in thousands):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2006	2005	2006	2005
Numerator (Income)				
Basic Earnings:				
Income available to common stockholders	\$ 29,060	\$ 56,470	\$ 52,792	\$ 79,379
Effect of Dilutive Securities:				
Redemption of units to common shares	1,506	3,410	2,786	4,420
Stock options	—	—	—	—
Diluted Earnings:	<u>\$ 30,566</u>	<u>\$ 59,880</u>	<u>\$ 55,578</u>	<u>\$ 83,799</u>
Denominator (Weighted Average Shares)				
Basic Earnings:				
Shares available to common stockholders	43,191	41,790	43,026	41,547
Effect of Dilutive Securities:				
Redemption of units to common shares	2,230	2,513	2,270	2,522
Stock-based compensation plans	1,480	1,202	1,479	1,244
Diluted Shares	<u>46,901</u>	<u>45,505</u>	<u>46,775</u>	<u>45,313</u>

13. Minority Interest

The unit holders represent the minority interest ownership in our Operating Partnership. As of June 30, 2006 and December 31, 2005, the minority interest unit holders owned 4.9% (2,218,525 units) and 5.4% (2,426,786 units) of the Operating Partnership, respectively. At June 30, 2006, 2,218,525 shares of our common stock were reserved for the conversion of units of limited partnership interest in our Operating Partnership.

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14. Commitments and Contingencies

We and our Operating Partnership are not presently involved in any material litigation nor, to our knowledge, is any material litigation threatened against us or our properties, other than routine litigation arising in the ordinary course of business. Management believes the costs, if any, incurred by us and our Operating Partnership related to this litigation will not materially affect our financial position, operating results or liquidity.

15. Financial Instruments: Derivatives and Hedging

In accordance with SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities," 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 will be immediately recognized in earnings. SFAS No. 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 our derivative financial instruments at June 30, 2006. The notional value is an indication of the extent of our involvement in these instruments at that time, but does not represent exposure to credit, interest rate or market risks (in thousands).

	<u>Notional Value</u>	<u>Strike Rate</u>	<u>Effective Date</u>	<u>Expiration Date</u>	<u>Fair Value</u>
Interest Rate Swap	\$ 65,000	3.300%	8/2005	9/2006	\$ 239
Interest Rate Swap	—	4.330%	9/2006	6/2008	1,243
Interest Rate Swap	\$ 100,000	4.060%	12/2003	12/2007	1,981
Interest Rate Swap	\$ 35,000	4.113%	12/2004	6/2008	875
Interest Rate Swap	\$ 100,000	4.650%	5/2006	12/2008	1,887
Interest Rate Swap	\$ 125,000	2.710%	9/2004	9/2006	567
Interest Rate Swap	—	4.352%	9/2006	8/2009	3,812
Interest Rate Swap	\$ 60,000	3.770%	5/2005	1/2007	520
Interest Rate Swap	—	4.364%	1/2007	5/2010	1,971
Interest Rate Cap	\$ 12,580	6.600%	8/2005	9/2007	1

On June 30, 2006, the derivative instruments were reported as an asset at their fair value of approximately \$13.1 million. This is included in Other Assets on the consolidated balance sheet at June 30, 2006. Offsetting adjustments are represented as deferred gains or losses in Accumulated Other Comprehensive Income of \$20.0 million, including a gain of approximately \$7.2 million from the settlement of a forward swap, which is being amortized over the ten-year term of the related mortgage obligation from December 2003. Currently, all of our derivative instruments are designated as effective hedging instruments. The settlement of hedges during the second quarter of 2006 resulted in approximately \$5.6 million of hedge gains, of which approximately \$3.4 million related to the 55 Corporate Drive transaction, being recorded in investment income and other income.

We are hedging exposure to variability in future cash flows for forecasted transactions in addition to anticipated future interest payments on existing debt.

16. Environmental Matters

Our management believes that the properties are in compliance in all material respects with applicable Federal, state and local ordinances and regulations regarding environmental issues. Management is not aware of any environmental liability that it believes would have a materially adverse impact on our financial position, results of operations or cash flows. Management is unaware of any instances in which it would incur significant environmental cost if any of our properties were sold.

17. Segment Information

We are a REIT engaged in owning, managing, leasing, acquiring and repositioning office properties in Manhattan and have two reportable segments, office real estate and structured finance investments. We evaluate real estate performance and allocate resources based on earnings contribution to income from continuing operations.

Our real estate portfolio is primarily located in the 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 our structured finance investments.

Selected results of operations for the three and six months ended June 30, 2006 and 2005, and selected asset information as of June 30, 2006 and December 31, 2005, regarding our operating segments are as follows (in thousands):

	<u>Real Estate Segment</u>	<u>Structured Finance Segment</u>	<u>Total Company</u>
Total revenues			
Three months ended:			
June 30, 2006	\$ 115,479	\$ 17,305	\$ 132,784
June 30, 2005	90,131	11,925	102,056
Six months ended:			

June 30, 2006	223,327	30,784	254,111
June 30, 2005	175,384	23,071	198,455
Income from continuing operations before minority interest:			
Three months ended:			
June 30, 2006	\$ 21,115	\$ 11,128	\$ 32,243
June 30, 2005	18,669	7,345	26,014
Six months ended:			
June 30, 2006	41,667	18,162	59,829
June 30, 2005	37,262	15,095	52,357

Total assets			
As of:			
June 30, 2006	\$ 3,357,963	\$ 333,989	\$ 3,691,952
December 31, 2005	2,909,701	400,076	3,309,777

Income from continuing operations represents total revenues less total expenses for the real estate segment and total investment income less allocated interest expense for the structured finance segment. Interest costs for the structured finance segment are imputed assuming 100% leverage at our unsecured revolving credit facility borrowing cost. We do not allocate marketing, general and administrative expenses (approximately \$13.3 million, \$26.2 million, \$10.6 million and \$18.8 million for the three and six months ended June 30, 2006 and 2005, respectively) to the structured finance segment, since we base 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.

The table below reconciles income from continuing operations before minority interest to net income available to common stockholders for the three and six months ended June 30, 2006 and 2005 (in thousands):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2006	2005	2006	2005
Income from continuing operations before minority interest	\$ 34,773	\$ 27,315	\$ 64,428	\$ 55,146
Gain on sale of unconsolidated joint venture	—	—	—	—
Minority interest in operating partnership attributable to continuing operations	(1,415)	(1,279)	(2,633)	(2,177)
Minority interest in partially-owned entities	(1,115)	(22)	(1,966)	(612)
Net income from continuing operations	32,243	26,014	59,829	52,357
Income/ gains from discontinued operations, net of minority interest	1,786	35,425	2,901	36,960
Net income	34,029	61,439	62,730	89,317
Preferred stock dividends	(4,969)	(4,969)	(9,938)	(9,938)
Net income available to common stockholders	\$ 29,060	\$ 56,470	\$ 52,792	\$ 79,379

18. Supplemental Disclosure of Non-Cash Investing and Financing Activities

A summary of our non-cash investing and financing activities for the six months ended June 30, 2006 and 2005 is presented below (in thousands):

	Six Months Ended June 30,	
	2006	2005
Issuance of common stock as deferred compensation	\$ 7,272	\$ 7,702
Redemption of units and dividend reinvestments	11,123	8,261
Derivative instruments at fair value	5,115	(1,078)
Tenant improvements and capital expenditures payable	671	(6,251)
Assumption of joint venture interest	—	9,952
Transfer of real estate to joint venture	132,980	—
Assignment of mortgage to joint venture	120,859	—
Assignment of minority interest to joint venture	5,750	—
Issuance of preferred units	63,891	—
Assumption of mortgage loan	102,000	—
Assumption of other liabilities	3,725	—

19. Subsequent Events

On July 11, 2006, we sold the properties located at 286 Madison Avenue and 290 Madison Avenue for approximately \$63.0 million.

In July 2006, we sold 2,500,000 shares of our common stock for net proceeds, after deducting underwriting discounts, commissions and transaction expenses, of approximately \$269.0 million. Lehman Brothers acted as sole underwriter for this offering, and was also granted a 30-day option to purchase up to an additional 250,000 shares solely to cover over-allotments. The proceeds from our offering were used to repay a portion of the amount outstanding under our 2005 unsecured revolving credit facility. The balance of the proceeds will be used to fund acquisitions and for other working capital purposes.

On August 3, 2006, SL Green Realty Corp. (the “Company”), Wyoming Acquisition Corp. (“Purchaser”), Wyoming Acquisition GP LLC, Wyoming Acquisition Partnership LP (“Purchaser LP”), Reckson Associates Realty Corp. (“Reckson Associates”) and Reckson Operating Partnership, L.P. (“Reckson OP”), entered into an Agreement and Plan of Merger (the “Merger Agreement”). Under the terms of the Merger Agreement, Reckson Associates will merge with and into Purchaser (the “Merger”), with Purchaser continuing after the Merger as the surviving entity. At the effective time of the Merger, each of the issued and outstanding shares of common stock of Reckson Associates will be converted into the right to receive (i) \$31.68 in cash, and (ii) 0.10387 of a share of the common stock, par value \$0.01 per share, of the Company (the “Merger Consideration”). Reckson Associates currently has approximately \$8.35 million shares outstanding. The Company will also assume approximately \$2.0 billion of Reckson Associates’ outstanding debt. The Merger will be fully taxable to Reckson Associates’ stockholders and the limited partners of Reckson OP (including with respect to the stock component of the Merger Consideration).

