

# SL GREEN REALTY CORP.



The most compelling portfolio  
of classic office buildings in the  
commercial capital of the world.

# COMPANY PROFILE

The goal of SL Green Realty, a fully-integrated, self-administered and self-managed REIT, is to own and operate the most compelling portfolio

of older, classic office buildings, customarily called Class B properties, in Manhattan. These buildings are found in the most desirable locations and offer tenants superior office facilities at significantly lower costs



440 Ninth Avenue

than Class A properties. As the only public REIT exclusively focused on

the Manhattan real estate market, SL Green is a pure

play for investors to own a piece of New York.



100 Park Avenue

By focusing on location, infrastructure, management and

value, SL Green has established a new class of New York

office space, one that is more cost effective than Class A space and

offers far more than typical Class B space. These are properties that

are truly in a class of their own.

1140 Avenue of  
the Americas



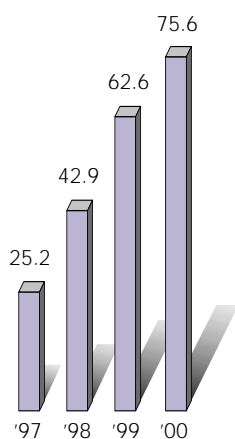
# FINANCIAL HIGHLIGHTS

(in thousands, except per share and rentable area)

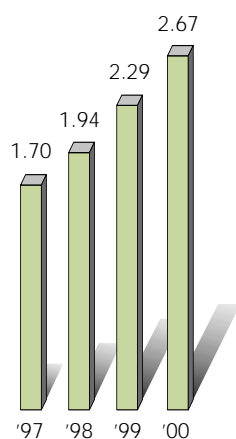
Year Ended December 31,	2000	1999	% Change
<b>Operating Data</b>			
Total Revenue	\$ 230,323	\$ 206,017	11.8%
Funds from Operations (FFO)	\$ 75,619	\$ 62,645	20.7%
Funds from Operations Per Share (diluted)	\$2.67	\$2.29	16.6%
Total Market Capitalization	\$1,442,582	\$1,169,050	23.4%
Net Rentable Area (including joint ventures)*	8,664,800	8,539,800	1.5%
Annual Dividend (per common share)	\$1.475	\$1.41	4.6%
Book Equity	\$ 609,173	\$ 557,946	9.2%

\* in square feet

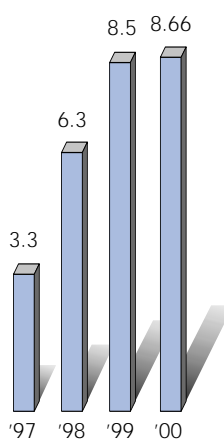
**FUNDS FROM OPERATIONS**  
(in millions of dollars)



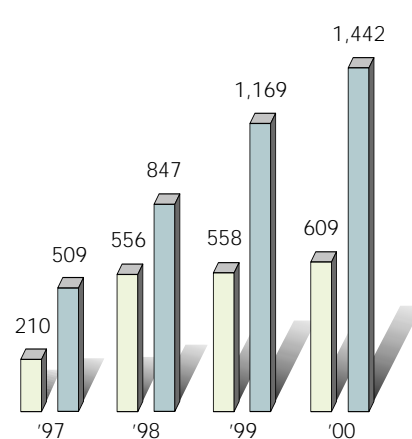
**FFO PER SHARE (DILUTED)**  
(in dollars)



**NET RENTABLE AREA AT YEAR END**  
(in millions of square feet)



**BOOK EQUITY AND TOTAL MARKET CAPITALIZATION AT YEAR END**  
(in millions of dollars)



■ Book Equity  
■ Total Market Capitalization



Gerard T. Nocera (seated)  
*Executive Vice President—Leasing*

(from left to right)  
Stephen L. Green  
*Chairman of the Board and Chief Executive Officer*

Marc Holliday  
*Executive Vice President and Chief Investment Officer*

David J. Nettina  
*President and Chief Operating Officer*

**I**n 2000, SL Green ranked first among all public office REITs in the country in same store NOI growth and second among office REITs in FFO per share growth.

## TO OUR SHAREHOLDERS:

In my letter to you last year, I indicated my strong belief that 2000 would see the return of investors to the REIT sector and would usher in a greater appreciation of the tremendous value available in our franchise and our portfolio of New York office properties. Looking back on 2000, I'm pleased to see that they did. Our stock price increased almost 29% ending the year at \$28 as investors responded favorably to our story and continued strong earnings growth.

This past year, SL Green demonstrated to shareholders, competitors and Wall Street that real estate—especially of the quality owned by

SL Green—is a sound, stable investment that offers both current income and the opportunity for significant long-term growth. We are proud to state that we were #1 in the entire REIT office sector in same-store NOI growth, with an increase of 22% in 2000. This reflected the tremendous income growth potential of New York City real estate and the quality of our portfolio. Harvesting this internal earnings momentum contributed to our 16.6% growth in FFO per share, making us #2 in FFO growth in the office sector and resulting in our third straight year of mid-teens earnings growth. In fact, if you bought SL Green stock on January 1st last year, you earned a total return of 35.5%, outpacing the Morgan Stanley

REIT index by 8.7%, the S&P composite by 44.6% and the NASDAQ average by 74.3%. These returns come from real earnings from real assets, not puffed up by valuations based on projections of future, speculative revenue growth.

In recent months, it has become increasingly evident that storm clouds are looming over what has until now been a storybook economy. Concerns about an economic softening or even a recession dominate today's headlines. So if you're evaluating your investment portfolio and what these changing times may mean, at least in terms of your investment in our Company, let me share with you how we are prepared to meet the challenge. Although I share the common concern about the threat of recession and its potential impact here in New York, I do not have anxiety over how SL Green and our portfolio will perform in the event of a slowdown. That's because I'm confident, as I told you last year, that long before the headlines appeared, we did a great deal to prepare for this possibility and we believe we will have the ability to deliver earnings performance again in 2001 in the top tier of our peer group. Let me tell you why.

Throughout 1999 and 2000, we aggressively pursued our strategy of upgrading the quality and stability of our property portfolio. The key to our strategy was to purchase larger, more prominent

avenue properties located within a 10-minute walk of the three primary commuter hubs in midtown Manhattan, while selling smaller, mid-block properties in secondary locations. We ended up with larger buildings in prime locations with financially stronger tenants. We did this while at the same time enhancing our cash flow growth both in the near term and for years to come. Through a highly disciplined acquisition strategy and an aggressive marketing program, we were able to purchase the larger, better-located properties at higher initial yields and more substantial long-term growth than the smaller, less desirable properties we sold.

Secondly, as part of our strategy to upgrade our portfolio, we continued to make significant capital improvements in our buildings. We undertook renovation programs in virtually every property to bring them up to the standards of modern businesses while enhancing their aesthetic appeal. We also upgraded the technological backbone of these properties, providing redundant telephone systems and high speed Internet access. We are currently in the process of wiring all of our building elevators with news and information video as the next level of our technology platform. We made these capital improvements because experience has taught us that investments made during strong leasing markets benefit us most when markets move toward equilibrium.

Thirdly, we believe that the known quality of the SL Green franchise, the strength of our long-term ownership, highly responsive and proactive management and state-of-the-art building services will give us a competitive edge in a softer economic environment. Tenants will know that SL Green has the staying power to maintain a quality environment for them and is able to meet the rapidly changing needs of today's sophisticated tenants. SL Green's position as a market leader and as the *landlord of choice* in midtown Manhattan will prove to be the true *competitive advantage*.

If these are the competitive advantages for our firm to perform strongly in any economic climate, then what, you may ask, do I see happening in the New York marketplace and where are things likely to go in the months and years ahead. Although only hindsight is 20/20, after 20 years in this commercial real estate market in New York City, I have developed a feel for the shifting dynamics that have affected this highly complex market through many business cycles. I have always found that with proper foresight and planning, the best opportunities can be found in periods of uncertainty and potential softness.

Last winter and spring, the market was on fire with new technology, new Internet firms and established businesses all fighting for available space—no matter where it was located—downtown, midtown,

outlying sites. Vacancy rates declined to approximately 3% in our core markets in midtown and rents surged dramatically. SL Green took a conservative approach to the hot market, especially to the high tech segment. I am happy to report that our exposure to this industry is only 3% of our overall annual revenue. Additionally, we were very careful about the properties we bought. We did not chase the high profile properties that fetched exorbitant prices based on high in-place rents. Instead, we purchased assets well below replacement cost with embedded rents at a significant discount to market. This gives us a significant cushion if our market softens. Portfolio-wide, including joint venture properties, average asking rents for our properties are \$43.20, 55% above in-place rents of \$27.81.

During the second half of the year, we anticipate that there will be some cooling in the midtown Manhattan office market. While New York City is a global center of commerce and culture, and therefore better able to withstand domestic economic pressures, it is not immune from the hopefully short-term reduction in growth we are all witnessing in the United States. We expect that the extremely tight midtown market will soften to a state of relative equilibrium between landlords and tenants. Fortunately, there is only modest new construction in midtown and most of the space is pre-leased. We expect that there would be an increase in tenant delinquencies and a

concurrent increase in sublease space. While we have yet to experience any erosion of our 98% portfolio-wide occupancy rates or any meaningful increases in tenant delinquencies, in light of the uncertainties of the current economic environment, we have increased reserves for tenant credit losses by 60 basis points which will have the effect of reducing earnings by \$0.06 per share in 2001.

Despite this slowing market environment, we at SL Green are confident about our performance in 2001. We have a unique and powerful franchise in the world's greatest city. We have repositioned and significantly strengthened our portfolio. We have spent the capital to upgrade our properties to standards found only in modern, recently built office buildings. We have significant embedded growth in our properties with in-place rents well below market. We have adopted financial policies that conservatively reflect potential softening and we have balance sheet strength and liquidity to take advantage of opportunities that may arise if the market does weaken. 2001 should be another strong year for SL Green and its investors.

In closing, I'd like to thank David Nettina for his tremendous contribution in helping us to build SL Green into a highly disciplined, financially sophisticated organization and for effectively conveying our exciting story to the investment

community. With this successful chapter in his life behind him, David looks forward to pursuing new challenges. Since the time of the October announcement of his departure, David has worked with Marc and me to provide a smooth transition into the next phase of our growth. Just last month, I announced a number of executive changes, which address David's areas of responsibility. Marc Holliday, our Chief Investment Officer, the person who has been primarily responsible for conceiving and implementing our successful repositioning program, will assume the additional title of President. Michael Reid, formerly Managing Director at Lehman Brothers with 17 years in investment banking, will join SL Green as Chief Operating Officer with a primary focus on finance, capital markets activity, investor relations and corporate administration. On behalf of myself, and all of our shareholders, I want to express our thanks to David for his work in helping me build the foundation needed for our success as a public company.



Stephen L. Green  
*Chairman of the Board and  
Chief Executive Officer*

An aerial night view of New York City, showing a dense grid of skyscrapers and city lights. In the foreground, a large, dark, angular structure, possibly a sign or part of a building, is visible with the word "enter" written on it in a light, sans-serif font. The overall color palette is dominated by deep blues and blacks, with bright white and yellow highlights from the city lights.

# NEW YORK—THE HEART

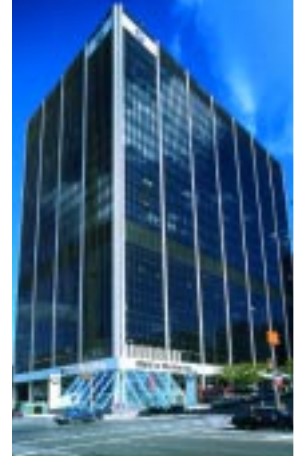
The largest office market in the US, larger than the combined commercial business districts of the next six largest US cities. First in the US for number of business establishments. Second most popular tourist destination in the US.

# NYC





1250 Broadway



555 West 57th Street

**If New York City were a country, it would rank as the 14th largest nation in the world, as measured by GDP.**

# OF THE GLOBAL ECONOMY

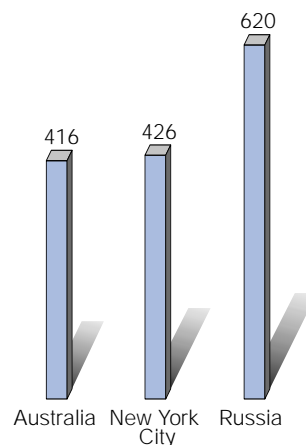
The City's position at the heart of the global economy is underscored by the fact that almost every country in the world is represented in New York. The second largest metropolitan area in the US, New York has enjoyed unprecedented economic growth which in turn has brought a rapidly improving overall quality of life. The significant increase in residential in-migration underscores New York as a 24/7 city.

A recent survey by *Fortune Magazine* in conjunction with Arthur Andersen identified New York City as the best city for business in North America. More than 38 million visitors are estimated to have made New York City their destination during 2000, making it the second most popular destination in the US after the Disney parks in Orlando.

A leading CEO interviewed for the Fortune survey talked of being "unable to think of our home office being in any other location" while another commented "we simply realized that we couldn't be

taken seriously as a professional services firm if we didn't have a big office in New York City." The attractiveness of New York as a globally focused city that welcomes people from around the world is a major factor for companies who look around the world to seek the best and brightest talent for their business.

**1999 GROSS DOMESTIC PRODUCT**  
(dollars in billions)





Seated left to right:  
Roger H. Kahn  
*Senior Vice President, Property Management & Construction*

Thomas E. Wirth  
*Chief Financial Officer*

Standing left to right:  
Rick L. Serapica  
*Senior Vice President, Operations*

Andrew S. Levine  
*Executive Vice President, General Counsel*

Stephen L. Beal  
*Senior Vice President, Construction*

1372 Broadway



**N**amed to Crain's List of Top 10 Fastest Growing Companies in New York in each of the last two years, SL Green ranked third in 2000, based on the year's stock appreciation and 3-year average revenue growth.

## OUR COMPETITIVE ADVANTAGE

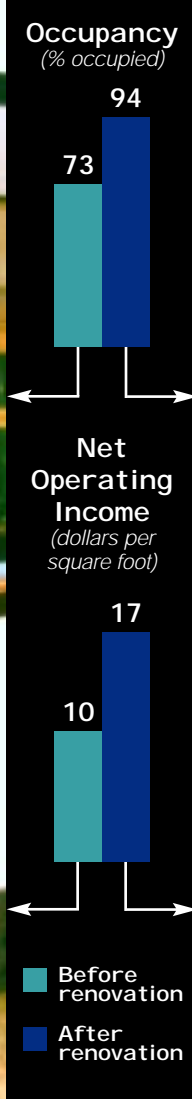
New York is a vast and highly fragmented market. Its commercial properties encompass nearly a thousand office properties, over 700 of which are of the older classic architecture, which is the primary focus of SL Green. This real estate segment, which accounts for nearly half of the office space in New York, is generally owned and operated by small to medium-sized real estate firms which, in addition to their own equity base, rely on the debt and third-party equity capital markets for their investing activities. The market is further complicated by the fact that it consists of over 30 submarkets, each of which has its own unique architectural characteristics and tenant appeal.

For more than 20 years, SL Green has operated exclusively in this niche, and today is the only public REIT doing so. SL Green has developed a vast operating knowledge and deep relationships with property owners which are key to its success. These relationships and our market knowledge have allowed us to complete 20 of our last 22 acquisitions on a private or semi-private basis. Our operating experience, reputation for closing on our commitments, and the stability of our equity

base have made SL Green the *acquirer of choice* in the affordable rent property marketplace.

Making the numbers work, however, is our real forte. Our experienced leasing and management teams fully assess every acquisition and begin working on its repositioning, marketing and occupancy long before closing. These skills are critical in making the *acquirer of choice* the *landlord of choice*, in order to maximize earnings potential and asset value.

Our experience and reputation has allowed us to broaden our investment strategy to maximize our capital base, financial returns, and return on our relationships. We have levered our operating skills by co-investing with institutional partners and by participating in properties with other owners through structured debt and equity investments. These investments leverage our operating skills, produce enhanced yields, and take advantage of voids in the private equity and debt markets, while reducing our initial capital commitment to any one transaction. Institutional partner confidence in these operating skills and a proven ability to produce high returns are powerful endorsements of *our competitive advantage*.



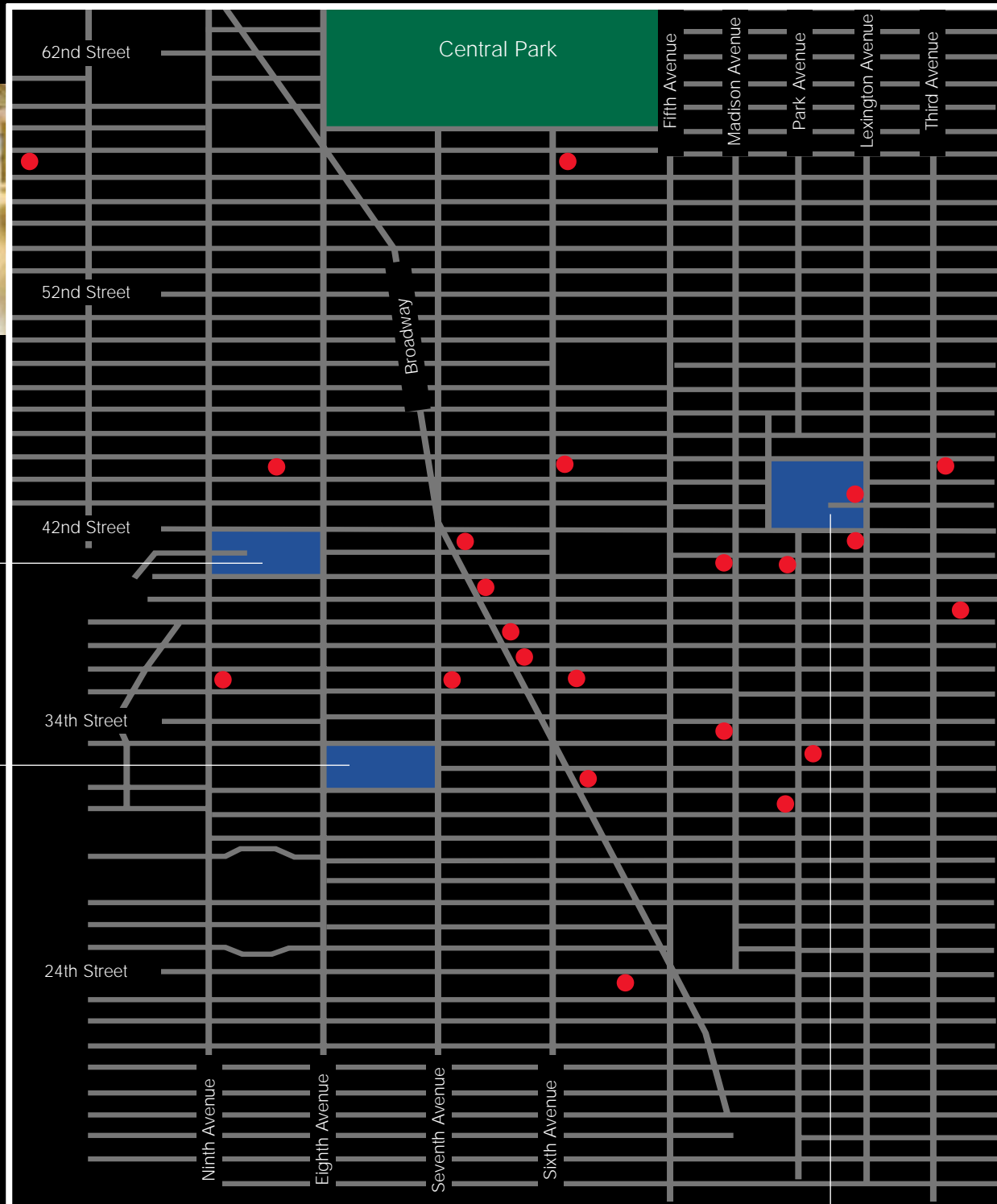
The exclusive focus on well-located properties, combined with unique market knowledge, an understanding of the demands of modern businesses, and an ability to maximize building infrastructure allows SL Green to create rapidly growing asset values through higher net operating income and occupancy levels.

**Advantage**

Over the past 18 months, SL Green has fully repositioned its portfolio towards larger avenue-oriented properties averaging 437,000 square feet, 90% of which are within a ten-minute walk from the midtown commuter hubs.



Typical tenant space



Port Authority

Penn Station



Cipriani's at 110 East 42nd Street

Grand Central Station



711 Third Avenue

**O**ur portfolio repositioning strategy removes us from the event-driven downtown market and focuses us on the supply and demand-driven midtown market.

# REPOSITIONING OUR PORTFOLIO

Our competitive advantage and strong capital position is reflected in our success at dominating our market segment. We have grown from our initial market capitalization at IPO of \$250 million to about \$1.7 billion today. Our portfolio has grown at an average annual rate of 50% per year to comprise an aggregate of 10 million square feet.

In 1999, we initiated a strategy to refocus our portfolio so that it was well positioned no matter what the economic climate. From a strategic perspective we wanted to position our portfolio to be both resistant to economic cycles as well as command a broad spectrum of tenants. One of the keys to this strategy was defining the necessary property characteristics—location, size, infrastructure and tenant mix.

In terms of location, we wanted to be near midtown's three primary commuter stations. Today, 90% of our portfolio is within a ten-minute walk of these stations. When considering size, we wanted to move away from smaller, side street locations to larger, avenue-oriented properties. Today, 22 of our

25 properties, comprising 93% of our square footage, are avenue-oriented. Our average building size has increased from approximately 250,000 square feet to just under 437,000 square feet.

With our increased size, avenue-orientation and co-location with the prime commuter stations, our tenant base has trended towards larger spaces, with average tenant size growing by almost 45%. So to, the financial strength of our tenants has been improved significantly with tenants such as BMW, CBS, CNN, Crain's, Philip Morris and New York Life occupying our buildings.

This repositioning process not only enhanced our property locations, size and tenant financial strength but also enhanced the embedded future earnings growth potential of our portfolio. Acquired properties today have a 34% greater in-place rental discount to market than sold properties which, at current rental rates, we anticipate will add 40 basis points to the long-term average annual NOI growth of the repositioned portfolio.



1140 Avenue of  
the Americas



420 Lexington Avenue  
(The Graybar Building)

**S**L Green is creating a corporate brand and leveraging that brand identity as the landlord of choice in the affordable rent segment.

## BETTER THAN A,

Coupled with our strategy of physically repositioning our portfolio has been an aggressive branding campaign. SL Green is the only owner in New York City that is creating a corporate brand through:

**Identity:** Lobby appearances have been standardized so that visitors to a SL Green building are immediately aware of our ownership. From our concierge's uniform to distinctive ownership plaques and lobby accessories, the image that a tenant or visitor receives is one of pride and professionalism. We also trumpet our ownership and the re-investments we're making in our properties on our construction scaffolds. In combination these efforts underscore the size, concentration and quality of our portfolio.

**Amenities:** SL Green provides tenant amenities equal to or better than those found in Class A properties. During 2000 we were one of the primary movers in establishing the Elevator News Network as a communication medium in New York. We provide state-of-the-art telecom and technology facilities for tenants and we were among the first companies to fully wire its entire portfolio. Currently we are working to provide redundancies to the existing in-ground telecom services by using satellite-based and microwave technology to ensure full service to tenants. As usage builds over time, these amenities, provided at no cost to SL Green, will become income generators as well.

These initiatives, along with our strategic property decisions have combined to truly make SL Green the *landlord of choice*.



# GREATER THAN B

Our properties have:

- Prime locations
- Contemporary offices
- Restored classic lobbies
- State-of-the-art Internet and telecommunications technology
- Electronic elevator news and information services
- Emergency response cardiac defibrillation devices

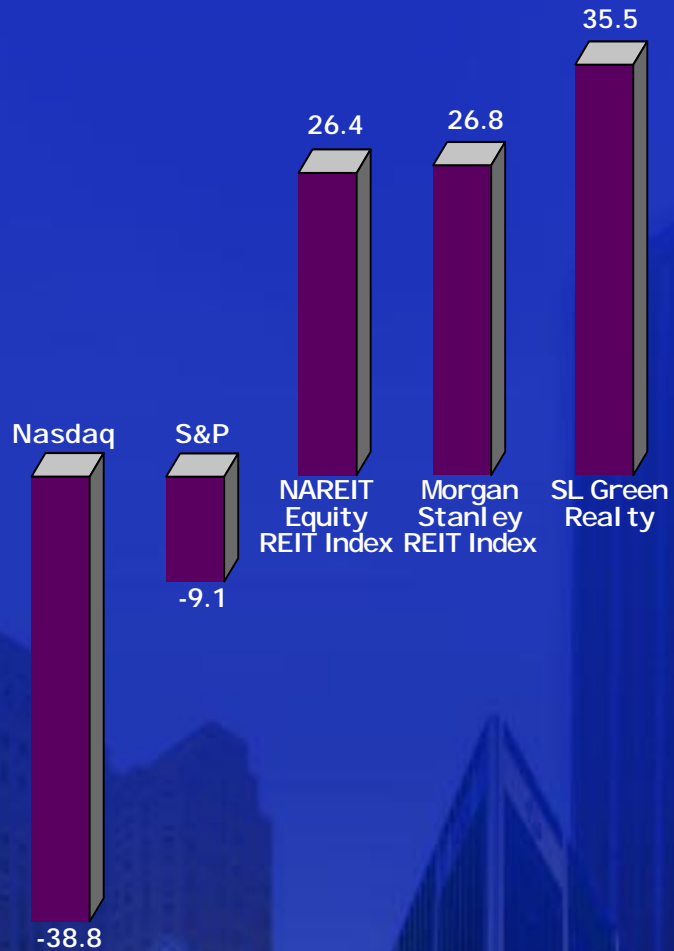




1250 Broadway

## 2000 Total Return

(Percent)



With a mark-to-market rental gap of more than 50%, embedded rental growth will drive approximately 75% to 80% of our target annual earnings growth over the next several years.

# Value







Typical tenant space

**S**L Green's market-leading results delivered a total return of more than 35% for shareholders in 2000.

## DRIVING SHAREHOLDER VALUE

During the year, SL Green sold or contracted to sell 6 properties comprising 1.2 million square feet for an average price of \$162 a square foot, resulting in gains of approximately \$43 million. Due to the tax efficient nature of these dispositions, approximately \$24 million will go directly to retained earnings resulting in an increase in our investable capital base. These properties were generally mid-block properties consisting of an average size of approximately 205,000 square feet. Capital generated from these dispositions was recycled into the acquisition of 5 properties comprising 2.5 million square feet at an average cost of \$224 a square foot.

Looking to the future, SL Green's opportunistic investment philosophy will continue to be carried out along three principle lines—wholly owned property investments, co-ownership in properties with institutional partners, and a structured finance business that takes advantage of disconnects that occur from time to time in the debt and private equity markets. Because of the highly

liquid nature of New York's real estate market, SL Green will continue to evaluate and refresh its portfolio to harvest capital gains and will continue to build the most compelling office portfolio in New York City.

We believe that this three-legged investment strategy will allow SL Green to balance the components of its portfolio to take advantage of each stage of the business cycle. Management believes that the combined effect of the existing discount in share value to asset value, as reflected by its disposition and acquisition activity during the year; the deeply embedded growth in the portfolio, as reflected by market asking rents being 55% greater than current in-place rents; and, the continued pursuit of our opportunistic investment philosophy will result in the Company's ability to continue to deliver double-digit annual earnings growth, generating sector leading share price appreciation.

As of December 31, 2000, SL Green Realty Corp's portfolio included 19 wholly owned properties and four properties held in joint ventures. Additionally, the Company had contracted to acquire three additional properties while contracting to sell one other. Net of pending transactions, SL Green's portfolio will total 10,000,000 square feet.

# OUR PORTFOLIO



110 East 42nd Street

Property	Date Acquired	Rentable Submarket	Square Feet	Percent Occupied
<b>Original Portfolio</b>				
673 First Avenue	8/97	Grand Central South	422,000	100
1414 Avenue of the Americas	8/97	Rockefeller Center	111,000	99
470 Park Avenue South	8/97	Park Avenue South	260,000	99
70 West 36th Street	8/97	Garment	151,000	96
<b>1997 Acquisitions</b>				
110 East 42nd Street	9/97	Grand Central	251,000	100
1372 Broadway	8/97	Times Square South	508,000	99
17 Battery Place North	12/97	Financial	419,000	100
1140 Avenue of the Americas	8/97	Rockefeller Center	191,000	100
50 West 23rd Street	8/97	Chelsea	333,000	99
<b>1998 Acquisitions</b>				
420 Lexington Avenue (The Graybar Building)	3/98	Grand Central	1,188,000	100
1466 Broadway	3/98	Times Square	289,000	84
1412 Broadway	8/98	Times Square South	389,000	95
711 Third Avenue	5/98	Grand Central	524,000	100
321 West 44th Street (1)	3/98	Times Square	203,000	97
440 Ninth Avenue	6/98	Penn Station	339,000	94
<b>1999 Acquisitions</b>				
555 West 57th Street	1/99	Midtown West	941,000	100
286-292 Madison Avenue (The Madisons) (2)	6/99	Grand Central	336,000	99
1250 Broadway (1)	8/99	Penn Station	670,000	100
<b>Acquired in 2000</b>				
100 Park Avenue (1)	2/00	Grand Central	834,000	100
180 Madison Avenue (1)	12/00	Grand Central	265,000	87
<b>Properties Acquired after December 31, 2000</b>				
One Park Avenue	1/01	Grand Central	913,000	97
1370 Broadway	1/01	Times Square South	255,000	97
469 Seventh Avenue (1)	1/01	Penn Station	253,000	98
<b>Grand Total Aggregate Properties/Weighted Average</b>			<b>10,045,000</b>	<b>98</b>
<b>Sold in 2000</b>				
36 West 44th Street (The Bar Building) (sold 3/00)	8/97	Grand Central	178,000	
29 West 35th Street (sold 2/00)	8/97	Garment	78,000	
17 Battery Place South (sold 12/00)	12/97	Financial	392,000	
90 Broad Street (sold 11/00)	6/99	Financial	339,000	
<b>Properties Sold after December 31, 2000</b>				
633 Third Avenue (sold 1/01)	12/97	Grand Central	41,000	100

(1) Properties owned in conjunction with institutional partners. Percentage interests: 321 West 44th Street 35% (65% interest sold into joint venture in 5/00), 1250 Broadway 49.9%, 100 Park Avenue 49.9%, 180 Madison Avenue 49.9%, and 469 Seventh Avenue 35%  
(2) Comprised of three buildings

# SELECTED FINANCIAL DATA

The following table sets forth selected financial data for the Company, and on an historical combined basis for the SL Green Predecessor (as defined below), and should be read in conjunction with the Company's Financial Statements and notes thereto and Management's Discussion and Analysis of Financial Condition and Results of Operations. The balance sheet information as of December 31, 2000, 1999, 1998 and 1997 represents the consolidated balance sheet of the Company and the statement of income for the years ended December 31, 2000, 1999 and 1998 and the period August 21, 1997 to December 31, 1997 represents consolidated results of the Company since the IPO. The combined balance sheet information as of December 31, 1996, and statements of income for the period January 1, 1997 to August 20, 1997 and for the year ended December 31, 1996 of the SL Green Predecessor have been derived from the historical combined financial statements.