In addition, under the terms of the Merger Agreement, Purchaser LP will merge with and into Reckson OP (the “Partnership Merger”), with Reckson OP continuing after the Partnership Merger as the surviving entity. At the effective time of the Partnership Merger, each common unit in Reckson OP will be converted into the right to receive the applicable amount of Merger Consideration in respect of the number of shares of Reckson Associates common stock issuable upon exchange of each such common unit in accordance with the Amended and Restated Agreement of Limited Partnership of Reckson OP as if such common units were converted or exchanged for an equal number of shares of Reckson Associates common stock immediately prior to the effective time of the Merger.

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Reckson Associates has agreed to certain covenants, including, among others, subject to certain exceptions described in the Merger Agreement, an obligation not to initiate, solicit, encourage or facilitate (including by way of furnishing nonpublic information or assistance) any inquiries or the making of any proposal or other action that constitutes or may reasonably be expected to lead to any competing transaction (as defined in the Merger Agreement) or enter into discussions or negotiate with any person in furtherance of such inquiries or to obtain a competing transaction. Prior to the closing, Reckson Associates has agreed to operate its business in the ordinary course consistent with past practice and not to take certain actions specified in the Merger Agreement. Prior to the closing, the Company has agreed to operate its business in the ordinary course consistent with its good business judgment and not to take certain actions specified in the Merger Agreement. Each of the Company and Reckson Associates will be permitted to pay quarterly dividends through the consummation of the Merger.

Consummation of the Merger is subject to customary conditions, including the approval of the Merger by the holders of Reckson Associates common stock, the registration of the Company’s shares of common stock to be issued in the Merger, the listing of such shares on the New York Stock Exchange and the absence of any order, injunction or legal restraint or prohibition preventing the consummation of the Merger or the Partnership Merger. In addition, each party’s obligation to consummate the Merger is subject to certain other conditions, including (i) the accuracy of the representations and warranties of the other party (subject to the materiality standards contained in the Merger Agreement), (ii) compliance in all material respects of the other party with its covenants, (iii) the absence of a material adverse effect (as defined in the Merger Agreement) on the other party and (iv) the delivery of opinions of counsel with respect to each other’s status as a real estate investment trust.

The Merger Agreement contains certain termination rights for both the Company and Reckson Associates and provides that, upon termination of the Merger Agreement under specified circumstances described in the Merger Agreement, Reckson Associates would be required to pay the Company a termination fee of \$99.8 million, and/or that Reckson Associates would be required to reimburse the Company for its out-of-pocket costs and expenses up to \$13.0 million.

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The Merger Agreement contains representations and warranties that the parties have made to each other as of specific dates. The assertions embodied in those representations and warranties were made solely for purposes of the contract between the parties, and may be subject to important qualifications and limitations agreed to by the parties in connection with negotiating its terms. Moreover, the representations and warranties are subject to a contractual standard of materiality that may be different from what may be viewed as material to shareholders, and the representations and warranties may have been intended not as statements of fact, but rather as a way of allocating risk among the parties.

On August 3, 2006, the Company and Rechler MRE LLC (“Rechler LLC”), an entity of which Messrs. Rechler, Maturo and Barnett (members of the executive management of Reckson Associates) and Marathon Investment Management are members, entered into an agreement (the “Sale Agreement”) pursuant to which the Company has agreed to direct Reckson Associates or a subsidiary thereof (“Seller”) to sell to Rechler LLC or its designee (“Buyer”), and Buyer has agreed to purchase from Seller, (i) certain real property assets of Seller and 100% of certain loans secured by real property, all of which are located in Long Island, New York, (ii) certain real property assets of Seller located in White Plains and Harrison, New York (the “Eastridge Portfolio”), (iii) certain real property assets of Seller located in New Jersey, (iv) the entity owning a 25% interest in the portfolio held by Reckson New York Property Trust, an Australian listed property trust, Reckson Associates’ Australian management company and other related entities and contracts (the “LPT Assets”), (v) the direct or indirect interest of Seller in Reckson Strategic Venture Partners, LLC (“RSVP”) and other related entities, which shall be purchased by a 50/50 joint venture between Buyer and an affiliate of the Company, and (vi) a 50% participation interest in certain loans made by a subsidiary of Reckson Associates that are secured by four real property assets located in Long Island, New York. The aggregate purchase price (including the Company’s portion of the RSVP purchase price) for the above assets is approximately \$2.1 billion, subject to adjustment. The Company has received from Rechler LLC a deposit in the amount of \$84,000,000 (the “Deposit”). The Company will be entitled to retain all or a portion of the Deposit as liquidated damages in the event of certain defaults by Rechler LLC under the Sale Agreement.

The transactions contemplated by the Sale Agreement are expected to close on the same day as the closing of the Merger and are conditioned upon the occurrence of the Merger and certain other customary closing conditions.

In addition, the Company has committed to provide, or arrange for one of its affiliates to provide financing to Buyer in connection with the purchase of one or more of the assets described above, subject in certain cases to the negotiation and agreement of the terms and conditions thereof.

In the event the Merger Agreement and the Sale Agreement are terminated and the Company receives the termination fee described above, the Company has agreed to pay to Rechler LLC an amount equal to (a) its actual out of pocket expenses incurred in connection with the transactions contemplated by the Sale Agreement, but in no event more than the lesser of (i) \$8,000,000 and (ii) 7.2% of the actual termination fee received by the Company under the Merger Agreement, plus (b) \$1,000,000.

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

Overview

SL Green Realty Corp., or the Company, a Maryland corporation, and SL Green Operating Partnership, L.P., or the Operating Partnership, a Delaware limited partnership, were formed in June 1997 for the purpose of combining the commercial real estate business of S.L. Green Properties, Inc. and its affiliated partnerships and entities. We are a self-managed real estate investment trust, or REIT, with in-house capabilities in property management, acquisitions, financing, development, construction and leasing. 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.

The following discussion related to our consolidated financial statements should be read in conjunction with the financial statements appearing in this report and in Item 8 of our Annual Report on Form 10-K for the year ended December 31, 2005.

As of June 30, 2006, our wholly-owned properties consisted of 23 commercial properties encompassing approximately 10.0 million rentable square feet located primarily in midtown Manhattan, a borough of New York City, or Manhattan. As of June 30, 2006, the weighted average occupancy (total leased square feet divided by total available square feet) of the wholly-owned properties was 96.7%. Our portfolio also includes ownership interests in unconsolidated joint ventures, which own seven commercial properties in Manhattan, encompassing approximately 8.8 million rentable square feet, and which had a weighted average occupancy of 94.9% as of June 30, 2006. We also own interests in eight retail and development properties, which encompass approximately 439,300 rentable square feet. In addition, we manage three office properties owned by third parties and affiliated companies encompassing approximately 1.0 million rentable square feet.

We also own an approximate 25% interest in Gramercy Capital Corp. (NYSE: GKK), or Gramercy.

Critical Accounting Policies

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

Refer to our 2005 Annual Report on Form 10-K for a discussion of our critical accounting policies, which include rental property, investment in unconsolidated joint ventures, revenue recognition, allowance for doubtful accounts, reserve for possible credit losses and derivative instruments. There have been no material changes to these policies in 2006.

Results of Operations

Comparison of the three months ended June 30, 2006 to the three months ended June 30, 2005

The following comparison for the three months ended June 30, 2006, or 2006, to the three months ended June 30, 2005, or 2005, makes reference to the following: (i) the effect of the “Same-Store Properties,” which represents all properties owned by us at January 1, 2005 and at June 30, 2006 and total 19 of our 23 wholly-owned properties, representing approximately 86.5% of our annualized rental revenue, (ii) the effect of the “Acquisitions,” which represents all properties or interests in properties acquired in 2005, namely, 28 West 44th Street (February), One Madison Avenue-Clock Tower (April), 19 West 44th Street (June), 141 Fifth Avenue (August), 1604 Broadway (November) and in 2006, namely, 25-27 and 29 West 34th Street (January), 521 Fifth Avenue (March) and 609 Fifth Avenue (June), and (iii) “Other,” which represents corporate level items not allocable to specific properties, the Service Corporation and eEmerge. Assets classified as held for sale, are excluded from the following discussion.

Rental Revenues (in millions)	2006	2005	\$ Change	% Change
Rental revenue	\$ 87.7	\$ 71.0	\$ 16.7	23.5%
Escalation and reimbursement revenue	16.3	13.0	3.3	25.4
Total	<u>\$ 104.0</u>	<u>\$ 84.0</u>	<u>\$ 20.0</u>	<u>23.8%</u>
Same-Store Properties	\$ 89.9	\$ 79.7	\$ 10.2	12.8%
Acquisitions	13.2	3.9	9.3	238.5
Other	0.9	0.4	0.5	125.0
Total	<u>\$ 104.0</u>	<u>\$ 84.0</u>	<u>\$ 20.0</u>	<u>23.8%</u>

Occupancy in the Same-Store Properties increased slightly from 96.0% at December 31, 2005 and 95.3% at June 30, 2005 to 96.8% at June 30, 2006. The increase in the Acquisitions is primarily due to owning these properties for a period during the quarter in 2006 compared to a partial period or not being included in 2005.

At June 30, 2006, we estimated that the current market rents on our wholly-owned properties were approximately 24.6% higher than then existing in-place fully escalated rents. We believe that the trend of increasing rental rates will continue during 2006 and 2007. Approximately 3.3% of the space leased at wholly-owned properties expires during the remainder of 2006. We believe that occupancy rates will increase slightly at the Same-Store Properties in 2006.

The increase in escalation and reimbursement revenue was due to the recoveries at the Same-Store Properties (\$1.9 million) and the Acquisitions (\$1.2 million). The increase in recoveries at the Same-Store Properties was primarily due to electric reimbursements (\$0.3 million), operating expense escalations (\$1.4 million) and real estate tax escalations (\$0.2 million).