The "SL Green Predecessor" consisted of the assets, liabilities, and owners' deficits and results of operations of two properties, 1414 Avenue of the Americas and 70 West 36th Street, equity interests in four other properties, 673 First Avenue, 470 Park Avenue South, 29 West 35th Street and the Bar Building (which interests are accounted for under the equity method) and of the assets, liabilities and owners' equity and results of operations of the Company's affiliated Service Corporation.

## The Company and the SL Green Predecessor

(In thousands, except per share data)

	The Company				SL Green Predecessor	
	Year ended December 31,			August 21-	January 1-	Year ended
	2000	1999	1998	Dec. 31, 1997	Aug. 20, 1997	Dec. 31, 1996
<b>Operating Data:</b>						
Total revenue	\$230,323	\$206,017	\$134,552	\$23,207	\$ 9,724	\$10,182
Property operating expenses	67,304	62,168	45,207	7,077	2,722	3,197
Real estate taxes	28,850	29,198	21,224	3,498	705	703
Interest	40,431	28,610	13,086	2,135	1,062	1,357
Depreciation and amortization	32,511	27,260	15,404	2,815	811	975
Loss on terminated project	—	—	1,065	—	—	—
Loss on hedge transaction	—	—	176	—	—	—
Marketing, general and administration	11,561	10,922	5,760	948	2,189	3,250
Total expenses	180,657	158,158	101,922	16,473	7,489	9,482
Operating income	49,666	47,859	32,630	6,734	2,235	700
Equity in net income (loss) from affiliates	378	730	387	(101)	—	—
Equity in net income of unconsolidated joint ventures	3,108	377	—	—	—	—
Equity in net loss of uncombined joint ventures	—	—	—	—	(770)	(1,408)
Income (loss) before minority interest, extraordinary items and gain on sale	53,152	48,966	33,017	6,633	1,465	(708)
Minority interest	(7,430)	(5,121)	(3,043)	(1,074)	—	—
Income (loss) before extraordinary items and gain on sale	45,722	43,845	29,974	5,559	1,465	(708)
Gain on sale of properties/ preferred investments	41,416	—	—	—	—	—
Extraordinary items (net of minority interest)	(921)	(989)	(522)	(1,874)	22,087	8,961
Net income (loss)	86,217	42,856	29,452	3,685	23,552	8,253
Preferred dividends and accretion	(9,626)	(9,598)	(5,970)	—	—	—
Income available to common shareholders	\$ 76,591	\$ 33,258	\$ 23,482	\$ 3,685	\$23,552	\$ 8,253
Net income per common share—basic	\$3.14	\$1.37	\$1.19	\$0.45		
Net income per common share—diluted	\$2.93	\$1.37	\$1.19	\$0.30		
Cash dividends declared per common share	\$1.475	\$1.41	\$1.40	\$0.51		
Basic weighted average common shares outstanding	24,373	24,192	19,675	12,292		
Diluted weighted average common share and common share equivalents outstanding	31,818	26,680	22,145	12,404		

## SELECTED FINANCIAL DATA (CONTINUED)

(In thousands, except per share data)

	The Company				SL Green
	December 31,				Predecessor
	2000	1999	1998	1997	1996
<b>Balance Sheet Data:</b>					
Commercial real estate, before accumulated depreciation	\$ 895,810	\$ 908,866	\$697,061	\$338,818	\$26,284
Total assets	1,161,154	1,071,242	777,796	382,775	30,072
Mortgages and notes payable	460,716	435,693	162,162	128,820	16,610
Accrued interest payable	2,349	2,650	494	552	90
Minority interest	43,326	41,494	41,491	33,906	—
Stockholders' equity/owners' (deficit)	455,073	406,104	404,826	176,208	(8,405)

	The Company				SL Green Predecessor	
	Year ended December 31,			August 21-	January 1-	Year ended
	2000	1999	1998	December 31,	August 20,	December 31,
<b>Other Data:</b>						
Funds from operations after distributions to preferred shareholders (1)	\$ 75,619	\$ 62,645	\$ 42,858	\$ 9,355	\$ —	\$ —
Funds from operations before distributions to preferred shareholders (1)	84,819	71,845	48,578	9,355	—	—
Net cash provided by operating activities	53,806	48,013	22,665	5,713	2,838	272
Net cash (used in) investing activities	(38,699)	(228,678)	(376,593)	(217,165)	(5,559)	(12,375)
Net cash (used in) provided by financing activities	(25,875)	195,990	347,382	224,234	2,782	11,960

(1) The White Paper on Funds from Operations ("FFO") approved by the Board of Governors of the National Association of Real Estate Investment Trusts ("NAREIT") in March 1995 defines FFO as net income (loss) (computed in accordance with GAAP), excluding gains (or losses) from debt restructuring and sales of properties and significant non-recurring events that materially distort the comparative measurement of the Company's performance over time, plus real estate related depreciation and amortization and after adjustments for unconsolidated partnerships and joint ventures. In October 1999, NAREIT revised the definition of FFO to include non-recurring events. This revised definition is effective for all periods beginning on or after January 1, 2000. The Company believes that FFO is helpful to investors as a measure of the performance of an equity REIT because, along with cash flow from operating activities, financing activities and investing activities, it provides investors with an indication of the ability of the Company to incur and service debt, to make capital expenditures and to fund other cash needs. The Company computes FFO in accordance with the current standards established by NAREIT which may not be comparable to FFO reported by other REITs that do not define the term in accordance with the current NAREIT definition or that interpret the current NAREIT definition differently than the Company. 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 the Company's financial performance or to cash flow from operating activities (determined in accordance with GAAP) as a measure of the Company's liquidity, nor is it indicative of funds available for the Company's cash needs, including its ability to make cash distributions. For a reconciliation of net income and FFO, see "Management's Discussion and Analysis of Financial Condition and Results of Operations—Funds from Operations."

# MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

## ■ Overview

This report includes certain statements that may be deemed to be "forward-looking statements" within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. All statements, other than statements of historical facts, included in this report that address activities, events or developments that the Company expects, believes or anticipates will or may occur in the future, including such matters as future capital expenditures, dividends and acquisitions (including the amount and nature thereof), expansion and other development trends of the real estate industry, business strategies, expansion and growth of the Company's operations and other such matters are forward-looking statements. These statements are based on certain assumptions and analyses made by the Company in light of its experience and its perception of historical trends, current conditions, expected future developments and other factors it believes are appropriate. Such statements are subject to a number of assumptions, risks and uncertainties, general economic and business conditions, the business opportunities that may be presented to and pursued by the Company, changes in laws or regulations and other factors, many of which are beyond the control of the Company. Any such statements are not guarantees of future performance and actual results or developments may differ materially from those anticipated in the forward-looking statements.

## ■ General

SL Green Realty Corp. (the "Company"), a Maryland corporation, and SL Green Operating Partnership, L.P. (the "Operating Partnership"), a Delaware limited partnership, were formed in June 1997 for the purpose of combining the commercial real estate business of S.L. Green Properties, Inc. and its affiliated partnerships and entities.

As of December 31, 2000, the Company's wholly-owned portfolio consisted of 19 Class B commercial properties encompassing approximately 6.7 million rentable square feet located primarily in midtown Manhattan, a borough of New York City ("Manhattan") (the "Properties") and one triple-net leased property located in Shelton, Connecticut. As of December 31, 2000, the weighted average occupancy (total occupied square feet divided by total available square feet) of the Properties was 99%. The Company's portfolio also includes ownership interests in unconsolidated joint ventures which own four Class B commercial properties in Manhattan, encompassing approximately 2.0 million rentable square feet (98% occupied as of December 31,

2000). In addition, the Company continues to manage four office properties owned by third-parties and affiliated companies encompassing approximately 1.0 million rentable square feet.

The following discussion related to the consolidated financial statements of the Company should be read in conjunction with the financial statements.

## ■ Results of Operations

### *Comparison of year ended December 31, 2000 to year ended December 31, 1999*

The following comparison for the year ended December 31, 2000 ("2000") compared to the year ended December 31, 1999 ("1999") makes reference to the following: (i) the effect of the "Same-Store Properties," which represents all properties owned by the Company at January 1, 1999, (ii) the effect of the "1999 Acquisitions," which represents all properties acquired in 1999, namely, 286, 290 and 292 Madison Avenue (May 1999) and 555 West 57th Street (November 1999), and (iii) the effect of the "2000 Dispositions," which represents all properties disposed of in 2000, namely, 29 West 35th Street (February 2000), 36 West 44th Street (March 2000), and 321 West 44th Street (May 2000) which was contributed to a joint venture.

## ■ Rental Revenues

	2000	1999	\$ Change	% Change
(in millions)				
Rental revenue	\$189.0	\$174.9	\$14.1	8.1%
Escalation and reimbursement revenue	24.7	21.9	2.8	12.8
Signage revenue	2.1	1.7	0.4	23.5
<b>Total</b>	<b>\$215.8</b>	<b>\$198.5</b>	<b>\$17.3</b>	<b>8.7%</b>
Same Store	\$163.8	\$144.8	\$19.0	13.1%
1999 Acquisitions	50.0	43.0	7.0	16.3
2000 Dispositions	2.0	10.7	(8.7)	(81.3)
<b>Total</b>	<b>\$215.8</b>	<b>\$198.5</b>	<b>\$17.3</b>	<b>8.7%</b>

The increase in rental revenues was primarily due to an overall increase in occupancy at the Properties from 98% in 1999 to 99% in 2000. In addition, annualized replacement rents on previously occupied space at Same-Store Properties and portfolio wide were 49% and 41% higher than previous fully escalated rents, respectively.

The increase in escalation and reimbursement revenue was primarily due to the recovery of higher utility costs (\$2.6 million).

The increase in signage revenue is primarily attributable to 1466 Broadway (\$0.4 million).

#### ■ Investment and Other Income

	2000	1999	\$ Change	% Change
(in millions)				
Equity in net income of unconsolidated joint ventures	\$ 3.1	\$0.4	\$ 2.7	675.0%
Investment income	13.3	5.3	8.0	150.9
Other	1.1	2.3	(1.2)	(52.2)
<b>Total</b>	<b>\$17.5</b>	<b>\$8.0</b>	<b>\$ 9.5</b>	<b>118.8%</b>

The increase in equity in net income of unconsolidated joint ventures is due to the Company having two joint venture investments in 1999 comprising 1 million square feet compared to four joint venture investments in 2000 comprising 2 million square feet. In addition, the Company has a larger average equity interest in the joint ventures compared to the prior year. Occupancy at the joint ventures increased from 94% in 1999 to 98% in 2000. Annualized rent and annualized net effective rent per leased square foot has increased 17% and 18%, respectively, over 1999 rates. The Company estimates that the difference between existing in-place fully escalated rents and current market rents is approximately 71.6%.

The increase in investment income primarily represents interest income from 2 Grand Central Tower (\$8.4 million). The balance of the change in investment income is due to investments in 1370 Avenue of the Americas (\$1.7 million, which includes \$0.7 million interest prepayment in connection with its early redemption), 17-29 West 44th Street (\$0.7 million) and interest from excess cash on hand (\$1.0 million). This was offset by a decrease in investment income (\$3.0 million) due to loans on 636 11th Avenue, 521 Fifth Avenue and 17 Battery Place being repaid in 1999.

#### ■ Property Operating Expenses

	2000	1999	\$ Change	% Change
(in millions)				
Operating expenses (excluding electric)	\$37.9	\$35.5	\$ 2.4	6.8%
Electric costs	16.7	13.9	2.8	20.1
Real estate taxes	28.9	29.2	(0.3)	(1.0)
Ground rent	12.7	12.8	(0.1)	(0.8)
<b>Total</b>	<b>\$96.2</b>	<b>\$91.4</b>	<b>\$ 4.8</b>	<b>5.3%</b>
Same Store	\$71.1	\$66.2	\$ 4.9	7.4%
1999 Acquisitions	23.1	20.1	3.0	14.9
2000 Dispositions	2.0	5.1	(3.1)	(60.8)
<b>Total</b>	<b>\$96.2</b>	<b>\$91.4</b>	<b>\$ 4.8</b>	<b>5.3%</b>

The increase in operating expenses, excluding electricity, were primarily due to higher fuel costs (\$0.6 million), higher cleaning costs (\$0.9 million) and repairs and maintenance (\$0.9 million).

The decrease in real estate taxes attributable to the 2000 Dispositions (\$1.0 million) was partially offset by an increase in real estate taxes of \$0.7 million due to the 1999 Acquisitions. Overall, real estate taxes have increased due to increases in property assessments which were offset by a reduction in tax rates over the prior year.

#### ■ Other Expenses

	2000	1999	\$ Change	% Change
(in millions)				
Interest expense	\$40.4	\$28.6	\$11.8	41.3%
Depreciation and amortization expense	32.5	27.3	5.2	19.1
Marketing, general and administrative expense	11.6	10.9	0.7	6.4
<b>Total</b>	<b>\$84.5</b>	<b>\$66.8</b>	<b>\$17.7</b>	<b>26.5%</b>

Interest expense increased due to increased borrowings in 2000 compared to 1999. In addition, the weighted average interest rate at December 31, 2000 was 8.2% compared to 8.0% at December 31, 1999.

Depreciation and amortization increased primarily due to depreciation on properties acquired and capital expenditures and tenant improvements incurred during the periods.

Marketing, general and administrative expenses have decreased as a percentage of total revenues, representing approximately 5.0% and 5.3% of total revenues for 2000 and 1999, respectively.

#### **Comparison of year ended December 31, 1999 to year ended December 31, 1998**

The following comparison for the year ended December 31, 1999 compared to the year ended December 31, 1998 makes reference to the following: (i) the effect of the "Same-Store Properties," which represents all properties owned by the Company at January 1, 1998, (ii) the effect of the "1998 Acquisitions," which represents all properties acquired in 1998, and (iii) the effect of the "1999 Acquisitions," which represents all properties acquired in 1999.

### ■ Rental Revenues

	1999	1998	\$ Change	% Change
(in millions)				
Rental revenue	\$174.9	\$114.9	\$60.0	52.2%
Escalation and reimbursement revenue	21.9	15.9	6.0	37.7
Signage revenue	1.7	0.1	1.6	1,600.0
<b>Total</b>	<b>\$198.5</b>	<b>\$130.9</b>	<b>\$67.6</b>	<b>51.6%</b>
Same Store	\$ 82.2	\$ 76.9	\$ 5.3	6.9%
1998 Acquisitions	88.1	54.0	34.1	63.1
1999 Acquisitions	28.2	—	28.2	—
<b>Total</b>	<b>\$198.5</b>	<b>\$130.9</b>	<b>\$67.6</b>	<b>51.6%</b>

The increase in rental revenue is primarily attributable to the revenue associated with the following: (i) Same-Store Properties which increased rental revenue \$5.5 million, (ii) the 1998 Acquisitions which increased rental revenue by \$30.0 million, and (iii) the 1999 Acquisitions which increased rental revenue by \$24.5 million.

The increase in escalation and reimbursement revenue is primarily attributable to the revenue associated with the following: (i) the 1998 Acquisitions which increased revenue by \$2.7 million, and (ii) the 1999 Acquisitions which increased revenue by \$3.4 million, partially offset by the Same-Store Properties which decreased revenue by \$0.1 million.

The increase in signage revenue is primarily attributable to 1466 Broadway (\$1.4 million) and 1414 Avenue of the Americas (\$0.2 million).

### ■ Investment and Other Income

	1999	1998	\$ Change	% Change
(in millions)				
Equity in net income of unconsolidated joint ventures	\$0.4	\$ —	\$0.4	—
Investment income	5.3	3.3	2.0	60.6%
Other	2.3	0.4	1.9	475.0
<b>Total</b>	<b>\$8.0</b>	<b>\$3.7</b>	<b>\$4.3</b>	<b>116.2%</b>

The investment income for 1999 primarily represents interest income from the 17 Battery Park mortgage (\$0.7 million), 521 Fifth Avenue (\$1.3 million), 636 11th Avenue (\$0.9 million), 1370 Avenue of the Americas (\$1.6 million), interest on other mortgage notes (\$0.3 million) and interest from excess cash on hand (\$0.5 million).

### ■ Property Operating Expenses

	1999	1998	\$ Change	% Change
(in millions)				
Operating expenses (excluding electric)	\$35.5	\$24.6	\$10.9	44.3%
Electric costs	13.9	9.5	4.4	46.3
Real estate taxes	29.2	21.2	8.0	37.7
Ground rent	12.8	11.1	1.7	15.3
<b>Total</b>	<b>\$91.4</b>	<b>\$66.4</b>	<b>\$25.0</b>	<b>37.7%</b>
Same Store	\$35.7	\$35.1	\$ 0.6	1.7%
1998 Acquisitions	43.0	31.3	11.7	37.4
1999 Acquisitions	12.7	—	12.7	—
<b>Total</b>	<b>\$91.4</b>	<b>\$66.4</b>	<b>\$25.0</b>	<b>37.7%</b>

The increase in operating expenses was primarily attributable to: (i) Same-Store Properties which increased operating expenses by \$0.9 million, (ii) the 1998 Acquisitions which increased operating expenses by \$5.7 million, and (iii) the 1999 Acquisition properties which increased operating expenses by \$8.7 million.

The increase in real estate taxes is primarily attributable to: (i) the 1998 Acquisitions which increased real estate taxes by \$4.3 million, and (ii) the 1999 Acquisitions which increased real estate taxes by \$4.0 million, partially offset by a decrease in real estate taxes at Same-Store Properties (\$0.3 million) due to reduced tax rates.

This increase in ground rent primarily resulted from increases at 420 Lexington Avenue (\$1.2 million) and 711 Third Avenue (\$0.5 million).

### ■ Other Expenses

	1999	1998	\$ Change	% Change
(in millions)				
Interest expense	\$28.6	\$13.1	\$15.5	118.3%
Depreciation and amortization expense	27.3	15.4	11.9	77.3
Marketing, general and administrative expense	10.9	5.8	5.1	87.8
<b>Total</b>	<b>\$66.8</b>	<b>\$34.3</b>	<b>\$32.5</b>	<b>94.8%</b>

The increase in interest expense is primarily attributable to: (i) Same-Store Properties (\$2.6 million) as new secured mortgage financing was placed on assets in this portfolio, (ii) 1998 Acquisitions (\$6.8 million) due to financing placed on 420 Lexington Avenue, 711 Third Avenue and 1412 Broadway, (iii) 1999 Acquisitions (\$5.0 million) due to mortgage financing associated with these purchases, and (iv) \$1.1 million higher interest expense at the corporate level.

The increase in depreciation and amortization is primarily attributable to: (i) Same-Store Properties which increased depreciation by \$1.3 million, (ii) the 1998 Acquisitions which increased depreciation by \$6.4 million, (iii) the 1999 Acquisitions which increased depreciation by \$3.2 million, and (iv) an increase in the amortization of deferred finance costs totaling \$1.0 million associated with fees incurred on the Company's 1999 secured mortgage financings.

The increase in marketing, general and administrative is primarily due to increased personnel costs associated with the Company's recent growth (\$3.3 million) and increased public entity and technology costs (\$0.9 million).

## ■ Liquidity and Capital Resources

### ■ Cash Flows

Net cash provided by operating activities increased \$5.8 million to \$53.8 million for the year ended December 31, 2000 compared to \$48.0 million for the year ended December 31, 1999. The increase was due primarily to operating cash flow generated by the Same-Store Properties and 1999 Acquisitions which was partially offset by the decrease in operating cash flow from the 2000 Dispositions. Net cash used in investing activities decreased \$190.0 million to \$38.7 million for the year ended December 31, 2000 compared to \$228.7 million for the year ended December 31, 1999. The decrease was due primarily to the lower dollar volume of acquisitions of wholly-owned properties and capital improvements in 2000 (\$16.6 million and \$38.9 million, respectively) as compared to 1999 (\$133.5 million and \$45.2 million, respectively). In addition, the Company had a \$50.2 million acquisition deposit held in an escrow account for a transaction which closed in January 2001. The net increase in investment in unconsolidated joint ventures (\$32.6 million) and mortgage loans (\$34.2 million) was partially offset by the proceeds from the dispositions of 29 West 35th Street, 36 West 44th Street, 321 West 44th Street, 17 Battery Place South and our interest in 1370 Avenue of the Americas, totaling \$121.1 million and distributions from the joint ventures (\$25.6 million). Net cash provided by financing activities decreased \$221.9 million to \$(25.9) million for the year ended December 31, 2000 compared to \$196.0 million for the year ended December 31, 1999. The decrease was primarily due to lower borrowing requirements (\$64.3 million) due to lower volume of acquisitions, and higher debt repayments (\$160.0 million).

Net cash provided by operating activities increased \$25.3 million to \$48.0 million for the year ended December 31, 1999 compared to \$22.7 million for the year ended December 31, 1998. The

increase was due primarily to the operating cash flow generated by the Same-Store Properties, 1998 Acquisitions and 1999 Acquisitions as a result of higher occupancy rates, rents which have been marked to market and flat property operating expense trends and an increase in investment income. Net cash used in investing activities decreased \$147.9 million to \$228.7 million for the year ended December 31, 1999 compared to \$376.6 million for the year ended December 31, 1998. The decrease was due primarily to the decreased amount of property acquisitions in 1999 (\$223 million) as compared to the amount of property acquisitions in 1998 (\$357 million). Net cash provided by financing activities decreased \$151.4 million to \$196.0 million for the year ended December 31, 1999 compared to \$347.4 million provided by financing activities for the year ended December 31, 1998. The decrease was primarily due to net proceeds from the Company's 1998 public offerings of common stock (\$242.1 million) and preferred stock (\$109.7 million) which were used to pay-off the Company's Acquisition Facility (\$240 million) and purchase certain 1998 acquisitions as well as an increase in the dividends and distributions paid (\$14.3 million).

### ■ Capitalization

On February 16, 2000, the Board of Directors of the Company authorized a dividend distribution of one preferred share purchase right ("Right") for each outstanding share of common stock under a shareholder rights plan. This dividend was distributed to all holders of record of the common stock on September 30, 2000. Each Right entitles the registered holder to purchase from the Company one one-hundredth of a share of Series B junior participating preferred stock, par value \$0.01 per share ("Preferred Shares"), at a price of \$60.00 per one one-hundredth of a Preferred Share ("Purchase Price"), subject to adjustment as provided in the rights agreement. The Rights expire on March 5, 2010, unless the expiration date is extended or the Right is redeemed or exchanged earlier by the Company.

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



The Company has an effective shelf registration with the SEC for an aggregate amount of \$400 million in equity securities and preferred stock of the Company.

At December 31, 2000, borrowings under the mortgage loans and credit facilities, (excluding our share of joint venture debt of \$115.8 million), represented 34.72% of the Company's market capitalization based on a total market capitalization (debt and equity including preferred stock), assuming conversion of all operating partnership units, of \$1.33 billion (based on a common stock price of \$28.00 per share, the closing price of the Company's common stock on the New York Stock Exchange on December 31, 2000).

The tables below summarize the Company's mortgage debt and line of credit indebtedness outstanding at December 31, 2000 and 1999, respectively (in thousands).

December 31,	2000	1999
<b>Debt Summary:</b>		
<b>Balance</b>		
Fixed rate	\$317,786	\$145,743
Variable rate—hedged	69,606	125,000
Total fixed rate	387,392	270,743
Variable rate	49,950	164,950
Variable rate—supporting variable rate assets	23,374	—
Total variable rate	73,324	164,950
<b>Total</b>	<b>\$460,716</b>	<b>\$435,693</b>
<b>Percent of Total Debt:</b>		
Total fixed rate	84.08%	62.00%
Variable rate	15.92%	38.00%
<b>Total</b>	<b>100.00%</b>	<b>100.00%</b>
<b>Effective Interest Rate at End of Period</b>		
Total fixed rate	8.22%	7.97%
Variable rate	8.20%	8.08%
<b>Effective interest rate</b>	<b>8.21%</b>	<b>8.01%</b>

A majority of the variable rate debt shown above bears interest at an interest rate based on LIBOR (6.82% at December 31, 2000). Variable rate debt, net of the variable rate debt supporting variable rate assets, constitutes 10.8% of total debt outstanding. The Company's total debt at December 31, 2000 had a weighted average term to maturity of approximately 6.32 years.

As of December 31, 2000, the Company has two mortgage loans receivable. The first loan, which has a face value of \$51.9 million and matures on September 30, 2001, carries a weighted average interest rate of 793 basis points over the 30-day LIBOR. The second loan, which has a face value of \$2.4 million and matures on April 16, 2001, carries a

400 basis point spread over the 30-day LIBOR. These variable rate mortgage loans receivable mitigate the Company's exposure to interest rate changes on its unhedged variable rate debt.

#### ■ Mortgage Financing

As of December 31, 2000, the Company's total mortgage debt (excluding the Company's share of unconsolidated debt of approximately \$115.8 million) consisted of approximately \$387.4 million of fixed rate debt with an effective interest rate of approximately 8.22% and \$26.9 million of variable rate debt with an effective interest rate of 8.32%. The Company's mortgage debt at December 31, 2000, encumbering 14 properties, will mature as follows (in thousands):

	Scheduled Amortization	Principal Repayments	Total
2001	\$ 5,387	\$ 26,950	\$ 32,337
2002	7,770	—	7,770
2003	8,694	2,003	10,697
2004	4,857	75,300	80,157
2005	4,440	47,247	51,687
Thereafter	25,167	206,527	231,694
<b>Total</b>	<b>\$56,315</b>	<b>\$358,027</b>	<b>\$414,342</b>

On October 2, 2000, the Company obtained a \$125.0 million mortgage encumbering the property located at 420 Lexington Avenue. The 8.44% fixed rate loan has a 10-year term. Interest only is payable for the first 12 months. The proceeds were used to repay the \$55 million loan on the property which bore interest at 9.25% at December 31, 1999 and was due to mature on May 21, 2001. The balance of the proceeds was used to pay down the \$250 Million Credit Facility (see below).

The \$26.9 million mortgage encumbering the properties located at 286, 290 and 292 Madison Avenue was extended for one year to May 31, 2001. This extension was done in order to match the term of this financing and availability to add these properties to the unencumbered asset pool which collateralizes the Company's \$250 Million Credit Facility. This credit facility had not yet closed at the time of this term financing expiration. On January 16, 2001, the Company repaid the mortgage encumbering 290 Madison Avenue. The remaining balance on this note was repaid on February 21, 2001 with proceeds from the \$250 Million Credit Facility (see page 24). In February 2001, the bank group approved the addition of 286 and 292 Madison Avenue to the unencumbered asset pool.

#### ■ **\$250 Million Credit Facility**

On June 27, 2000, the Company repaid in full and terminated the \$140 Million Credit Facility (see below) and obtained a new senior unsecured revolving credit facility in the amount of \$250.0 million (the “\$250 Million Credit Facility”) from a group of 9 lender banks. The \$250 Million Credit Facility has a term of three years and bears interest at a spread ranging from 137.5 basis points to 175 basis points over LIBOR, based on the Company’s leverage ratio. If the Company receives an investment grade rating, the spread over LIBOR will be reduced to 125 basis points. The Company has the ability to upsize this credit facility to \$300.0 million. At December 31, 2000, \$23.0 million was outstanding and carried an interest rate of 8.17 percent. Availability under the \$250 Million Credit Facility at December 31, 2000 was further reduced by the issuance of letters of credit in the amount of \$21.0 million for acquisition deposits. On February 9, 2001, \$123.0 million was outstanding under the facility. The Company is currently negotiating with the bank group to upsize the facility to \$300.0 million. This upsizing is expected to close in the second quarter 2001.

The terms of the \$250 Million Credit Facility include certain restrictions and covenants which limit, among other things, the payment of dividends (as discussed below), the incurrence of additional indebtedness, the incurrence of liens and the disposition of assets, and which require compliance with financial ratios relating to the minimum amount of tangible net worth, the minimum amount of debt service coverage, the minimum amount of fixed charge coverage, the minimum amount of unsecured indebtedness, the minimum amount of unencumbered property debt service coverage and certain investment limitations. The dividend restriction referred to above provides that, except to enable the Company to continue to qualify as a REIT under the Code, the Company will not during any four consecutive fiscal quarters make distributions with respect to common stock or other equity interests in an aggregate amount in excess of 90 percent of funds from operations for such period, subject to certain other adjustments. The \$250 Million Credit Facility also requires a 15 to 25 basis point fee on the unused balance payable quarterly in arrears.