Investment and Other Income (in millions)	2006	2005	\$ Change	% Change
Equity in net income of unconsolidated joint ventures	\$ 10.6	\$ 13.3	\$ (2.7)	(20.3)%
Investment and preferred equity income	17.3	11.9	5.4	45.4
Other income	11.5	6.1	5.4	88.5
Total	<u>\$ 39.4</u>	<u>\$ 31.3</u>	<u>\$ 8.1</u>	<u>25.9%</u>

The decrease in equity in net income of unconsolidated joint ventures was primarily due to lower net income contributions from 1515 Broadway (\$3.2 million), 1250 Broadway (\$0.4 million) and 180 Madison Avenue (\$0.4 million). This was partially offset by increased net income contributions from our investment in Gramercy (\$1.3 million). Occupancy at our joint venture properties decreased from 96.9% in 2005 to 94.9% in 2006 primarily due to the net-lease with Teachers Insurance and Annuity Association at 485 Lexington Avenue expiring. At June 30, 2006, we estimated that current market rents at our joint venture properties were approximately 39.6% higher than then existing in-place fully escalated rents. Approximately 1.6% of the space leased at our joint venture properties expires during the remainder of 2006.

The increase in investment and preferred equity income was primarily due to fee income received upon redemption of several investments during the current quarter. The weighted average investment balance outstanding and weighted average yield were \$409.7 million and 10.3%, respectively, for 2006 compared to \$413.6 million and 10.3%, respectively, for 2005.

The increase in other income was primarily due to fee income earned by GKK Manager, an affiliate of ours and the external manager of Gramercy, (approximately \$3.3 million), and fee, promote and other income resulting from the recapitalization and resolution of our investments with the Gale Companies (approximately \$3.4 million) which was partially offset by an incentive distribution earned in 2005 (approximately \$1.3 million).

Property Operating Expenses (in millions)	2006	2005	\$ Change	% Change
Operating expenses	\$ 29.3	\$ 22.7	\$ 6.6	29.1%
Real estate taxes	19.1	15.1	4.0	26.5
Ground rent	4.9	4.8	0.1	2.1
Total	<u>\$ 53.3</u>	<u>\$ 42.6</u>	<u>\$ 10.7</u>	<u>25.1%</u>
Same-Store Properties	\$ 45.1	\$ 38.4	\$ 6.7	17.5%
Acquisitions	5.1	1.8	3.3	183.3
Other	3.1	2.4	0.7	29.2
Total	<u>\$ 53.3</u>	<u>\$ 42.6</u>	<u>\$ 10.7</u>	<u>25.1%</u>

Same-Store Properties operating expenses, excluding real estate taxes (\$2.5 million), increased approximately \$4.2 million. There were increases in repairs, maintenance and payroll expenses (\$1.9 million), utilities (\$0.6 million), insurance costs (\$1.3 million) and other miscellaneous expenses (\$0.4 million), respectively.

The increase in real estate taxes was primarily attributable to the Same-Store Properties (\$2.5 million) due to higher assessed property values and the Acquisitions (\$1.5 million).

Other Expenses (in millions)	2006	2005	\$ Change	% Change
Interest expense	\$ 24.1	\$ 20.4	\$ 3.7	18.1%
Depreciation and amortization expense	17.9	14.4	3.5	24.3
Marketing, general and administrative expense	13.3	10.6	2.7	25.5
Total	<u>\$ 55.3</u>	<u>\$ 45.4</u>	<u>\$ 9.9</u>	<u>21.8%</u>

The increase in interest expense was primarily attributable to borrowings associated with new investment activity and the funding of ongoing capital projects and working capital requirements. The weighted average interest rate increased from 5.48% for the quarter ended June 30, 2005 to 5.84% for the quarter ended June 30, 2006. As a result of the new investment activity, the weighted average debt balance increased from \$1.4 billion as of June 30, 2005 to \$1.7 billion as of June 30, 2006.

Marketing, general and administrative expenses represented 10.0% of total revenues in 2006 compared to 10.4% in 2005.

The following comparison for the six months ended June 30, 2006, or 2006, to the six months ended June 30, 2005, or 2005, makes reference to the following: (i) the effect of the "Same-Store Properties," which represents all properties owned by us at January 1, 2005 and at June 30, 2006 and total 19 of our 23 wholly-owned properties, representing approximately 86.5% of our annualized rental revenue, (ii) the effect of the "Acquisitions," which represents all properties or interests in properties acquired in 2005, namely, 28 West 44th Street (February), One Madison Avenue-Clock Tower (April), 19 West 44th Street (June), 141 Fifth Avenue (August), 1604 Broadway (November) and in 2006, namely, 25-27 and 29 West 34th Street (January), 521 Fifth Avenue (March) and 609 Fifth Avenue (June), and (iii) "Other," which represents corporate level items not allocable to specific properties, the Service Corporation and eEmerge. Assets classified as held for sale, are excluded from the following discussion.

Rental Revenues (in millions)	2006	2005	\$ Change	% Change
Rental revenue	\$ 170.7	\$ 138.4	\$ 32.3	23.3%
Escalation and reimbursement revenue	31.3	24.1	7.2	29.9
Total	\$ 202.0	\$ 162.5	\$ 39.5	24.3%
Same-Store Properties	\$ 178.1	\$ 157.1	\$ 21.0	13.4%
Acquisitions	22.0	5.1	16.9	331.4
Other	1.9	0.3	1.6	533.3
Total	\$ 202.0	\$ 162.5	\$ 39.5	24.3%

Occupancy in the Same-Store Properties increased slightly from 96.0% at December 31, 2005 and 95.3% at June 30, 2005 to 96.8% at June 30, 2006. The increase in the Acquisitions is primarily due to owning these properties for a period during the quarter in 2006 compared to a partial period or not being included in 2005.

At June 30, 2006, we estimated that the current market rents on our wholly-owned properties were approximately 24.6% higher than then existing in-place fully escalated rents. We believe that the trend of increasing rental rates will continue during 2006 and 2007. Approximately 3.3% of the space leased at wholly-owned properties expires during the remainder of 2006. We believe that occupancy rates will increase slightly at the Same-Store Properties in 2006.

The increase in escalation and reimbursement revenue was due to the recoveries at the Same-Store Properties (\$4.8 million) and the Acquisitions (\$2.3 million). The increase in recoveries at the Same-Store Properties was primarily due to electric reimbursements (\$0.8 million), operating expense escalations (\$2.9 million) and real estate tax escalations (\$1.1 million).

Investment and Other Income (in millions)	2006	2005	\$ Change	% Change
Equity in net income of unconsolidated joint ventures	\$ 20.6	\$ 25.4	\$ (4.8)	(18.9)%
Investment and preferred equity income	30.8	23.1	7.7	33.3
Other income	21.4	12.9	8.5	65.9
Total	\$ 72.8	\$ 61.4	\$ 11.4	18.6%

The decrease in equity in net income of unconsolidated joint ventures was primarily due to lower net income contributions from 1515 Broadway (\$5.9 million), 1250 Broadway (\$0.8 million), 180 Madison Avenue (\$0.5 million) and One Madison Avenue-South Building (\$0.4 million). This was partially offset by increased net income contributions from our investment in Gramercy (\$2.8 million). Occupancy at our joint venture properties decreased from 96.9% in 2005 to 94.9% in 2006 primarily due to the net-lease with Teachers Insurance and Annuity Association at 485 Lexington Avenue expiring. At June 30, 2006, we estimated that current market rents at our joint venture properties were approximately 39.6% higher than then existing in-place fully escalated rents. Approximately 1.6% of the space leased at our joint venture properties expires during the remainder of 2006.

The increase in investment and preferred equity income was primarily due to a higher weighted average balance invested as well as higher LIBOR rates. The weighted average investment balance outstanding and weighted average yield were \$431.3 million and 10.3%, respectively, for 2006 compared to \$388.4 million and 10.3%, respectively, for 2005.

The increase in other income was primarily due to fee income earned by GKK Manager, an affiliate of ours and the external manager of Gramercy (approximately \$5.0 million), incentive distribution recognized in 2006 in connection with the liquidation of joint venture investments (approximately \$1.0 million), an increase in lease buy-out income at the Same-Store properties (approximately \$1.0 million) and fee, promote and other income resulting from the recapitalization and resolution of our investments with the Gale Companies (approximately \$3.4 million) which was partially offset by an incentive distribution earned in 2005 (approximately \$1.3 million).

Property Operating Expenses (in millions)	2006	2005	\$ Change	% Change
Operating expense	\$ 58.7	\$ 45.3	\$ 13.4	29.6%
Real estate taxes	37.5	28.9	8.6	29.8
Ground rent	9.8	9.3	0.5	5.4
Total	\$ 106.0	\$ 83.5	\$ 22.5	27.0%
Same-Store Properties	\$ 91.4	\$ 76.4	\$ 15.0	19.6%
Acquisitions	8.8	2.4	6.4	266.7
Other	5.8	4.7	1.1	23.4
Total	\$ 106.0	\$ 83.5	\$ 22.5	27.0%

Same-Store Properties operating expenses, excluding real estate taxes (\$6.0 million), increased approximately \$9.0 million. There were increases in repairs, maintenance and payroll expenses (\$3.8 million), utilities (\$1.6 million), insurance costs (\$2.6 million), ground rent expense (\$0.4 million) and other miscellaneous expenses (\$0.6 million), respectively.

The increase in real estate taxes was primarily attributable to the Same-Store Properties (\$6.0 million) due to higher assessed property values and the Acquisitions (\$2.6 million).