The lending group for the \$250 Million Credit Facility consists of Fleet National Bank, NA, as administrative agent, Citibank/Salomon Smith Barney, Inc., as syndication agent, Deutsche Banc Alex Brown, as documentation agent, Commerzbank Aktiengesellschaft, New York Branch, The Bank of New York, Wells Fargo Bank, N.A., Bank Leumi USA, PNCBank, N.A., and Key Bank, N.A.

#### ■ **\$140 Million Credit Facility**

The \$140 million unsecured credit facility was repaid in full and retired in June 2000 in connection with the Company obtaining the \$250 Million Credit Facility, as described above. The Company recorded a \$430,000 extraordinary loss, net of the minority interest’s share of the loss (\$38,000) for the early extinguishment of debt related to the write-off of unamortized financing costs associated with the \$140 Million Credit Facility.

#### ■ **PSCC Facility**

On December 28, 1999, the Company closed on a \$30 million credit facility with Prudential Securities Credit Corp. (“PSCC”). The borrowing capacity was \$15 million of which none was drawn down at December 31, 1999. The PSCC Facility was secured by the Company’s preferred equity interest in 1370 Avenue of the Americas and a repurchase mortgage participation interest in the mortgage at 420 Lexington Avenue. On March 30, 2000, PSCC increased the secured PSCC Facility by \$20 million to \$50 million. No other terms were changed from the original \$30 million secured PSCC Facility. Interest-only is payable based on the 1-Month LIBOR plus 125 basis points. The PSCC Facility may be prepaid at any time during its term without penalty. The PSCC Facility, which was to mature on December 27, 2000, was extended for one year. At that time, the PSCC Facility was increased to \$60 million.

At December 31, 2000, the Company had \$23.4 million outstanding under its PSCC Facility (interest rate of 8.07 percent). The PSCC Facility is secured by the \$51.9 million in mortgage loans receivable on 2 Grand Central Tower.

#### ■ **Capital Expenditures**

The Company estimates that for the year ending December 31, 2001, it will incur approximately \$34.7 million of capital expenditures (including tenant improvements) on properties currently owned. Of that total, over \$12.6 million of the capital investments are dedicated to redevelopment costs, including local law 11, associated with properties acquired at or after the Company’s IPO. The Company expects to fund these capital expenditures with the credit facility, additional property level mortgage financings, operating cash flow and cash on hand. Future property acquisitions may require substantial capital investments in such properties for refurbishment and leasing costs. The Company expects that these financing requirements will be met in a similar fashion. The Company believes that it will have sufficient capital resources to satisfy its obligations during the next 12-month period. Thereafter, the Company expects that capital needs

will be met through a combination of net cash provided by operations, borrowings, potential asset sales or additional equity or debt issuances.

#### ■ Distributions

The Company expects to make distributions to its stockholders primarily based on its distributions received from the Operating Partnership primarily from property revenues or, if necessary, from working capital or borrowings.

To maintain its qualification as a REIT, the Company must make annual distributions to its stockholders of at least 95 percent (90 percent effective January 1, 2001) of its REIT taxable income, determined without regard to the dividends paid deduction and by excluding net capital gains. Moreover, the Company intends to continue to make regular quarterly distributions to its stockholders which, based upon current policy, in the aggregate would equal approximately \$38.0 million on an annualized basis. However, any such distribution, whether for Federal income tax purposes or otherwise, would only be paid out of available cash after meeting both operating requirements and scheduled debt service on mortgages and loans payable.

#### ■ Technology Investments and Alliances

Through December 31, 2000, the Company had received 476,705 warrants from Onsite Access Inc. ("Onsite") in exchange for providing Onsite with access to its portfolio of properties. This arrangement provides certain marketing preferences to Onsite in exchange for which the Company will receive a share in the revenues of the service provider. The Company is also entitled to receive up to an additional 405,648 warrants based on the terms of the Warrant Issuance Agreement. Onsite provides comprehensive communications solutions for small and medium-sized business customers in multi-tenant commercial office buildings. The warrants had an estimated fair value of \$306,000 at date of issuance. This was recorded as Deferred Revenue at December 31, 1999 and will be amortized over the term of the agreement. The warrants are held in an LLC of which the Company owns a 75 percent managing member interest, and the remaining interest is held by certain members of management.

On March 29, 2000, the Company entered into an agreement with Broadband Office, Inc. ("Broadband") to provide telecommunication and Internet services to its tenants. In exchange for providing Broadband with access to tenants at some of the Company's properties, the Company received 164,000 shares of common stock with a fair value of \$235,000 on that date.

Through December 2000, the Company made a \$1.5 million limited partnership investment in Internet Realty

Partners, L.P. ("IRP"). The Company is committed to fund an additional \$0.5 million. IRP invests in real estate-related Internet, technology and e-commerce companies.

On June 6, 2000, the Company entered into a marketing and cooperation agreement with Eureka to provide telecommunication and Internet services to its tenants. In exchange for providing Eureka with access to tenants at some of the Company's properties, the Company will receive warrants based on the square footage of property provided. As of December 31, 2000, 58,000 warrants had been received. Such warrants had no value at December 31, 2000.

On August 22, 2000, the Company entered into an agreement with Verticore Communications Ltd. ("Verticore") to participate in the elevator news network program. In exchange for providing Verticore with access to the Company's properties, the Company will receive warrants based on the number of qualifying elevator cabs. As of December 31, 2000, 195,000 warrants had been received by the Company. Such warrants had no value at December 31, 2000. In addition, the Company made a \$750,000 capital investment in exchange for 150,000 shares of Series 2 Class C Convertible Preferred Stock of Verticore.

#### ■ Funds from Operations

The White Paper on FFO approved by the Board of Governors of NAREIT in March 1995 defines FFO as net income (loss) (computed in accordance with GAAP), excluding gains (or losses) from debt restructuring and sales of properties and significant non-recurring events that materially distort the comparative measurement of the Company's performance over time, plus real estate related depreciation and amortization and after adjustments for unconsolidated partnerships and joint ventures. In October 1999, NAREIT revised the definition of FFO to include non-recurring events. This revised definition is effective for all periods beginning on or after January 1, 2000. The Company believes that FFO is helpful to investors as a measure of the performance of an equity REIT because, along with cash flow from operating activities, financing activities and investing activities, it provides investors with an indication of the ability of the Company to incur and service debt, to make capital expenditures and to fund other cash needs. The Company computes FFO in accordance with the current standards established by NAREIT which may not be comparable to FFO reported by other REITs that do not define the term in accordance with the current NAREIT definition or that interpret the current NAREIT definition differently than the Company. 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 the Company's financial performance or to cash flow from operating activities (determined in accordance with GAAP) as a measure of the Company's liquidity, nor is it indicative of funds available to fund the Company's cash needs, including its ability to make cash distributions.

Funds from Operations for the years ended December 31, 2000, 1999 and 1998 on a historical basis, are as follows (in thousands):

Year ended December 31,	2000	1999	1998
Income before minority interest, extraordinary item, gain on sales and preferred stock dividends	\$ 53,152	\$ 48,966	\$ 33,017
Add:			
Depreciation and amortization	32,511	27,260	15,404
Loss on hedge transaction	—	—	176
Loss on terminated transaction	—	—	1,065
FFO adjustment for unconsolidated joint ventures	3,258	433	—
Less:			
Dividends on preferred shares	(9,200)	(9,200)	(5,720)
Minority interest in the BMW Building	—	(1,765)	—
Amortization of deferred financing costs and depreciation of non-rental real estate assets	(4,102)	(3,049)	(1,084)
<b>Funds From Operations</b>	<b>\$ 75,619</b>	<b>\$ 62,645</b>	<b>\$ 42,858</b>
Cash flows provided by operating activities	\$ 53,806	\$ 48,103	\$ 22,665
Cash flows used in investing activities	\$(38,699)	\$(228,678)	\$(376,593)
Cash flows (used in) provided by financing activities	\$(25,875)	\$ 195,990	\$ 347,382

In compliance with the White Paper issued by NAREIT in March 1995, the Company has excluded a loss from a hedge transaction (\$176,000) and loss on terminated transaction (\$1.1 million) from the calculation of FFO in 1998. The Company believes these transactions are non-recurring in nature based on the Company's operating history of not entering into these types of transactions and, therefore, are non-recurring and would materially distort the Company's performance if included in the calculation of FFO. In accordance with the revised White Paper issued by NAREIT in October 1999, these transactions would be included in the calculation of FFO.

#### ■ Inflation

Substantially all of the office leases provide for separate real estate tax and operating expense escalations

over a base amount. In addition, many of the leases provide for fixed base rent increases or indexed escalations. The Company believes that inflationary increases may be at least partially offset by the contractual rent increases and expense escalations described above.

#### ■ Recently Issued Accounting Pronouncements

The Company adopted Statement No. 133, "Accounting for Derivative Instruments and Hedging Activities," effective January 1, 2001. The Statement requires the Company to recognize all derivatives on the balance sheet at fair value. Derivatives that are not hedges must be adjusted to fair value through income. If a derivative is a hedge, depending on the nature of the hedge, changes in the fair value of the derivative will either be offset against the change in fair value of the hedged asset, liability, or firm commitment through earnings, or recognized in other comprehensive income until the hedged item is recognized in earnings. The ineffective portion of a derivative's change in fair value will be immediately recognized in earnings. The Company will record a cumulative effect adjustment upon the adoption of this Statement. This adjustment, of which the intrinsic value of the hedge will be recorded in other comprehensive income (\$811,000) and the time value component will be recorded in the statement of operations (\$483,667), will be an unrealized loss of \$1.3 million. This cumulative effect adjustment will have no impact on FFO. The transition amounts were determined based on the interpretive guidance issued by the Financial Accounting Standards Board to date. The FASB continues to issue interpretive guidance that could require changes in the Company's application of the standard and adjustments to the transition amounts. SFAS 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 Securities and Exchange Commission (SEC) issued Staff Accounting Bulletin (SAB) 101, "Revenue Recognition in Financial Statements," in December 1999. The SAB summarizes certain of the SEC staff's views in applying generally accepted accounting principles to revenue recognition in financial statements. In June 2000, the SEC issued SAB 101B, which delays the implementation date of SAB 101 until no later than the fourth fiscal quarter of fiscal years beginning after December 15, 1999. The adoption of this SAB did not have a significant impact on the Company's financial statements.

# CONSOLIDATED BALANCE SHEETS

(Amounts in thousands, except per share data)

December 31,	2000	1999
<b>Assets</b>		
Commercial real estate properties, at cost:		
Land and land interests	\$ 125,572	\$ 132,081
Buildings and improvements	618,637	632,004
Building leasehold	139,393	132,573
Property under capital lease	12,208	12,208
	895,810	908,866
Less accumulated depreciation	(78,432)	(56,983)
	817,378	851,883
Properties held for sale	10,895	25,835
Cash and cash equivalents	10,793	21,561
Restricted cash	86,823	34,168
Tenant and other receivables, net of allowance of \$1,723 and \$938 in 2000 and 1999, respectively	7,580	5,747
Related party receivables	917	463
Deferred rents receivable, net of allowance for tenant credit loss of \$4,860 and \$5,337 in 2000 and 1999, respectively	45,816	37,015
Investment in and advances to affiliates	6,373	4,978
Mortgage loans receivable and preferred equity investment, net of \$3,321 discount in 2000	51,293	20,000
Investments in unconsolidated joint ventures	65,031	23,441
Deferred costs, net	40,113	30,540
Other assets	18,142	15,611
<b>Total assets</b>	<b>\$1,161,154</b>	<b>\$1,071,242</b>
<b>Liabilities and Stockholders' Equity</b>		
Mortgage notes payable	\$ 414,342	\$ 352,693
Revolving credit facilities	46,374	83,000
Accrued interest payable	2,349	2,650
Accounts payable and accrued expenses	24,818	17,167
Deferred compensation awards	2,833	—
Deferred revenue	1,112	306
Capitalized lease obligations	15,303	15,017
Deferred land lease payable	13,158	11,611
Dividend and distributions payable	12,678	11,947
Security deposits	19,014	18,905
<b>Total liabilities</b>	<b>551,981</b>	<b>513,296</b>
Commitments and Contingencies		
Minority interest in Operating Partnership	43,326	41,494
8% Preferred Income Equity Redeemable Shares <sup>SM</sup> \$0.01 par value \$25.00 mandatory liquidation preference, 25,000 authorized and 4,600 outstanding at December 31, 2000 and 1999	110,774	110,348
<b>Stockholders' Equity</b>		
Common stock, \$0.01 par value 100,000 shares authorized, 24,516 and 24,184 issued and outstanding at December 31, 2000 and 1999, respectively	246	242
Additional paid-in capital	428,698	421,958
Deferred compensation plans	(5,037)	(6,610)
Officers' loans, net	—	(64)
Retained earnings/(distributions in excess of earnings)	31,166	(9,422)
<b>Total stockholders' equity</b>	<b>455,073</b>	<b>406,104</b>
<b>Total liabilities and stockholders' equity</b>	<b>\$1,161,154</b>	<b>\$1,071,242</b>

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

# CONSOLIDATED STATEMENTS OF INCOME

(Amounts in thousands, except per share data)

Years ended December 31,	2000	1999	1998
<b>Revenues</b>			
Rental revenue	\$189,048	\$174,939	\$114,884
Escalation and reimbursement revenues	24,732	21,902	15,923
Signage rent	2,137	1,660	100
Investment income	13,271	5,266	3,267
Other income	1,135	2,250	378
Total revenues	230,323	206,017	134,552
<b>Expenses</b>			
Operating expenses including \$4,644 (2000), \$4,707 (1999) and \$2,118 (1998), to affiliates	54,644	49,414	34,125
Real estate taxes	28,850	29,198	21,224
Ground rent	12,660	12,754	11,082
Interest	40,431	28,610	13,086
Depreciation and amortization	32,511	27,260	15,404
Loss on terminated project	—	—	1,065
Loss on hedge transaction	—	—	176
Marketing, general and administrative	11,561	10,922	5,760
Total expenses	180,657	158,158	101,922
Income before equity in net income from affiliates, equity in net income of unconsolidated joint ventures, gain on sale, minority interest and extraordinary items	49,666	47,859	32,630
Equity in net income from affiliates	378	730	387
Equity in net income of unconsolidated joint ventures	3,108	377	—
Equity in net gain on sale of joint venture property	6,025	—	—
Gain on sale of rental property/preferred investment	35,391	—	—
Minority interest:			
Operating partnership	(7,430)	(3,356)	(3,043)
Partially owned properties	—	(1,765)	—
Extraordinary items, net of minority interest of \$81, \$90 and \$52 in 2000, 1999 and 1998, respectively	(921)	(989)	(522)
Net income	86,217	42,856	29,452
Preferred stock dividends	(9,200)	(9,200)	(5,720)
Preferred stock accretion	(426)	(398)	(250)
Net income available to common shareholders	\$ 76,591	\$ 33,258	\$ 23,482
<b>Basic earnings per share:</b>			
Net income before gain on sale and extraordinary item	\$ 1.48	\$ 1.41	\$ 1.22
Gain on sales	1.70	—	—
Extraordinary items	(0.04)	(0.04)	(0.03)
Net income	\$ 3.14	\$ 1.37	\$ 1.19
<b>Diluted earnings per share:</b>			
Net income before gain on sale and extraordinary item	\$ 1.66	\$ 1.41	\$ 1.22
Gain on sales	1.30	—	—
Extraordinary items	(0.03)	(0.04)	(0.03)
Net income	\$ 2.93	\$ 1.37	\$ 1.19
Basic weighted average common shares outstanding	24,373	24,192	19,675
Diluted weighted average common shares and common share equivalents outstanding	31,818	26,680	22,145

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

# CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY

(Amounts in thousands, except per share data)

	Common Stock	Additional Paid-In Capital	Deferred Compen- sation Plan	Officers' Loans	Retained Earnings/ (Distributions In Excess of Earnings)	Total
Balance at December 31, 1997	\$123	\$178,669	—	—	\$ (2,584)	\$176,208
Net income	—	—	—	—	29,452	29,452
Preferred dividend and accretion requirement	—	—	—	—	(5,970)	(5,970)
Issuance of common stock net offering cost (\$1,615) and revaluation increase in minority interest (\$6,934)	115	234,709	—	—	—	234,824
Deferred compensation plan	2	3,561	\$(3,563)	—	—	—
Amortization of deferred compensation plan	—	—	297	—	—	297
Cash distributions declared (\$1.40 per common share of which none represented a return of capital for federal income tax purposes)	—	—	—	—	(29,457)	(29,457)
Amortization of officers' loans	—	—	—	\$(528)	—	(528)
Balance at December 31, 1998	240	416,939	(3,266)	(528)	(8,559)	404,826
Net income	—	—	—	—	42,856	42,856
Preferred dividend and accretion requirement	—	—	—	—	(9,598)	(9,598)
Deferred compensation plan and stock award	2	5,019	(4,771)	—	—	250
Amortization of deferred compensation plan	—	—	1,427	—	—	1,427
Cash distributions declared (\$1.41 per common share of which \$0.10 represented a return of capital for federal income tax purposes)	—	—	—	—	(34,121)	(34,121)
Amortization of officers' loans	—	—	—	464	—	464
Balance at December 31, 1999	242	421,958	(6,610)	(64)	(9,422)	406,104
Net income	—	—	—	—	86,217	86,217
Preferred dividend and accretion requirement	—	—	—	—	(9,626)	(9,626)
Deferred compensation plan and stock award	—	253	6	—	—	259
Amortization of deferred compensation plan	—	—	1,567	—	—	1,567
Redemption of units	1	2,128	—	—	—	2,129
Proceeds from options exercised	3	4,359	—	—	—	4,362
Cash distributions declared (\$1.475 per common share of which none represented a return of capital for federal income tax purposes)	—	—	—	—	(36,003)	(36,003)
Amortization of officers' loans	—	—	—	64	—	64
Balance at December 31, 2000	\$246	\$428,698	\$(5,037)	\$ —	\$ 31,166	\$455,073

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

# CONSOLIDATED STATEMENTS OF CASH FLOWS

(Amounts in thousands, except per share data)

Years ended December 31,	2000	1999	1998
<b>Operating Activities</b>			
Net income	\$ 86,217	\$ 42,856	\$ 29,452
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	32,511	27,260	15,404
Amortization of discount on mortgage receivable	(3,524)	—	—
Gain on sale of rental property/preferred investment	(41,416)	—	—
Extraordinary item net of minority interest	921	989	574
Equity in net (income) from affiliates	(378)	(730)	(387)
Equity in net (income) from unconsolidated joint ventures	(3,108)	(377)	—
Minority interest	7,430	5,121	2,991
Deferred rents receivable	(13,741)	(20,363)	(11,748)
Provision for deferred rents and bad debts	1,976	3,883	2,420
Amortization for officer loans and deferred compensation	1,632	1,891	747
Changes in operating assets and liabilities:			
Restricted cash—operations	(2,500)	(9,229)	(6,147)
Tenant and other receivables, net	(2,764)	(2,391)	(3,213)
Related party receivables	(454)	(204)	619
Deferred costs	(9,273)	(14,578)	(5,810)
Other assets	(3,250)	1,393	(8,441)
Accounts payable, accrued expenses and other liabilities	1,174	10,829	4,738
Deferred revenue	806	306	—
Deferred land lease payable	1,547	1,663	1,466
Net cash provided by operating activities	53,806	48,013	22,665
<b>Investing Activities</b>			
Additions to land, buildings and improvements	(55,475)	(223,240)	(357,243)
Restricted cash—capital improvements/acquisition	(50,155)	—	—
Investment in and advances to affiliates	(1,017)	6,446	(8,449)
Investments in unconsolidated joint ventures	(50,918)	(18,285)	—
Distributions from unconsolidated joint ventures	25,550	—	—
Net proceeds from disposition of rental property	121,085	—	—
Mortgage loans receivable, net	(27,769)	6,401	(10,901)
Net cash used in investing activities	(38,699)	(228,678)	(376,593)
<b>Financing Activities</b>			
Proceeds from mortgage notes payable	139,917	339,775	—
Repayments of mortgage notes payable and loans	(78,268)	(62,144)	(1,958)
Proceeds from bridge financings	—	—	327,460
Repayments of bridge financings	—	(87,500)	(239,960)
Proceeds from revolving credit facilities	274,046	138,500	155,250
Repayments of revolving credit facilities	(310,672)	(79,300)	(207,450)
Capitalized lease obligation	286	276	251
Net proceeds from sale of 8% mandatory preferred stock	—	—	109,700
Dividends and distributions paid	(47,942)	(46,389)	(32,144)
Deferred loan costs	(7,603)	(7,228)	(5,822)
Net proceeds from sale of common stock	—	—	242,055
Proceeds from stock options exercised	4,361	—	—
Net cash (used in) provided by financing activities	(25,875)	195,990	347,382
Net increase (decrease) in cash and cash equivalents	(10,768)	15,325	(6,546)
Cash and cash equivalents at beginning of period	21,561	6,236	12,782
Cash and cash equivalents at end of period	\$ 10,793	\$ 21,561	\$ 6,236
<b>Supplemental cash flow disclosures</b>			
Interest paid	\$ 40,732	\$ 26,454	\$ 13,144
<b>Supplemental disclosure of non-cash investing and financing activities</b>			
Land interest acquired for operating partnership units			\$ 1,000
Assets acquired		\$ 7,714	
Liabilities assumed		\$ 4,861	
Issuance of common stock as deferred compensation	\$ 253	\$ 5,019	\$ 3,561
Contribution of property to joint venture	\$ 9,133	\$ 25,579	
Mortgage notes payable assumed by joint venture		\$ 45,000	
Mortgage notes payable assigned to joint venture		\$ 20,800	

In December 2000, 1999 and 1998, the Company declared distributions per share of \$0.3875, \$0.3625 and \$0.35, respectively. These distributions were paid in January 2001, 2000 and 1999, respectively.

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



# NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2000, (Dollars in thousands, except square feet and per share data)

## ■ 1. ORGANIZATION AND BASIS OF PRESENTATION

SL Green Realty Corp. (the "Company" or "SL Green"), a Maryland corporation, and SL Green Operating Partnership, L.P. (the "Operating Partnership"), a Delaware limited partnership, were formed in June 1997 for the purpose of combining the commercial real estate business of S.L. Green Properties, Inc. and its affiliated partnerships and entities. The Operating Partnership received a contribution of interest in the real estate properties, as well as 95% of the economic interest in the management, leasing and construction companies (the "Service Corporation"). The Company qualifies as a real estate investment trust ("REIT") under the Internal Revenue Code of 1986, as amended (the "Code"), and operates as a self-administered, self-managed REIT. A REIT is a legal entity that holds real estate interests and, through payments of dividends to shareholders, is permitted to reduce or avoid the payment of Federal income taxes at the corporate level.

Substantially all of the Company's assets are held by, and its operations are conducted through, the Operating Partnership. The Company is the sole managing general partner of the Operating Partnership. As of December 31, 2000, minority investors held, in the aggregate, an 8.6% limited partnership interest in the Operating Partnership.

As of December 31, 2000, the Company's wholly-owned portfolio consisted of 19 Class B commercial properties encompassing approximately 6.7 million rentable square feet located primarily in midtown Manhattan, a borough of New York City ("Manhattan") (the "Properties") and one triple-net leased property located in Shelton, Connecticut. As of December 31, 2000, the weighted average occupancy (total occupied square feet divided by total available square feet) of the Properties was 99%. The Company's portfolio also includes ownership interests in unconsolidated joint ventures which own four Class B commercial properties in Manhattan, encompassing approximately 2.0 million rentable square feet (98% occupied as of December 31, 2000). In addition, the Company continues to manage four office properties owned by third-parties and affiliated companies encompassing approximately 1.0 million rentable square feet.

### Partnership Agreement

In accordance with the partnership agreement of the Operating Partnership (the "Operating Partnership Agreement"), all allocations of distributions and profits and losses are made in proportion to the percentage ownership interests of the respective partners. As the managing general partner of the Operating Partnership, the Company is required to

take such reasonable efforts, as determined by it in its sole discretion, to cause the Operating Partnership to distribute sufficient amounts to enable the payment of sufficient dividends by the Company to avoid any Federal income or excise tax at the Company level. Under the Operating Partnership Agreement each limited partner will have the right to redeem limited partnership units ("Units") for cash, or if the Company so elects, shares of common stock. Under the Operating Partnership Agreement, the Company is prohibited from selling 673 First Avenue and 470 Park Avenue South through August 2009.

## ■ 2. SIGNIFICANT ACCOUNTING POLICIES

### Principles of Consolidation

The consolidated financial statements include the accounts of the Company and its subsidiaries, which are wholly-owned or controlled by the Company. Entities which are not controlled by the Company are accounted for under the equity method (see Note 6). All significant intercompany balances and transactions have been eliminated.

### Investment in Commercial Real Estate Properties

Rental properties are stated at cost less accumulated depreciation and amortization. Costs directly related to the acquisition and redevelopment of rental properties are capitalized. Ordinary repairs and maintenance are expensed as incurred; major replacements and betterments, which improve or extend the life of the asset, are capitalized and depreciated over their estimated useful lives.

Properties are depreciated using the straight-line method over the estimated useful lives of the assets. The estimated useful lives are as follows:

Category	Term
Building (fee ownership)	40 years
Building improvements	shorter of remaining life of the building or useful life
Building (leasehold interest)	lesser of 40 years or remaining life of the lease
Property under capital lease	49 years (lease term)
Furniture and fixtures	four to seven years
Tenant improvements	shorter of remaining life of the lease or useful life

Depreciation expense (including amortization of the capital lease asset) amounted to \$25,547, \$22,672 and \$13,555 for the years ended December 31, 2000, 1999 and 1998, respectively.

On a periodic basis, management assesses whether there are any indicators that the value of the real estate properties may be impaired. A property's value is considered impaired if management's estimate of the aggregate future cash flows (undiscounted and without interest charges) to be generated by the

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

December 31, 2000, (Dollars in thousands, except square feet and per share data)

property are less than the carrying value of the property. To the extent impairment has occurred, the loss shall be measured as the excess of the carrying amount of the property over the fair value of the property. Management does not believe that the value of any of its rental properties is impaired.

### Cash and Cash Equivalents

The Company considers all highly liquid investments with a maturity of three months or less when purchased to be cash equivalents.

### Investment in Unconsolidated Joint Ventures

The Company accounts for its investments in unconsolidated joint ventures under the equity method of accounting as the Company exercises significant influence, but does not control these entities. These investments are recorded initially at cost, as investments in unconsolidated joint ventures, and subsequently adjusted for equity in earnings (loss) and cash contributions and distributions. Any difference between the carrying amount of these investments on the balance sheet of the Company and the underlying equity in net assets is amortized as an adjustment to equity in earnings (loss) of unconsolidated joint ventures over 40 years. See Note 6.

### Restricted Cash

Restricted cash primarily consists of security deposits held on behalf of tenants. In 2000, this account also includes \$50,200 in sales proceeds held by a qualified intermediary pursuant to a like-kind tax deferred exchange transaction.

### Deferred Lease Costs

Deferred lease costs consist of fees and direct costs incurred to initiate and renew operating leases and are amortized on a straight-line basis over the related lease term. Certain of the employees of the Company provide leasing services to the Properties. A portion of their compensation, approximating \$2,071 \$1,572 and \$645 for the years ended December 31, 2000, 1999 and 1998, respectively, was capitalized and is amortized over an estimated average lease term of seven years.

### Deferred Financing Costs

Deferred financing costs represent commitment fees, legal and other third-party costs associated with obtaining commitments for financing which result in a closing of such financing. These costs are amortized over the terms of the respective agreements. Unamortized deferred financing costs are expensed when the associated debt is refinanced before maturity. Costs incurred in seeking financial

transactions which do not close are expensed in the period. Deferred costs associated with the Company's forward treasury lock (see Note 8) are classified as deferred financing costs and are being amortized over the term of the related mortgage financings.

### Revenue Recognition

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

### Rent Expense

Rent expense is recognized on a straight-line basis over the initial term of the lease. The excess of the rent expense recognized over the amounts contractually due pursuant to the underlying lease is included in the deferred land lease payable in the accompanying balance sheet.

### Income Taxes

The Company is taxed as a REIT under Section 856(c) of the Internal Revenue Code of 1986, as amended. As a REIT, the Company generally is not subject to Federal income tax. To maintain qualification as a REIT, the Company must distribute at least 95% (90% effective 2001) of its REIT taxable income to its stockholders and meet certain other requirements. If the Company fails to qualify as a REIT in any taxable year, the Company will be subject to Federal income tax on its taxable income at regular corporate rates. The Company may also be subject to certain state and local taxes on its income and property. Under certain circumstances, Federal income and excise taxes may be due on its undistributed taxable income.

### Underwriting Commissions and Costs

Underwriting commissions and costs incurred in connection with the Company's stock offerings are reflected as a reduction of additional paid-in capital.

### Stock-Based Compensation

The Company accounts for stock-based compensation using the intrinsic value method prescribed in Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees," and related Interpretations ("APB No. 25"). Under APB No. 25, compensation cost is measured as the excess, if any, of the quoted market price of the

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

December 31, 2000, (Dollars in thousands, except square feet and per share data)

Company's stock at the date of grant over the exercise price of the option granted. Compensation cost for stock options, if any, is recognized ratably over the vesting period. The Company's policy is to grant options with an exercise price equal to the quoted closing market price of the Company's stock on the business day preceding the grant date. Accordingly, no compensation cost has been recognized for the Company's stock option plans. 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.

### Extraordinary Item

Extraordinary item represents the effect resulting from the early settlement of certain debt obligations, including related deferred financing costs, prepayment penalties, yield maintenance payments and other related items.