<u>Other Expenses (in millions)</u>	<u>2006</u>	<u>2005</u>	<u>\$</u> <u>Change</u>	<u>%</u> <u>Change</u>
Interest expense	\$ 43.7	\$ 38.4	\$ 5.3	13.8%
Depreciation and amortization expense	34.2	28.0	6.2	22.1
Marketing, general and administrative expense	26.2	18.8	7.4	39.4
Total	<u>\$ 104.1</u>	<u>\$ 85.2</u>	<u>\$ 18.9</u>	<u>22.2%</u>

The increase in interest expense was primarily attributable to borrowings associated with new investment activity and the funding of ongoing capital projects and working capital requirements. The weighted average interest rate increased from 5.36% for the six months ended June 30, 2005 to 5.75% for the six months ended June 30, 2006. As a result of the new investment activity, the weighted average debt balance increased from \$1.3 billion as of June 30, 2005 to \$1.7 billion as of June 30, 2006.

Marketing, general and administrative expenses represented 10.3% of total revenues in 2006 compared to 9.5% in 2005. The increase is primarily due to increased compensation costs at Gramercy.

Liquidity and Capital Resources

We currently expect that our principal sources of working capital and funds for acquisition and redevelopment of properties, tenant improvements and leasing costs and for structured finance investments will include:

- (1) Cash flow from operations;
- (2) Borrowings under our 2005 unsecured revolving credit facility;
- (3) Other forms of secured or unsecured financing;
- (4) Proceeds from common or preferred equity or debt offerings by us or the Operating Partnership (including issuances of limited partnership units in the Operating Partnership and trust preferred securities); and
- (5) Net proceeds from divestitures of properties and redemptions and participations of structured finance investments.

Cash flow from operations is primarily dependent upon the occupancy level of our portfolio, the net effective rental rates achieved on our leases, the collectibility of rent and operating escalations and recoveries from our tenants and the level of operating and other costs. Additionally, we believe that our joint venture investment programs will also continue to serve as a source of capital for acquisitions. We believe that our sources of working capital, specifically our cash flow from operations and borrowings available under our 2005 unsecured revolving credit facility, and our ability to access private and public debt and equity capital, are adequate for us to meet our short-term and long-term liquidity requirements for the foreseeable future. With the commencement of operations of Gramercy in August 2004, we have reduced our focus on direct structured finance investments.

Cash Flows

The following summary discussion of our cash flows is based on our condensed consolidated statements of cash flows in "Item 1. Financial Statements" and is not meant to be an all-inclusive discussion of the changes in our cash flows for the periods presented below.

Cash and cash equivalents were \$14.2 million and \$24.1 million at June 30, 2006 and December 31, 2005, respectively, representing a decrease of \$9.9 million. The decrease was a result of the following increases and decreases in cash flows (in thousands):

	<u>Six Months ended June 30,</u>		
	<u>2006</u>	<u>2005</u>	<u>Increase</u> <u>(Decrease)</u>
Net cash provided by operating activities	\$ 103.1	\$ 75.3	\$ 27.8
Net cash used in investing activities	\$ (250.1)	\$ (410.6)	\$ 160.5
Net cash provided by financing activities	\$ 137.1	\$ 301.5	\$ (164.4)

Our principal source of operating cash flow is related to the leasing and operating of the properties in our portfolio. Our properties provide a relatively consistent stream of cash flow that provides us with resources to pay operating expenses, debt service and fund quarterly dividend and distribution payment requirements. Our portfolio is currently 95.9% occupied. In addition, rental rates continue to increase and tenant concession packages decrease in the Manhattan marketplace. Our structured finance and joint venture investments also provide a steady stream of operating cash flow to us.

Cash is used in investing activities to fund acquisitions, redevelopment projects and recurring and nonrecurring capital expenditures. We selectively invest in new projects that enable us to take advantage of our development, leasing, financing and property management skills and invest in existing buildings that meet our investment criteria. During the six months ended June 30, 2006, we used cash primarily for the following investing activities (in thousands):

Acquisitions of real estate	\$(253,758)
Capital expenditures and capitalized interest	(26,697)
Joint venture investments	(55,482)
Distributions from joint ventures	36,791
Proceeds from sale of partial interest in property	8,847

We generally fund our investment activity through property-level financing, our 2005 unsecured revolving credit facility, term loans or construction loans. During the six months ended June 30, 2006, the following financing activities provided the funds to complete the investing activity noted above (in thousands):

Proceeds from our debt obligations	\$ 593,236
Repayments under our debt obligations	(421,875)
Other financing activities	25,241
Dividends and distributions paid	(59,497)

Capitalization

As of June 30, 2006, we had 43,226,364 shares of common stock, 2,218,525 units of limited partnership interest in our Operating Partnership, 6,300,000 shares of our 7.625% Series C cumulative redeemable preferred stock, or Series C preferred stock and 4,000,000 shares of our 7.875% Series D cumulative redeemable preferred stock, or Series D preferred stock, outstanding.

We currently have the ability to issue up to an aggregate amount of approximately \$65.1 million of our common and preferred stock, depository shares and warrants under our current shelf registration statement, which was declared effective in March 2004.

Rights Plan

We adopted a shareholder rights plan which provides, among other things, that when specified events occur, our shareholders will be entitled to purchase from us a new created series of junior preferred shares, subject to our ownership limit described below. The preferred share purchase rights are triggered by the earlier to occur of (1) ten days after the date of a purchase announcement that a person or group acting in concert has acquired, or obtained the right to acquire, beneficial ownership of 17% or more of our outstanding shares of common stock or (2) ten business days after the commencement of or announcement of an intention to make a tender offer or exchange offer, the consummation of which would result in the acquiring person becoming the beneficial owner of 17% or more of our outstanding common stock. The preferred share purchase rights would cause substantial dilution to a person or group that attempts to acquire us on terms not approved by our board of directors.

Dividend Reinvestment and Stock Purchase Plan

We filed a registration statement with the SEC for our dividend reinvestment and stock purchase plan, or 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, 2006 and 2005, approximately 57,000 and 140,000 shares were issued and approximately \$4.8 million and \$7.7 million of proceeds were received, respectively, from dividend reinvestments and/or stock purchases under the DRIP. DRIP shares may be issued at a discount to the market price.

2003 Long-Term Outperformance Compensation Program

Our board of directors has adopted a long-term, seven-year compensation program for certain members of senior management. The program, which measures our performance over a 48-month period (unless terminated earlier) commencing April 1, 2003, provides that holders of our common equity are to achieve a 40% total return, or baseline return, during the measurement period over a base share price of \$30.07 per share before any restricted stock awards are granted. Plan participants will receive an award of restricted stock in an amount between 8% and 10% of the excess total return over the baseline return. At the end of the four-year measurement period, 40% of the award will vest on the measurement date and 60% of the award will vest ratably over the subsequent three years based on continued employment. Any restricted stock to be issued under the program will be allocated from our 2005 Stock Option and Incentive Plan, as amended, which was previously approved through a shareholder vote in May 2002. We will record the expense of the restricted stock award in accordance with Financial Accounting Standards Board, or FASB, Statement No. 123-R, "Accounting for Stock-Based Compensation". The fair value of the award on the date of grant was determined to be \$3.2 million. Forty percent of the award will be amortized over four years and the balance will be amortized at 20% per year over five, six and seven years, respectively, such that 20% of year five, 16.67% of year six and 14.29% of year seven will be recorded in year one. The total value of the award (capped at \$25.5 million) will determine the number of shares assumed to be issued for purposes of calculating diluted earnings per share. Compensation expense of \$162,500 and \$325,000 related to this plan was recorded during each of the three and six months ended June 30, 2006 and 2005, respectively.

2005 Long-Term Outperformance Compensation Program

In December 2005, the compensation committee of our board of directors approved a long-term incentive compensation program, the 2005 Outperformance Plan. Participants in the 2005 Outperformance Plan will share in a "performance pool" if our total return to stockholders for the period from December 1, 2005 through November 30, 2008 exceeds a cumulative total return to stockholders of 30% during the measurement period over a base share price of \$68.51 per share. The size of the pool will be 10% of the outperformance amount in excess of the 30% benchmark, subject to a maximum dilution cap equal to the lesser of 3% of our outstanding shares and units of limited partnership interest as of December 1, 2005 or \$50 million. In the event the potential performance pool reaches this dilution cap before November 30, 2008 and remains at that level or higher for 30 consecutive days, the performance period will end early and the pool will be formed on the last day of such 30 day period. Each participant's award under the 2005 Outperformance Plan will be designated as a specified percentage of the aggregate performance pool to be allocated to him or her assuming the 30% benchmark is achieved. Individual awards will be made in the form of partnership units, or LTIP Units, that may ultimately become exchangeable for shares of our common stock or cash, at our election. LTIP

Units will be granted prior to the determination of the performance pool; however, they will only vest upon satisfaction of performance and other thresholds, and will not be entitled to distributions until after the performance pool is established. The 2005 Outperformance Plan provides that if the pool is established, each participant will also be entitled to the distributions that would have been paid on the number of LTIP Units earned, had they been issued at the beginning of the performance period. Those distributions will be paid in the form of additional LTIP Units. After the performance pool is established, the earned LTIP Units will receive regular quarterly distributions on a per unit basis equal to the dividends per share paid on our common stock, whether or not they are vested. Any LTIP Units that are not earned upon the establishment of the performance pool will be automatically forfeited, and the LTIP Units that are earned will be subject to time-based vesting, with one-third of the LTIP Units earned vesting on November 30, 2008 and each of the first two anniversaries thereafter based on continued employment. On June 14, 2006, the Compensation Committee determined that under the terms of the 2005 Outperformance Plan, as of June 8, 2006, the performance period had accelerated and the maximum performance pool of \$49,250,000, taking into account forfeitures, was established. Individual awards under the 2005 Outperformance Plan are in the form of partnership units, or LTIP Units, in SL Green Operating Partnership, L.P., that, subject to certain conditions, are convertible into shares of the Company's common stock or cash, at the Company's election. The total number of LTIP Units earned by all participants as a result of the establishment of the performance pool was 490,475.

The cost of the 2005 Outperformance Plan (approximately \$8.0 million, subject to adjustment for forfeitures) will continue to be amortized into earnings through the final vesting period in accordance with SFAS 123-R. We recorded approximately \$0.4 million, \$0.8 million, none and none of compensation expense during the three and six months ended June 30, 2006 and 2005, respectively in connection with the 2005 Outperformance Plan.

Deferred Stock Compensation Plan for Directors

Under our Independent Director's Deferral Program, which commenced July 2004, our non-employee directors may elect to defer up to 100% of their annual retainer fee, chairman fees and meeting fees. Unless otherwise elected by a participant, fees deferred under the program shall be credited in the form of phantom stock units. The phantom stock units are convertible into an equal number of shares of common stock upon such directors' termination of service from the Board of Directors or a change in control by us, as defined by the program. Phantom stock units are credited to each non-employee director quarterly using the closing price of our common stock on the applicable dividend record date for the respective quarter. Each participating non-employee director's account is also credited for an equivalent amount of phantom stock units based on the dividend rate for each quarter.

During the six months ended June 30, 2006, approximately 4,030 phantom stock units were earned. As of June 30, 2006, there were approximately 9,395 phantom stock units outstanding.

2005 Stock Option and Incentive Plan

Subject to adjustments upon certain corporate transactions or events, up to a maximum of 3,500,000 shares, or the Fungible Pool Limit, may be granted as options, restricted stock, phantom shares, dividend equivalent rights and other equity-based awards under the 2005 Stock Option and Incentive Plan, or the 2005 Plan; however, the manner in which the Fungible Pool Limit is finally determined can ultimately result in the issuance under the 2005 Plan of up to 4,375,000 shares (subject to adjustments upon certain corporate transactions or events). At June 30, 2006, approximately 1.1 million shares of our common stock were available for issuance under the 2005 Plan, or 1.4 million shares if all shares available under the 2005 Plan were issued as five-year options.

Market Capitalization

At June 30, 2006, borrowings under our mortgage loans, 2005 unsecured revolving credit facility, term loans and trust preferred securities (including our share of joint venture debt of approximately \$1.2 billion) represented 36.7% of our combined market capitalization of approximately \$8.3 billion (based on a common stock price of \$109.47 per share, the closing price of our common stock on the New York Stock Exchange on June 30, 2006). Market capitalization includes our consolidated debt, common and preferred stock and the conversion of all units of limited partnership interest in our Operating Partnership, and our share of joint venture debt.

Indebtedness

The table below summarizes our consolidated mortgage debt, 2005 unsecured revolving credit facility and term loans outstanding at June 30, 2006 and December 31, 2005, respectively (dollars in thousands).

Debt Summary:	June 30, 2006	December 31, 2005
Balance		
Fixed rate	\$ 870,175	\$ 770,141
Variable rate — hedged	485,000	485,000
Total fixed rate	1,355,175	1,255,141
Variable rate	388,470	196,111
Variable rate—supporting variable rate assets	15,000	91,000
Total variable rate	403,470	287,111
Total	<u>\$ 1,758,645</u>	<u>\$ 1,542,252</u>
Percent of Total Debt:		
Total fixed rate	77.1%	81.4%
Variable rate	22.9%	18.6%
Total	<u>100.0%</u>	<u>100.00%</u>
Effective Interest Rate for the Quarter:		
Fixed rate	5.65%	5.63%
Variable rate	6.35%	5.07%
Effective interest rate	<u>5.84%</u>	<u>5.54%</u>

The variable rate debt shown above bears interest at an interest rate based on 30-day LIBOR (5.33% and 3.34% at June 30, 2006 and 2005, respectively). Our consolidated debt at June 30, 2006 had a weighted average term to maturity of approximately 5.5 years.

Certain of our structured finance investments, totaling \$15.0 million, are variable rate investments which mitigate our exposure to interest rate changes on our unhedged variable rate debt at June 30, 2006.

Mortgage Financing

As of June 30, 2006, our total mortgage debt (excluding our share of joint venture debt of approximately \$1.2 billion) consisted of approximately \$0.8 billion of fixed rate debt, including hedged variable rate debt, with an effective weighted average interest rate of approximately 6.2% and \$0.2 billion of variable rate debt with an effective weighted average interest rate of approximately 6.4%.

Revolving Credit Facilities

2005 Unsecured Revolving Credit Facility

We have a \$500.0 million unsecured revolving credit facility. We have an option, subject to lender approval, to increase the capacity under the 2005 unsecured revolving credit facility to \$800.0 million at any time prior to the maturity date in September 2008. The 2005 unsecured revolving credit facility bears interest at a spread ranging from 85 basis points to 125 basis points over the 30-day LIBOR, based on our leverage ratio, currently 95 basis points, and has a one-year extension option. The 2005 unsecured revolving credit facility also requires a 12.5 to 25 basis point fee on the unused balance payable annually in arrears. The 2005 unsecured revolving credit facility had an outstanding balance of approximately \$54.6 million at June 30, 2006. Availability under the 2005 unsecured revolving credit facility was further reduced by the issuance of approximately \$13.5 million in letters of credit. The effective all-in weighted average interest rate on the 2005 unsecured revolving credit facility was 6.03% for the three months ended June 30, 2006. The 2005 unsecured revolving credit facility includes certain restrictions and covenants (see restrictive covenants below).

Term Loans

We have a \$325.0 million unsecured term loan, which matures in August 2009. As of June 30, 2006, we had \$325.0 million outstanding under the unsecured term loan at the rate of 125 basis points over LIBOR. To limit our exposure to the variable 30-day LIBOR rate we entered into various swap agreements to fix the LIBOR rate on the entire unsecured term loan. The effective all-in annual weighted average interest rate on the unsecured term loan was 4.64% for three months ended June 30, 2006. The term loan includes certain restrictions and covenants (see restrictive covenants below).

We also have a \$200.0 million five-year non-recourse term loan, secured by a pledge of our ownership interest in 1221 Avenue of the Americas. The loan matures in May 2010. This term loan has a floating rate of 125 basis points over the current 30-day LIBOR rate. During April 2004, we entered into a swap agreement to fix the LIBOR at a blended all-in interest rate of 5.10% through December 2008. This loan carried an effective all-in weighted average interest rate of 5.33% for the three months ended June 30, 2006.

Junior Subordinate Deferrable Interest Debentures

In June 2005, we issued \$100.0 million of Trust Preferred Securities, which are reflected on the balance sheet at June 30, 2006 as Junior Subordinate Deferrable Interest Debentures. The proceeds were used to repay our unsecured revolving credit facility. The \$100.0 million of junior subordinate deferred interest debentures have a 30-year term ending July 2035. They bear interest at a fixed rate of 5.61% for the first 10 years ending July 2015. Thereafter, the rate will float at three month LIBOR plus 1.25%. The securities are redeemable at par beginning in July 2010.

Restrictive Covenants

The terms of our 2005 unsecured revolving credit facility and unsecured term loan 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 maximum amount of unsecured indebtedness, the minimum amount of unencumbered property debt service coverage and certain investment limitations. The dividend restriction referred to above provides that, except to enable us to continue to qualify as a REIT for Federal income tax purposes, we will not during any four consecutive fiscal quarters make distributions with respect to common stock or other equity interests in an aggregate amount in excess of 90% of funds from operations for such period, subject to certain other adjustments. As of June 30, 2006 and December 31, 2005, we were in compliance with all such covenants.

Market Rate Risk

We are exposed to changes in interest rates primarily from our floating rate borrowing 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 for 2006 would increase our annual interest cost by approximately \$3.2 million and would increase our share of joint venture annual interest cost by approximately \$7.5 million, respectively.

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 \$1.4 billion 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 and joint venture debt as of June 30, 2006 ranged from LIBOR plus 75 basis points to LIBOR plus 275 basis points.

Off-Balance Sheet Arrangements

We have a number of off-balance sheet investments, including joint ventures and structured finance investments. These investments all have varying ownership structures. Substantially all of our joint venture arrangements are accounted for under the equity method of accounting as we have the ability to exercise significant influence, but not control over the operating and financial decisions of these joint venture arrangements. Our off-balance sheet arrangements are discussed in Note 5, "Structured Finance Investments" and Note 6, "Investments in Unconsolidated Joint Ventures" in the accompanying financial statements.

Capital Expenditures

We estimate that for the six months ending December 31, 2006, we will incur approximately \$63.4 million of capital expenditures (including tenant improvements and leasing commissions) on existing wholly-owned properties and our share of capital expenditures at our joint venture properties will be approximately \$6.6 million. Of those total capital expenditures, approximately \$7.8 million for wholly-owned properties and \$1.2 million for our share of capital expenditures at our joint venture properties are dedicated to redevelopment costs, including compliance with New York City local law 11. 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 based on the distributions we receive from our 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 \$2.40 per share, we would pay approximately \$109.8 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 our unsecured and secured credit facilities, and our term loans, we must first meet both our operating requirements and scheduled debt service on our mortgages and loans payable.

Related Party Transactions

Cleaning/ Security/ Messenger and Restoration Services

Through Alliance Building Services, or Alliance, First Quality Maintenance, L.P., or First Quality, provides cleaning, extermination and related services, Classic Security LLC provides security services, Bright Star Couriers LLC provides messenger services, and Onyx Restoration Works provides restoration services with respect to certain properties owned by us. Alliance is owned by Gary Green, a son of Stephen L. Green, the chairman of our board of directors. First Quality also provides additional services directly to tenants on a separately negotiated basis. In addition, First Quality has the non-exclusive opportunity to provide cleaning and related services to individual tenants at our properties on a basis separately negotiated with any tenant seeking such additional services. In the first quarter of 2006, First Quality expanded its space leased to 26,800 square feet of space at 70 West 36th Street pursuant to a lease that expires on December 31, 2015 and provides for annual rental payments of approximately \$629,000. We paid Alliance approximately \$3.0 million, \$6.1 million, \$2.4 million and \$4.3 million for the three and six months ended June 30, 2006 and 2005 respectively, for these services (excluding services provided directly to tenants).