### Interest Rate Hedge Transactions

The Company may enter into derivative financial instruments such as interest rate swaps and interest rate collars in order to mitigate its interest rate risk on a related financial instrument. The Company may designate these derivative financial instruments as hedges and apply deferral accounting. Gains and losses related to the termination of such derivative financial instruments are deferred and amortized to interest expense over the term of the debt instrument.

The Company may also utilize interest rate contracts to hedge interest rate risk on anticipated debt offerings. These anticipatory hedges are designated, and effective, as hedges of identified debt issuances which have a high probability of occurring. Gains and losses resulting from changes in the market value of these contracts are deferred and amortized into interest expense over the life of the related debt instrument. Hedges determined to be ineffective and hedges not correlated to financings are charged to operations.

### Earnings Per Share

The Company presents both basic and diluted earnings per share ("EPS"). Basic EPS excludes dilution and is computed by dividing net income available to common stockholders by the weighted average number of shares outstanding for 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.

### 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 the Company to concentrations of credit risk consist primarily of cash investments, mortgage loans receivable and accounts receivable. The Company places its cash investments with high quality institutions. Management of the Company performs ongoing credit evaluation of its tenants and requires certain tenants to provide security deposits. Though these security deposits are insufficient to meet the terminal 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 retenanting the space. Although the SL Green Predecessors' buildings and new acquisitions are all located in Manhattan, a borough of New York City ("Manhattan"), the tenants located in these buildings operate in various industries and no single tenant exceeds 3% of the Company's revenue. Approximately 19% and 11% of the Company's total revenue was derived from 420 Lexington Avenue and 17 Battery Place, respectively, for the year ended December 31, 1998. Approximately 18% and 10% of the Company's total revenue was derived from 420 Lexington Avenue and 555 West 57th Street, respectively, for the year ended December 31, 1999. Approximately 21% of the Company's total revenue was derived from 420 Lexington Avenue for the year ended December 31, 2000. The Company currently has 74% of its workforce covered by three collective bargaining agreements which service all of the Company's properties.

### Recently Issued Accounting Pronouncements

The Company adopted Statement No. 133, "Accounting for Derivative Instruments and Hedging Activities," effective January 1, 2001. The Statement requires the Company to recognize all derivatives on the balance sheet at fair value. Derivatives that are not hedges must be adjusted to fair value through income. If a derivative is a hedge, depending on the nature of the hedge, changes in the fair value of the derivative will either be offset against the change in fair value of the hedged asset, liability, or firm commitment through earnings, or recognized in other comprehensive income until the hedged item is recognized in earnings. The ineffective portion of a

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

December 31, 2000, (Dollars in thousands, except square feet and per share data)

derivative's change in fair value will be immediately recognized in earnings. The Company will record a cumulative effect adjustment upon the adoption of this Statement. This cumulative effect adjustment, of which the intrinsic value of the hedge will be recorded in other comprehensive income (\$811) and the time value component will be recorded in the statement of operations (\$484), will be an unrealized loss of \$1,300. The transition amounts were determined based on the interpretive guidance issued by the Financial Accounting Standards Board to date. The FASB continues to issue interpretive guidance that could require changes in the Company's application of the standard and adjustments to the transition amounts. SFAS 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 Securities and Exchange Commission (SEC) issued Staff Accounting Bulletin (SAB) 101, "Revenue Recognition in Financial Statements," in December 1999. The SAB summarizes certain of the SEC staff's views in applying generally accepted accounting principles to revenue recognition in financial statements. In June 2000, the SEC issued SAB 101B, which delays the implementation date of SAB 101 until no later than the fourth fiscal quarter of fiscal years beginning after December 15, 1999. The adoption of this SAB did not have a significant impact on the Company's financial statements.

### Marketable Securities

Marketable securities held by the preferred stock subsidiaries in 1998 were classified as available for sale. The cost of these securities approximated their fair value.

### Reclassification

Certain prior year balances have been reclassified to conform with the 2000 presentation.

## ■ 3. PROPERTY ACQUISITIONS

### 2000 Acquisitions

On June 20, 2000, the Company acquired a 64,195 square foot retail building located in the City of Shelton, Fairfield County, Connecticut for approximately \$16,600. The Company redeployed the proceeds from the sale of 29 West 35th Street, through a like-kind tax deferred exchange, to fund this acquisition. The property is triple-net leased to Shaw's Supermarkets, Inc. for 25 years. The Shaw's lease is guaranteed by J Sainsbury PLC, an investment grade corporation with a long-term issued credit

rating of "A" by Standard & Poor's and "A1" by Moody's. The property is encumbered by a \$14,900 mortgage. The 25 year mortgage has a fixed annual interest rate of 8.32 percent.

The Company entered into an agreement to purchase 1370 Broadway, Manhattan, a 16-story, 254,573 square foot office building for \$50,400, excluding closing costs. The Company redeployed the proceeds from the sale of 17 Battery Place South, through a like-kind tax deferred exchange, to fund this acquisition. The transaction closed on January 16, 2001.

On September 29, 2000, the Company entered into an agreement to acquire various ownership and mortgage interests in the 913,000 square foot, 20-story office building at One Park Avenue, Manhattan. The Company acquired the fee interest in the property, which is subject to a ground lease position held by third-parties, and certain mortgage interests in the property for \$233,900, excluding closing costs. As part of the transaction, SL Green acquired an option to purchase the ground lease position. The acquisition was financed with a \$150,000 mortgage loan provided by Lehman Brothers Holdings Inc. ("LBHI") and funds provided by the Company's unsecured line of credit. The LBHI interest-only mortgage, which matures on January 10, 2004, carries an interest rate of 150 basis points over the 30-day LIBOR. The transaction closed on January 10, 2001.

### 1999 Acquisitions

During January 1999, the Company purchased a sub-leasehold interest in 420 Lexington Avenue for \$27,300. The sub-leasehold expires on December 30, 2008 with one 21-year renewal term expiring on December 30, 2029.

During January 1999, the Company acquired a 65% controlling interest in 555 West 57th Street (the "BMW Building") for approximately \$66,700 (including a 65% interest in the previously existing third-party mortgage debt totaling \$45,000). The 941,000 square foot property was approximately 100% leased as of the acquisition date. On November 5, 1999 the Company acquired the remaining 35% interest in the BMW Building for \$34,100. Simultaneous with this closing, the Company obtained a new \$70,000 first mortgage from Bank of New York and repaid the \$45,000 debt assumed (see Note 9).

During May 1999, the Company acquired four Manhattan properties located at 90 Broad Street ("90 Broad"), 286, 290 and 292 Madison Avenue (the "Madison Properties") (collectively, the "Tower Properties") for \$84,500. The properties total 675,000 square feet and were approximately 89% leased as of the acquisition date. During July 1999, the

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

December 31, 2000, (Dollars in thousands, except square feet and per share data)

Company contributed 90 Broad into a joint venture arrangement (see Note 6).

### 1998 Acquisitions

On January 8, 1998, the Company acquired fee title to its property located at 1372 Broadway. Prior to this date the Company held a mortgagee's interest in this property with a right to acquire the fee.

During March 1998, the Company purchased the operating leasehold interest in the property located at 420 Lexington Avenue (the "Graybar Building") and the fee interest in the property located at 1466 Broadway from the Helmsley organization (together the "Helmsley Properties") for \$142,000. The Graybar Building is located adjacent to Grand Central Station and encompasses approximately 1.2 million square feet and the property at 1466 Broadway is located at 42nd Street and Broadway encompassing approximately 290,000 square feet.

During March 1998, the Company purchased the property located at 321 West 44th Street for approximately \$17,000, consisting of approximately 209,000 square feet (see Note 4).

On April 14, 1998, the Company converted its mortgage interest in 36 West 44th Street into a fee interest and its mortgage interest in 36 West 43rd Street into a leasehold interest (collectively the "Bar Building") for an additional cost of approximately \$1,000 (see Note 4).

On May 21, 1998, the Company acquired the outstanding mortgage of the property located at 711 Third Avenue for approximately \$44,600 in cash. The 20-story, 524,000 square foot building was 79% occupied at the date of acquisition. The Company's outstanding mortgage position provides for the Company to receive 100% of the economic benefit from the property, and accordingly for the period owned, the Company has recorded the operating results of the property in the statement of operations. On July 2, 1998, the Company acquired 50% of the fee interest in 711 Third Avenue for \$20,000 and 44,772 units of the Operating Partnership.

On June 1, 1998, the Company acquired the property located at 440 Ninth Avenue for approximately \$32,000 in cash. The 18-story, 340,000 square foot building was 76% occupied at the date of acquisition. In connection with this purchase, the Company obtained a \$6,200 mortgage note receivable secured by the property located at 38 East 30th Street. The note's interest rate was 8% and was paid back during September 1998.

On August 14, 1998, the Company purchased the property located at 1412 Broadway (The Fashion Gallery Building) for \$72,000, plus approximately \$5,000 for reimbursement of loan repayment

charges and \$5,000 related to capital expenditures, commissions and other closing costs. The property is a 25-story office building totaling 389,000 square feet and had an occupancy rate at the date of acquisition, including pending leases, of 89.5%.

### Pro Forma

The following table summarizes, on an unaudited pro forma basis, the combined results of operations of the Company for the year ended December 31, 1999 as though the 1999 acquisitions, including the 90 Broad Street, 286, 290 and 292 Madison Avenue (May 1999) and the minority interest in 555 West 57th Street (November 1999), were made on January 1, 1999. There were no material acquisitions during 2000.

	1999
Pro forma revenues	\$212,206
Pro forma net income	\$ 33,470
Pro forma basic earnings per common share	\$1.38
Pro forma diluted earnings per common share	\$1.38
Common and common equivalent share—basic	24,184
Common and common equivalent share—diluted	26,612

### 4. PROPERTY DISPOSITIONS

During the quarter ended March 31, 2000, the Company sold the properties located at 29 West 35th Street and 36 West 44th Street for a gross sales price of \$43,200. The Company realized a gain of \$14,225 on the sales.

On May 4, 2000, the Company sold a 65% interest in the property located at 321 West 44th Street to Morgan Stanley Real Estate Fund III, ("MSREF"), valuing the property at \$28,000. The Company realized a gain of \$4,797 on this transaction and retained a 35% interest in the property (with a carrying value of \$6,500), which was contributed to the joint venture with MSREF ("MSSG Realty Partners I, LLC" or "MSSG I"). The property, a 203,000 square foot building located in the Times Square submarket of Manhattan, was acquired by the Company in March 1998. Simultaneous with the closing of this joint venture, the venture received a \$22,000 mortgage for the acquisition and capital improvement program, which is estimated at \$3,300. The interest only mortgage matures on April 30, 2003 and has an interest rate based on LIBOR plus 250 basis points (9.32% at December 31, 2000). The venture intends to substantially improve and reposition the property. In addition to retaining a 35% economic interest in the property, SL Green, acting as the operating partner for the venture, is responsible for redevelopment, construction, leasing and management of the property. The venture agreement provides the Company with the opportunity to gain certain economic benefits based on the financial performance of the property.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

December 31, 2000, (Dollars in thousands, except square feet and per share data)

On December 20, 2000, the Company sold 17 Battery Place South for a gross sales price of \$53,000. The Company realized a gain of \$10,822 on the sale. These proceeds were used to acquire 1370 Broadway (see Note 3—2000 Acquisitions) through a like-kind tax deferred exchange.

At December 31, 2000, the Company had one property, 633 Third Avenue, comprising approximately 41,000 rentable square feet, held for sale. This property was under contract for sale in the aggregate gross amount of \$13,250, with deposits of \$1,325. This property was sold on January 9, 2001 for a gain of approximately \$1,537.

The following table discloses certain information regarding the property held for sale by the Company:

	2000	1999
Total Revenues	\$ 1,630	\$1,637
Operating Expenses	485	491
Depreciation and Amortization	156	235
Other	622	415
Net Income	\$ 367	\$ 496
Net Carrying Value (including related costs) at December 31, 2000	\$10,895	

### ■ 5. MORTGAGE LOANS RECEIVABLE AND PREFERRED EQUITY INVESTMENT

On April 14, 2000, the Company made a loan in the amount of \$10,000 to DPSW West 14 LLC. The loan, which can be increased to \$14,000, is secured by the property located at 17-29 West 14th Street, Manhattan. On September 27, 2000, the Company sold an \$8,000 senior participation interest in this loan to Manufacturers and Traders Trust Company (MT). Once the loan is fully drawn down, MT will purchase an additional \$2,000 senior participation interest. The initial term of the loan ends on April 16, 2001, but a one-year extension is available. Interest, payable monthly, is based on the 30-day LIBOR plus 400 basis points (10.82% as of December 31, 2000). The loan is prepayable subject to yield maintenance. The Company will receive a fee for servicing the loan.

On March 30, 2000, the Company acquired a \$51,900 interest in an existing first mortgage loan collateralized by 2 Grand Central Tower, Manhattan (2GCT) at a discount. The discount to the face amount of \$3,250 and the back-end fees of \$3,440 are being amortized into investment income over the extended term of the loan, resulting in a total yield on the investment of approximately 22%. This is a subordinate participation interest in an existing first mortgage loan currently held by Credit Suisse First Boston Mortgage Capital, LLC. The loan which was initially due to mature on September 30, 2000, provided

the borrower a one year extension option which was exercised on August 30, 2000. The final maturity date of the loan is September 30, 2001. The loan carries a weighted average interest rate of 793 basis points over the 30-day LIBOR (14.75% as of December 31, 2000). 2 GCT also known as 140-148 East 45th Street and 147-151 East 44th Street, is an approximately 620,000 square foot commercial office building located in the heart of the Grand Central submarket.

On July 19, 2000, the Company acquired an additional \$9,344 interest in an existing first mortgage loan collateralized by 2GCT at a \$1,000 discount. The terms of this note were identical to those of the previous note. On September 29, 2000, the Company sold its interest in this loan for approximately \$8,492.

During May 1999, the Company acquired a \$20,000 preferred equity interest in a venture holding the loan secured by fee title of 1370 Avenue of the Americas located in Manhattan. The venture was entitled to receive all of the cash flows from the building, in addition to shared control over the management and leasing of the property. The venture also had the right to obtain fee title to the property after a prescribed period of time. The Company was reappointed manager of the property. The investment entitled the Company to receive a yield of 700 basis points over 30-day LIBOR preferentially on a current basis. In addition to receiving its preferred return, the Company was entitled to participate in the value it created through a purchase option, entitling it to acquire 50% of the common equity of the venture at a fixed price, based on today's estimate of market value of the property. Further, the Company had the right to obtain 100% of the venture through the exercise of a right of first offer.

On September 15, 2000, the Company's preferred equity interest of \$20,000 in 1370 Avenue of the Americas was redeemed. In connection with the early redemption, the Company received a prepayment of interest of \$692. As a result of the sale of the ownership interest in the property, the Company realized a gain of approximately \$8,600. The gain on sale (\$5,624) is presented in the financial statements net of transaction and compensation costs (see Note 15).