Leases

Nancy Peck and Company leases 2,013 square feet of space at 420 Lexington Avenue pursuant to a lease that expired on June 30, 2005 and provided for annual rental payments of approximately \$66,000. This space is now leased on a month-to-month basis. Nancy Peck and Company is owned by Nancy Peck, the wife of Stephen L. Green. The rent due under the lease is offset against a consulting fee, of \$11,025 per month, are affiliate pays to her under a consulting agreement which is cancelable upon 30-days notice.

Management Fees

S.L. Green Management Corp. receives property management fees from certain entities in which Stephen L. Green owns an interest. The aggregate amount of fees paid to S.L. Green Management Corp. from such entities was approximately \$45,000, \$88,000, \$55,000 and \$110,000 for the three and six months ended June 30, 2006 and 2005, respectively.

Management Indebtedness

In January 2001, Mr. Marc Holliday, then our president, received a non-recourse loan from us in the principal amount of \$1,000,000 pursuant to his amended and restated employment and non-competition agreement he executed at that time. This loan bears interest at the applicable federal rate per annum and is secured by a pledge of certain of Mr. Holliday's shares of our common stock. The principal of and interest on this loan is forgivable upon our attainment of specified financial performance goals prior to December 31, 2006, provided that Mr. Holliday remains employed by us until January 2007. In April 2000, Mr. Holliday received a loan from us in the principal amount of \$300,000, with a maturity date of July 2003. This loan bore interest at a rate of 6.60% per annum and was secured by a pledge of certain of Mr. Holliday's shares of our common stock. In May 2002, Mr. Holliday entered into a loan modification agreement with us in order to modify the repayment terms of the \$300,000 loan. Pursuant to the agreement, one-third of the \$300,000 was forgiven on each of January 1, 2004, January 1, 2005 and January 1, 2006, provided that Mr. Holliday remained employed by us through each of such date. This \$300,000 loan was completely forgiven on January 1, 2006.

Brokerage Services

Sonnenblick-Goldman Company, or Sonnenblick, a nationally recognized real estate investment banking firm, provided mortgage brokerage services to us. Mr. Morton Holliday, the father of Mr. Marc Holliday, was a Managing Director of Sonnenblick at the time of the financings. In 2005, we paid approximately \$457,000 to Sonnenblick in connection with securing a \$120.0 million first mortgage for the property located at 711 Third Avenue. In 2005, our 1515 Broadway joint venture paid approximately \$400,000 to Sonnenblick in connection with refinancing the property and increasing the first mortgage to \$625.0 million. In 2006, our 485 Lexington Avenue joint venture paid approximately \$757,000 to Sonnenblick in connection with refinancing the property and increasing the first mortgage to \$390.0 million.

Gramercy Capital Corp.

Our related party transactions with Gramercy are discussed in Note 11, "Related Party Transactions" in the accompanying financial statements.

Other

Insurance

We carry comprehensive "all-risk" (including fire, flood, extended coverage and rental loss insurance) and liability insurance with respect to our property portfolio. The property coverage has a blanket limit of \$600.0 million per occurrence for all the properties in our portfolio with a sublimit of \$450.0 million for terrorism. The primary property policy expires in July 2007 and all other policies expire in October 2006. We have a 45% interest in the property at 1221 Avenue of the Americas, where we participate with the Rockefeller Group Inc., which carries a blanket policy providing \$1.0 billion of "all-risk" property insurance including terrorism and an interest in the "Bellemead" portfolio in NJ, where we participate with Gale Properties, which carries a blanket policy providing \$200 million of "all-risk" property insurance including terrorism. Although we consider our insurance coverage as appropriate, in the event of a major catastrophe, such as resulting from an act of terrorism, we may not have sufficient coverage to replace a significant property. In addition, our policies do not cover properties that we may acquire in the future and insurance will need to be obtained if added to our portfolio prior to October 2006.

The Terrorism Risk Insurance Act, or TRIA, which was enacted in November 2002, was renewed on January 1, 2006. Congress extended TRIA, now called TRIEA (Terrorism Risk Insurance Extension Act) until 2007. Our debt instruments, consisting of mortgage loans secured by our properties (which are generally non-recourse to us), mezzanine loans, ground leases and our 2005 unsecured revolving credit facility and secured and unsecured term loans, 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 result in substantially higher insurance premiums.

Funds from Operations

Funds from Operations, or FFO, is a widely recognized measure of REIT performance. We compute FFO in accordance with standards established by the National Association of Real Estate Investment Trusts, or NAREIT, which may not be comparable to FFO reported by other REITs that do not compute FFO in accordance with the NAREIT definition, or that interpret the NAREIT definition differently than we do. The revised White Paper on FFO approved by the Board of Governors of NAREIT in April 2002 defines FFO as net income (loss) (computed in accordance with Generally Accepted Accounting Principles, or 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 present FFO because we consider it an important supplemental measure of our operating performance and believe that it is frequently used by securities analysts, investors and other interested parties in the evaluation of REITs, particularly those that own and operate commercial office properties.

We also use FFO as one of several criteria to determine performance-based bonuses for members of our senior management. FFO is intended to exclude GAAP historical cost depreciation and amortization of real estate and related assets, which assumes that the value of real estate assets diminishes ratably over time. Historically, however, real estate values have risen or fallen with market conditions. Because FFO excludes depreciation and amortization unique to real estate, gains and losses from property dispositions and extraordinary items, it provides a performance measure that, when compared year over year, reflects the impact to operations from trends in occupancy rates, rental rates, operating costs, interest costs, providing perspective not immediately apparent from net income. 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, 2006 and 2005 are as follows (in thousands):

	<u>Three Months Ended June 30,</u>		<u>Six Months Ended June 30,</u>	
	<u>2006</u>	<u>2005</u>	<u>2006</u>	<u>2005</u>
Net income available to common stockholders	\$ 29,060	\$ 56,470	\$ 52,792	\$ 79,379

Add:				
Depreciation and amortization	17,938	14,430	34,204	28,016
Minority interest	2,530	1,301	4,599	2,789
FFO from discontinued operations	2,079	2,134	3,773	4,346
FFO adjustment for unconsolidated joint ventures	7,613	7,651	15,593	13,733
Less:				
Income from discontinued operations	1,786	1,561	2,901	3,114
Gain on sale of discontinued operations	—	33,864	—	33,846
Depreciation on non-rental real estate assets	240	189	508	370
Funds from Operations — available to all stockholders	\$ 57,194	\$ 46,372	\$ 107,552	\$ 90,933
Cash flows provided by operating activities	\$ 69,677	\$ 47,758	\$ 103,076	\$ 75,275
Cash flows provided by (used in) investing activities	\$ 56,402	\$ (217,433)	\$ (250,101)	\$ (410,568)
Cash flows (used in) provided by financing activities	\$ (132,430)	\$ 154,864	\$ 137,105	\$ 301,476

Inflation

Substantially all of the office leases provide for separate real estate tax and operating expense escalations as well as operating expense recoveries based on increases in the Consumer Price Index or other measures such as porters' wage. In addition, many of the 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.

Forward-Looking Information

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, or the Act, and Section 21E of the Securities Exchange Act of 1934, as amended, or the Exchange Act. Such forward-looking statements relate to, without limitation, our future capital expenditures, dividends and acquisitions (including the amount and nature thereof) and other development trends of the real estate industry and the Manhattan office market, business strategies, and the expansion and growth of our operations. These statements are based on certain assumptions and analyses made by us in light of our experience and our perception of historical trends, current conditions, expected future developments and other factors we believe are appropriate. We intend such forward-looking statements to be covered by the safe harbor provisions for forward-looking statements contained in Section 27A of the Act and 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," "continue," 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 we have made assumptions are:

- general economic or business (particularly real estate) conditions, either nationally or in New York City, being less favorable than expected;
- reduced demand for office space;
- risks of real estate acquisitions;
- risks of structured finance investments;
- availability and creditworthiness of prospective tenants;
- adverse changes in the real estate markets, including increasing vacancy, decreasing rental revenue and increasing insurance costs;
- availability of capital (debt and equity);
- unanticipated increases in financing and other costs, including a rise in interest rates;
- market interest rates could adversely affect the market price of our common stock, as well as our performance and cash flows;
- our ability to satisfy complex rules in order for us to qualify as a REIT, for federal income tax purposes, our Operating Partnership's ability to satisfy the rules in order for it to qualify as a partnership for federal income tax purposes, the ability of certain of our subsidiaries to qualify as REITs and certain of our subsidiaries to qualify as taxable REIT subsidiaries for federal income tax purposes and our ability and the ability of our subsidiaries to operate effectively within the limitations imposed by these rules;
- accounting principles and policies and guidelines applicable to REITs;
- competition with other companies;
- the continuing threat of terrorist attacks on the national, regional and local economies including, in particular, the New York City area and our tenants;
- legislative or regulatory changes adversely affecting real estate investment trusts and the real estate business; and
- environmental, regulatory and/or safety requirements.

We undertake no obligation to publicly update or revise any forward-looking statements, whether as a result of future events, new information or otherwise.

The risks included here are not exhaustive. Other sections of this report may include additional factors that could adversely affect the Company's business and financial performance. Moreover, the Company operates in a very competitive and rapidly changing environment. New risk factors emerge from time to time and it is not possible for management to predict all such risk factors, nor can it assess the impact of all such risk factors on the Company's business or the extent to which any factor, or combination of factors, may cause actual results to differ materially from those contained in any forward-looking statements. Given these risks and uncertainties, investors should not place undue reliance on forward-looking statements as a prediction of actual results.

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ITEM 3. Quantitative and Qualitative Disclosure About Market Risk

For quantitative and qualitative disclosures about market risk, see item 7A, "Quantitative and Qualitative Disclosures About Market Risk," of our Annual Report on Form 10-K for the year ended December 31, 2005. Our exposures to market risk have not changed materially since December 31, 2005.

ITEM 4. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

We maintain disclosure controls and procedures that are designed to ensure that information required to be disclosed in our Exchange Act reports is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms, and that such information is accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure based closely on the definition of "disclosure controls and procedures" in Rule 13a-15(e) of the Exchange Act. Notwithstanding the foregoing, a control system, no matter how well designed and operated, can provide only reasonable, not absolute, assurance that it will detect or uncover failures within the Company to disclose material information otherwise required to be set forth in our periodic reports. Also, we have investments in certain unconsolidated entities. As we do not control these entities, our disclosure controls and procedures with respect to such entities are necessarily substantially more limited than those we maintain with respect to our consolidated subsidiaries.

As of the end of the period covered by this report, we carried out an evaluation, under the supervision and with the participation of our management, including our Chief Executive Officer and our Chief Financial Officer, of the effectiveness of the design and operation of our disclosure controls and procedures. Based upon that evaluation, our Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures were effective as of the end of the period covered by this report.

Changes in Internal Control over Financial Reporting

There have been no significant changes in our internal control over financial reporting during the quarter ended June 30, 2006, that has materially affected, or is reasonably likely to material affect, our internal control over financial reporting.

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PART II OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

On August 4, 2006, Robert Lowinger filed a purported class action lawsuit in the Supreme Court of the State of New York, Nassau County, on behalf of himself and all other Reckson stockholders against Reckson, and their Board of Directors, seeking to enjoin the sale of Reckson to SL Green, and related transactions in which the Reckson Investment Group (consisting of defendant Scott Rechler and certain other members of Reckson's executive management) and Marathon Asset Management will acquire certain assets of Reckson from SL Green. Lowinger alleges that in exchange for agreeing to sell Reckson to SL Green for a value less than its true value, the Reckson Investment Group was able to acquire valuable Reckson assets on very favorable terms, at the expense of Reckson's stockholders. Lowinger asserts claims of breach of fiduciary duty against Reckson and its directors, and aiding and abetting breach of fiduciary duty against SL Green. Lowinger seeks an injunction prohibiting the transaction (or, in the event the transaction is consummated, an order rescinding it), as well as damages and costs, including plaintiff's attorneys' and experts' fees.

ITEM 1A. RISK FACTORS

There have been no material changes to the risk factors disclosed in Item 1A of Part 1 in our Annual Report on Form 10-K for the year ended December 31, 2005.

ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

None

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None

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

On May 17, 2006, we held our annual meeting of stockholders (the "Meeting") in New York, New York for the purpose of: (i) electing two Class III directors to serve on the Board until our 2009 annual meeting of stockholders and until their successors are duly elected and qualified; and (ii) ratifying the appointment of Ernst & Young LLP as our independent registered public accounting firm for the fiscal year ending December 31, 2006. The total number of shares of common stock entitled to vote at the Meeting was 42,997,965, of which 38,905,536 shares, or 90%, were present in person or by proxy.

The results of the meeting were as follows:

<u>Name of Class II Nominees</u>	<u>For</u>	<u>Against</u>	<u>Withheld</u>
John H. Alschuler	38,302,221	—	603,315
Stephen L. Green	36,502,964	—	2,402,572

There was no solicitation in opposition to the foregoing nominees by stockholders. The terms of office for Marc Holliday and John S. Levy, our Class II directors, and Edwin Thomas Burton, III, our Class I director, continued after the Meeting.

The ratification of the appointment of Ernst & Young LLP as our independent registered public accounting firm for the fiscal year ending December 31, 2006 was approved by our stockholders with 37,542,889 votes "For," 1,358,811 votes "Against" and 3,836 votes "Abstained," none of which such Abstentions were actually broker non-votes that were treated as Abstentions (as discussed in our Proxy Statement).

Further information regarding the proposals is contained in our Proxy Statement, dated April 17, 2006.

ITEM 5. OTHER INFORMATION

None

ITEM 6. EXHIBITS

(a) Exhibits:

- 10.1 Amended Management Agreement by and between Gramercy Capital Corp. and GKK Manager LLC, incorporated by reference to the Company's Form 8-K, dated April 19, 2006, filed with the SEC on April 25, 2006.
- 10.2 Amended Origination Agreement by and among Gramercy Capital Corp., GKK Capital LP, and the Company, incorporated by reference to the Company's Form 8-K, dated April 19, 2006, filed with the SEC on April 25, 2006.

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- 10.3 Amended Asset Servicing Agreement by and between GKK Manager LLC and SLG Gramercy Services LLC, incorporated by reference to the Company's Form 8-K, dated April 19, 2006, filed with the SEC on April 25, 2006.
 - 10.4 Sixth Amendment to the First Amended and Restated Agreement of Limited Partnership, filed herewith.
 - 31.1 Certification by the Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 filed herewith.
 - 31.2 Certification by the Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 filed herewith.
 - 32.1 Certification pursuant to 18 U.S.C. section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 filed herewith.
 - 32.2 Certification pursuant to 18 U.S.C. section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 filed herewith.

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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/ Gregory F. Hughes
Gregory F. Hughes
Chief Financial Officer

Date: August 9, 2006

Sixth Amendment to the
First Amended and Restated Agreement
of Limited Partnership
of
SL Green Operating Partnership, L.P.

This Amendment (this "Amendment") is made as of June 30, 2006 by SL Green Realty Corp., a Maryland corporation, as managing general partner (the "Company" or the "Managing General Partner") of SL Green Operating Partnership, L.P., a Delaware limited partnership (the "Partnership"), and as attorney-in-fact for the Persons named on Exhibit A to the First Amended and Restated Agreement of Limited Partnership of SL Green Operating Partnership L.P., dated as of August 20, 1997, as amended from time to time (the "Partnership Agreement"), for the purpose of amending the Partnership Agreement. Capitalized terms used herein and not defined shall have the meanings given to them in the Partnership Agreement.

WHEREAS, the Managing General Partner has determined that, in connection with the acquisition by the Partnership of the real and personal property located at 609 Fifth Avenue, New York, New York, as more explicitly described in Section 1.2 of that certain Contribution and Recapitalization Agreement (the "Contribution Agreement") dated as of April 10, 2006 by and among the Partnership, 609 Owners LLC, Jeff Sutton, an individual, Eli Gindi, an individual, Jeffrey Gindi, an individual, JS 609 LLC, a New York limited liability company, EG 609 LLC, a New York limited liability company, and JRG 609 LLC, a New York limited liability company, it is necessary to amend the Partnership Agreement to create additional Partnership Units (as defined in the Partnership Agreement).

NOW, THEREFORE, in consideration of the premises and for other good and valuable consideration, the receipt and sufficiency of which hereby are acknowledged, the Managing General Partner hereby amends the Partnership Agreement as follows:

1. Article 1 of the Partnership Agreement is hereby amended by adding the following definitions:

"Series E Preferred Units" means the series of Partnership Units established pursuant to this Agreement, representing units of Limited Partnership Interest designated as the 5.0% Series E Cumulative Redeemable Preferred Units, with the preferences, rights, voting powers, restrictions, limitations as to distributions, qualifications and terms and conditions of redemption of units as described herein; and

2. In accordance with Section 4.02.A of the Partnership Agreement, set forth below are the terms and conditions of the Series E Preferred Units hereby established and issued to 609 Partners Sub A LLC, 609 Partners Sub B LLC and 609 Partners Sub C LLC (collectively, the "Series E Holder"):
 - A. Designation and Number. A series of Partnership Units, designated as Series E Preferred Units, is hereby established. The number of Series E Preferred Units shall be 63,890,632.06, of which 31,945,316.02 shall be issued to 609 Partners Sub A LLC, 15, 972,658.02 shall be issued to 609 Partners Sub B LLC and 15,972,658.02 shall be issued to 609 Partners Sub C LLC.

- B. Rank. The Series E Preferred Units, with respect to rights to the payment of dividends and the distribution of assets upon the liquidation, dissolution or winding up of the Partnership, rank (a) senior to all Partnership Interests issued by the Partnership the terms of which specifically provide that such Partnership Interests rank junior to the Series E Preferred Units; (b) on a parity with all Partnership Interests issued by the Partnership the terms of which specifically provide that such Partnership Interests rank on a parity with the Series E Preferred Units, including any Partnership Interests issued by the Partnership in connection with the acquisition of a property after the date hereof; and (c) junior to the Class A Units, Class B Units, 7.625% Series C Cumulative Redeemable Preferred Units, the 7.875% Series D Cumulative Redeemable Preferred Units and all Partnership Interests issued by the Partnership the terms of which specifically provide that such Partnership Interests rank senior to the Series E Preferred Units; provided, however, the Series E Preferred Units shall not rank junior to (but may rank on a parity with) any Partnership Interests issued by the Partnership in connection with the acquisition of a property after the date hereof.

- C. Distributions.

- (i) Pursuant to Section 5.01 of the Partnership Agreement but subject to the rights of holders of any Partnership Interests ranking senior to the Series E Preferred Units as to the payment of distributions, the Series E Holder shall be entitled to receive, when, as and if authorized by the Managing General Partner, out of Available Cash, cumulative quarterly preferential cash distributions in an amount per unit equal to 5.00% per annum (equivalent to a fixed annual amount of \$.05 per unit). Distributions on the Series E Preferred Units shall accrue and be fully cumulative from the date of original issuance and shall be payable quarterly when, as and if authorized by the Managing General Partner, in equal amounts in arrears on the fifteenth day of each January, April, July and October or, if not a business day, the next succeeding business day (each, a "Series E Preferred Unit Distribution Payment Date"). Any distribution (including the initial distribution) payable on the Series E Preferred Units for any partial distribution period shall be prorated and computed on the basis of a 360-day year consisting of twelve 30-day months. Distribution period shall mean the period from and the date of original issuance and ending on and excluding the next Series E Preferred Unit Distribution Payment Date, and each subsequent period from but including such Series E Preferred Unit Distribution Payment Date and ending on and excluding the next following Series E Preferred Unit Distribution Payment Date.

- (ii) No distribution on the Series E Preferred Units shall be authorized by the Managing General Partner or declared or paid or set apart for payment by the Partnership at such time as the terms and provisions of any agreement of the Managing General Partner or the Partnership, including any agreement relating to its indebtedness, prohibits such authorization, declaration, payment or setting apart for payment or provides that such authorization, declaration, payment or setting apart for payment would constitute a breach thereof, or a default thereunder, or if such authorization, declaration, payment or

setting apart for payment shall be restricted or prohibited by law. No interest, or sum of money in lieu of interest, shall be payable in respect of any distribution payment or payments on the Series E Preferred Units which may be in arrears.

(iii) Notwithstanding the foregoing, distributions with respect to the Series E Preferred Units shall accumulate whether or not any of the foregoing restrictions exist, whether or not there is sufficient Available Cash for the payment thereof and whether or not such distributions are authorized. Accumulated but unpaid distributions on Series E Preferred Units shall bear interest at 5.00% and the Series E Holder shall not be entitled to any distributions in excess of full cumulative distributions. Any distribution payment made on the Series E Preferred Units shall first be credited against the earliest accumulated but unpaid distribution due with respect to such units which remains payable.

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(iv) Except as provided in subsection 2.C.(v), unless full cumulative distributions have been or contemporaneously are declared and paid or authorized, declared and a sum sufficient for the payment thereof set apart for such payment on the Series E Preferred Units for all past distribution periods and the then current distribution period, no distributions (other than in Partnership Interests ranking junior to the Series E Preferred Units as to the payment of dividends and the distribution of assets upon any liquidation, dissolution or winding up of the Partnership) shall be authorized, declared or paid or set apart for payment nor shall any other distribution be authorized, declared or made upon any Partnership Interests ranking, as to the payment of distributions or the distribution of assets upon any liquidation, dissolution or winding up of the Partnership, junior to or on a parity with the Series E Preferred Units for any period, nor shall any Partnership Interests ranking junior to or on a parity with the Series E Preferred Units as to the payment of distributions or the distribution of assets upon any liquidation, dissolution or winding up of the Partnership, be redeemed, purchased or otherwise acquired for any consideration (or any moneys be paid to or made available for a sinking fund for the redemption of any such Partnership Interests) by the Partnership (except by conversion into or exchange for Partnership Interests ranking junior to the Series E Preferred Units as to the payment of distributions and the distribution of assets upon any liquidation, dissolution or winding up of the affairs of the Partnership).

(v) When distributions are not paid in full (or a sum sufficient for such full payment is not so set apart) upon the Series E Preferred Units and any other Partnership Interests ranking on a parity as to the payment of distributions with the Series E Preferred Units, all distributions authorized and declared upon the Series E Preferred Units and any other Partnership Interests ranking on a parity as to the payment of distributions with the Series E Preferred Units shall be declared pro rata so that the amount of distributions authorized and declared per Series E Preferred Unit and such other Partnership Interests shall in all cases bear to each other the same ratio that accumulated distributions per each Series E Preferred Unit and such other Partnership Interests (which shall not include any accumulation in respect of unpaid distributions for prior distribution periods if such other Partnership Interests do not have a cumulative distribution) bear to each other.

(vi) The Series E Holder shall not be entitled to any distribution, whether payable in cash, property or Partnership Interests, in excess of full cumulative distributions on the Series E Preferred Units as described above. Accrued but unpaid distributions on the Series E Preferred Units will accumulate as of the Series E Preferred Units Distribution Payment Date on which they first become payable.

D. Allocations.

Allocations of the Partnership's items of income, gain, loss and deduction shall be allocated to the Series E Holder in accordance with Article VI of the Partnership Agreement.

E. Liquidation Preference.

(i) In the event of any voluntary or involuntary liquidation, dissolution or winding up of the Partnership, the Series E Holder shall be entitled to receive out of the assets of the Partnership available for distribution to the Partners pursuant to Section 13.02.A of the Partnership Agreement a liquidation preference of \$1.00 per Series E Preferred Unit, plus an amount equal to any accumulated and unpaid distributions (whether or not earned or authorized) to the date of payment (collectively, the "Liquidation Value"), before any distribution of assets is made to holders of any Partnership Interests that rank junior to the Series E Preferred Units as to the distribution of assets upon the liquidation, dissolution or winding up of the Partnership, but subject to the preferential rights of the holders of Partnership Interests ranking senior to the Series E Preferred Units as to the distribution of assets upon the liquidation, dissolution or winding up of the Partnership.

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(ii) If upon any such voluntary or involuntary liquidation, dissolution or winding up of the Partnership, the assets of the Partnership legally available for distribution to its Partners are insufficient to make such full payment to the Series E Holder and the corresponding amounts payable on all other Partnership Interests ranking on a parity with the Series E Preferred Units as to the distribution of assets upon the liquidation, dissolution or winding up of the Partnership, then the Series E Holder shall share ratably in any such distribution of assets in proportion to the full liquidating distributions (including, if applicable, accumulated and unpaid distributions) to which they would otherwise be respectively entitled.

(iii) After payment of the full amount of the liquidating distributions to which it is entitled, the Series E Holder shall have no right or claim to any of the remaining assets of the Partnership.

(iv) None of a consolidation or merger of the Partnership with or into another entity, a merger of another entity with or into the Partnership, a statutory unit exchange by the Partnership or a sale, lease or conveyance of all or substantially all of the Partnership's property or business shall be considered a liquidation, dissolution or winding up of the affairs of the Partnership.

F. Redemption.

The Series E Holder shall have the right to require the Partnership to redeem the Series E Preferred Units in accordance with the Partnership Agreement. The redemption price per Series E Preferred Unit shall be paid by the Partnership in cash and shall be in an amount equal to the liquidation preference plus all dividends accumulated and unpaid (whether or not earned or authorized) on such Series E Preferred Units to the date of such redemption. From and after the applicable redemption date, the Series E Preferred Units so redeemed shall no longer be outstanding and all rights hereunder, to distributions or otherwise, with respect to such Series E Preferred Units shall cease.

G. Voting Rights.

Except as required by applicable law, the Series E Holder shall have no voting rights.

H. Conversion.

The Series E Preferred Units are not convertible into or exchangeable for any other property or securities of the Partnership.

I. Restriction on Ownership.

Except as set forth in Section 2(F) above, the Series E Holder may not offer for sale, sell, contract to sell, pledge or otherwise dispose of any of the Series E Preferred Units.

3. Except as modified herein, all terms and conditions of the Partnership Agreement shall remain in full force and effect, which terms and conditions the Managing General Partner hereby ratifies and confirms.

4. This Amendment shall be construed and enforced in accordance with and governed by the laws of the State of Delaware, without regard to conflicts of law.

5. If any provision of this Amendment is or becomes invalid, illegal or unenforceable in any respect, the validity, legality and enforceability of the remaining provisions contained herein shall not be affected thereby.

IN WITNESS WHEREOF, the undersigned have executed this Amendment as of the date first set forth above.

SL GREEN REALTY CORP.,
a Maryland corporation, as Managing General
Partner of SL Green Operating
Partnership, L.P. and on behalf of existing
Limited Partners

By: _____

Name:

Title:

CERTIFICATION**I, Gregory F. Hughes, Chief Financial Officer, certify that:**

1. I have reviewed this quarterly report on Form 10-Q of SL Green Realty Corp. (the “registrant”);
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant’s other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) Evaluated the effectiveness of the registrant’s disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation;
 - (d) Disclosed in this report any change in the registrant’s internal control over financial reporting that occurred during the registrant’s most recent fiscal quarter (the registrant’s fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant’s internal control over financial reporting; and
5. The registrant’s other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant’s auditors and the audit committee of the registrant’s board of directors (or persons performing the equivalent functions):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant’s ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant’s internal control over financial reporting.

Date: August 9, 2006

/s/ Gregory F. Hughes

Name: Gregory F. Hughes

Title: Chief Financial Officer

**CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the Quarterly Report of SL Green Realty Corp. (the "Company") on Form 10-Q as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Marc Holliday, Chief Executive Officer of the Company, hereby certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

1. The Report fully complies with the requirements of Section 13(a) or 15(d), as applicable, of the Securities Exchange Act of 1934; and
2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ Marc Holliday

Name: Marc Holliday

Title: Chief Executive Officer

August 9, 2006

**CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the Quarterly Report of SL Green Realty Corp. (the "Company") on Form 10-Q as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Gregory F. Hughes, Chief Financial Officer of the Company, hereby certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

1. The Report fully complies with the requirements of Section 13(a) or 15(d), as applicable, of the Securities Exchange Act of 1934; and
2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ Gregory F. Hughes

Name: Gregory F. Hughes

Title: Chief Financial Officer

August 9, 2006