During April 1999, the Company originated and funded a \$20,000 second mortgage bridge loan to finance 521 Fifth Avenue Partners, LLC's acquisition of a 440,000 square foot Manhattan office building located at 521 Fifth Avenue. The second mortgage bridge loan, which had an initial term of six months with a yield of 16%, was extended for an additional three months with an expected yield of 17%. Goldman Sachs Mortgage Company purchased a 50% participation in the investment. This loan was repaid in full in December 1999.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

December 31, 2000, (Dollars in thousands, except square feet and per share data)

On August 6, 1998, the Company closed the acquisition of an existing first mortgage secured by the property located at 636 11th Avenue, which is a 469,000 square foot industrial and warehouse block front property located between 46th and 47th Streets for \$10,900. The mortgage bore interest at 8.875% at December 31, 1998. The Company had contracted to buy this mortgage on June 11, 1998 and simultaneously entered into an agreement to purchase the property during January 1999. This property was in Chapter 11 bankruptcy proceedings. During January 1999, the Company terminated this purchase agreement. The unrecoverable project costs and settlement costs resulted in a \$1,100 charge to 1998 earnings. This loan was repaid in full in December 1999.

### ■ 6. INVESTMENT IN UNCONSOLIDATED JOINT VENTURES **Morgan Stanley Joint Venture**

During July 1999, the Company entered into a joint venture agreement with MSREF to own 90 Broad. The property was contributed to MSSG I by the Company and the Company retained a 35% economic interest in the venture. At the time of the contribution the property was valued at \$34,600 which approximated the Company's cost basis in the asset. In addition, the venture assumed the existing \$20,800 first mortgage that was collateralized by the property. The Company provided management, leasing and construction services at the property on a fee basis. During 2000 and 1999, the Company earned \$226 and \$62, respectively, for such services. The venture agreement provided the Company with an opportunity to receive a promotional interest with respect to sales proceeds and cash distributions once a fixed hurdle rate is achieved.

On March 1, 2000, the \$20,800 mortgage on 90 Broad was assigned to a new lender. The new lender advanced an additional \$11,200 to the joint venture. The two loans were then consolidated, amended and restated into a consolidated \$32,000 mortgage which was to mature on March 1, 2002. Interest only was payable on the loan at the rate of LIBOR plus 175 basis points. On November 13, 2000, MSSG I sold 90 Broad for a gross sales price of \$60,000 and repaid the loan. The joint venture realized a gain of \$16,446 on the sale. The Company's share of this gain was \$6,025.

See Note 3 for a description of the investment in 321 West 44th Street.

On November 13, 2000, the Company and MSREF, through its MSSG I joint venture, acquired 180 Madison Avenue, Manhattan, for \$41,250, excluding closing costs. The property is a 264,960 square foot, 23-story building. In addition to having a 49.9 percent ownership interest in the property, SL Green will

act as the operating partner for the venture, and will be responsible for leasing and managing the property. The acquisition was partially funded by a \$32,000 mortgage from M&T Bank. The loan, which matures on December 1, 2005, carries a fixed interest rate of 7.81 percent. The mortgage is interest only until January 1, 2002, at which time principal payments begin. The loan can be upsized to \$34,000.

The Company and MSREF, through its MSSG II joint venture, entered into a contract to acquire 469 Seventh Avenue, Manhattan, for \$45,700, excluding closing costs. The property is a 253,000 square foot, 16-story office building. In addition to having a 35% ownership interest in the property, SL Green will act as the operating partner for the venture, and will be responsible for leasing and managing the property. The transaction closed on January 31, 2001. The acquisition was partially funded by a \$36,000 mortgage from LBHI. The loan, which matures on February 10, 2003, carries a fixed interest rate of 7.84%.

### **Carlyle Realty Joint Venture**

During August 1999, the Company entered into a joint venture agreement with Carlyle Realty to purchase 1250 Broadway located in Manhattan for \$93,000. The property is 670,000 square feet and was 97% leased at acquisition. The Company holds a 49.9% stake in the venture and provides management, leasing and construction services at the property on a fee basis. During 2000 and 1999, the Company earned \$624 and \$371, respectively, for such services. The acquisition was partially financed with a floating rate mortgage totaling \$64,700 maturing in 3 years. This facility has the ability to be increased to \$69,700 as funding of capital requirements is needed. The mortgage, which was syndicated into a \$57,000 tranche and a \$7,650 tranche, carries a weighted average interest rate of 300 basis points over 30-day LIBOR (9.82% at December 31, 2000). The venture agreement provides the Company with an opportunity to receive a promotional interest with respect to sales proceeds and cash distributions once a fixed hurdle rate is achieved.

### **Prudential Realty Joint Venture**

On February 18, 2000, the Company acquired a 49.9% interest in a joint venture which owned 100 Park Avenue ("100 Park") for \$95,800. 100 Park is an 834,000 square foot, 36-story property, located in Manhattan. The purchase price was funded through a combination of cash and a seller provided mortgage on the property of \$112,000 (\$55,888 represents SL Green's share of the debt). On August 11, 2000, AIG/SunAmerica issued a \$120,000 mortgage collateralized by the property located at 100 Park,

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

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which replaced the pre-existing \$112,000 mortgage. The 8.00% fixed rate loan has a 10-year term. Interest only is payable through October 1, 2001. The Company will provide managing and leasing services for 100 Park. During 2000, the Company earned \$479 for such services.

The condensed combined balance sheets for the unconsolidated joint ventures at December 31, 2000 are as follows:

	2000	1999
<b>Assets</b>		
Commercial real estate property	\$360,347	\$130,585
Other assets	31,641	14,236
<b>Total Assets</b>	<b>\$391,988</b>	<b>\$144,821</b>
<b>Liabilities and members' equity</b>		
Mortgage payable	\$238,650	\$ 85,450
Other liabilities	15,043	7,278
Members' equity	138,295	52,093
<b>Total liabilities and members' equity</b>	<b>\$391,988</b>	<b>\$144,821</b>
Company's net investment in unconsolidated joint ventures	\$ 65,031	\$ 23,441

The condensed combined statements of operations for the unconsolidated joint ventures from acquisition date through December 31, 2000 is as follows:

	2000	1999
Total revenues	\$60,429	\$9,433
Operating expense	17,460	3,069
Real estate taxes	9,881	1,522
Interest	18,733	2,606
Depreciation and amortization	7,869	1,356
<b>Total expenses</b>	<b>53,943</b>	<b>8,553</b>
<b>Net income before gain on sale</b>	<b>\$ 6,486</b>	<b>\$ 880</b>
Company's equity in earnings of unconsolidated joint ventures	\$ 3,108	\$ 377

### 7. INVESTMENT IN AND ADVANCES TO AFFILIATES

	2000	1999
Investment in and advances to Service Corporation, net	\$4,166	\$4,978
Investment in and advances to eEmerge, net	2,207	—
<b>Investments in and advances to affiliates</b>	<b>\$6,373</b>	<b>\$4,978</b>

#### Service Corporation

In order to maintain the Company's qualification as a REIT while realizing income from management, leasing and construction contracts from third parties and joint venture properties, all of the management operations are conducted through an unconsolidated company, the Service Corporation. The Company,

through the Operating Partnership, owns 100% of the non-voting common stock (representing 95% of the total equity) of the Service Corporation. Through dividends on its equity interest, the Operating Partnership receives substantially all of the cash flow from the Service Corporation's operations. All of the voting common stock of the Service Corporation (representing 5% of the total equity) is held by a Company affiliate. This controlling interest gives the affiliate the power to elect all directors of the Service Corporation. The Company accounts for its investment in the Service Corporation on the equity basis of accounting because it has significant influence with respect to management and operations, but does not control the entity.

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

#### eEmerge

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

The Company, through the Operating Partnership, owns 96.5% of the non-voting common stock (representing 87% of the total equity) of eEmerge. Through dividends on its equity interest, the Operating Partnership receives approximately 87% of the cash flow from eEmerge operations. Approximately 96.5% of the voting common stock (representing 9.5% of the total equity) is held by a Company affiliate. This controlling interest gives the affiliate the power to elect all the directors of eEmerge. The Company accounts for its investment in eEmerge on the equity basis of accounting because it has significant influence with respect to management and operations, but does not control the entity. The Company has funded approximately \$2,207 to eEmerge as of December 31, 2000 out of a total commitment of \$3,425. In addition, the Company made a landlord contribution of \$787 for the build-out of one floor and has committed to fund an additional \$787 for the build-out of a second floor.

On June 8, 2000, eEmerge and EUREKA BROADBAND CORPORATION ("Eureka") formed eEmerge.NYC LLC, a Delaware limited liability company ("ENYC") whereby eEmerge has a 95% interest and Eureka has a 5% interest in ENYC. ENYC was formed to build and operate a 45,000 square foot fractional office suites business marketed to the technology



## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

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industry. ENYC entered into a 10-year lease with the Operating Partnership for its premises, which is located at 440 Ninth Avenue, Manhattan. Allocations of net profits, net losses and distributions shall be made in accordance with the Limited Liability Company Agreement of ENYC.

### ■ 8. DEFERRED COSTS

Deferred costs consist of the following:

	2000	1999
Deferred financing	\$ 19,277	\$ 15,096
Deferred leasing	37,413	26,682
	56,690	41,778
Less accumulated amortization	(16,577)	(11,238)
	\$ 40,113	\$ 30,540

### ■ 9. MORTGAGE NOTES PAYABLE

The mortgage notes payable collateralized by the respective properties and assignment of leases at December 31, 2000 and 1999 are as follows:

Property	Mortgage Notes	2000	1999
50 West 23rd Street	Note payable to GMAC with interest at 7.33%, due August 1, 2007	\$ 21,000	\$ 21,000
29 West 35th Street	First mortgage note with interest payable at 8.46%, due February 1, 2001 <sup>(2)</sup>	—	2,825
673 First Avenue	First mortgage note with interest payable at 9.0%, due December 13, 2003	11,992	14,740
470 Park Avenue South	First mortgage note with interest payable at 8.25%, due April 1, 2004	9,771	10,153
1414 Avenue of Americas, 633 Third Avenue and 70 West 36th Street	First mortgage note with interest payable at 7.9%, due May 1, 2009 <sup>(3)</sup>	33,950	50,800
1412 Broadway	First mortgage note with interest payable at 7.62%, due May 1, 2006	52,000	52,000
711 Third Avenue	First mortgage note with interest payable at 8.13%, due September 10, 2005 <sup>(3)</sup>	49,172	49,225
875 Bridgeport Ave., Shelton, Connecticut	First mortgage note with interest payable at 8.32%, due May 10, 2025	14,901	—
420 Lexington Avenue	First mortgage note with interest payable at 8.44%, due November 1, 2010 <sup>(3)</sup>	125,000	—
555 West 57th Street	First mortgage note with interest payable at 8.58%, due November 4, 2004 <sup>(1)</sup>	69,606	70,000
	Total fixed rate debt	387,392	270,743
420 Lexington Avenue	First mortgage note with interest payable at 9.25%, due May 21, 2001	—	55,000
Madison Properties	First mortgage note with interest payable at 8.32%, due May 31, 2001	26,950	26,950
	Total floating rate debt	26,950	81,950
	Total mortgage notes payable	\$414,342	\$352,693

(1) The Company entered into an interest rate protection agreement which fixed the LIBOR interest rate at 6.58% at December 31, 2000. If LIBOR exceeds 6.10%, the loan will float until the maximum rate of 6.58% is reached.

(2) This mortgage was repaid on February 11, 2000.

(3) Held in bankruptcy remote special purpose entity.

At December 31, 2000, the net carrying value of the properties collateralizing the mortgage notes was \$578,401.

### 2000 Financing

In April 2000, the Company extended the maturity date of the \$26,950 mortgage encumbering the properties located at 286, 290 and 292 Madison Avenue, Manhattan by one year to May 31, 2001. On January 16, 2001, the Company repaid the \$3,300 mortgage encumbering 290 Madison Avenue.

On October 2, 2000, the Company obtained a \$125,000 mortgage encumbering the property located at 420 Lexington Avenue. The 8.44% fixed rate loan has a 10-year term. Interest only is payable for the first 12 months. The proceeds were used to repay the \$55,000 loan on the property which was due to mature on May 21, 2001. The balance of the proceeds was used to pay down the \$250 Million Credit Facility.

### 1999 Financing

During April 1999, the Company closed on two fixed-rate mortgage financings totaling \$102,800 with maturities of 10 years (\$50,800 secured by 1414 Avenue of the Americas, 36 West 44th Street, 633 Third Avenue and 70 West 36th Street) and 7 years (\$52,000 secured by 1412 Broadway). The weighted average interest rate on these financings is 7.78%. These mortgages replaced \$87,500 in secured floating-rate bridge financings (see 1998 Financings) and provided approximately \$13,000 in additional liquidity that was used to reduce the amount outstanding under the Company's revolving credit facility. The Company recorded a \$600 extraordinary loss during the quarter ended June 30, 1999 for the early extinguishment of debt related to the write-off of unamortized deferred financing costs associated with these secured bridge loans.

During May 1999, the Company closed on loans totaling \$117,700. The first loan of \$65,000 was secured by the Company's interest in 420 Lexington Avenue. The term of this loan was two years and bore interest at a rate of 275 basis points over the 30-day LIBOR rate. In October 1999, the Company repurchased a \$10,000 non-investment grade tranche lowering the effective spread from LIBOR plus 275 basis points to LIBOR plus 203 basis points. This loan was repaid in connection with the refinancing of the loan encumbering 420 Lexington Avenue (see 2000 Financing above). Simultaneous with the closing, the Company entered into an interest rate protection agreement which capped LIBOR at 6.5% for the term of the loan. The second loan was a \$52,700 one-year floating rate facility, secured by the Madison Properties (\$26,950), 90 Broad (\$20,800)

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

December 31, 2000, (Dollars in thousands, except square feet and per share data)

and 711 Third Avenue (\$5,000) and bears interest at a rate of 150 basis points over the 30-day LIBOR rate (8.32% at December 31, 2000).

During September 1999, the Company closed a \$49,200 fixed rate financing secured by the property located at 711 Third Avenue. This mortgage matures in 6 years and carries a fixed interest rate of 8.13%. The proceeds were used to repay a \$5,000 existing financing on the property (see above) with the balance used to reduce the amount outstanding under the Company's revolving credit facility.

During November 1999, simultaneous with the closing of the remaining 35 percent interest in the BMW Building, the Company obtained a new \$70,000 first mortgage from Bank of New York. The mortgage has a term of five years with a floating interest rate of 200 basis points over 30-day LIBOR (8.58% at December 31, 2000). At the time of the financing, the Company entered into an interest rate protection agreement with Bank of New York. The agreement has fixed the LIBOR interest rate at 6.10% however, the LIBOR interest rate on the loan will begin floating if the actual LIBOR rate exceeds 6.10% and is capped at a maximum LIBOR rate of 6.58%. At closing, the loan's effective interest rate inclusive of the collar arrangement was 8.17%. This interest rate "collar" agreement is in effect for five years to correspond with the term of the loan. The Company recorded a \$400 extraordinary loss during the quarter ended December 31, 1999 for the early extinguishment of debt related to prepayment penalties incurred as a result of the early repayment of the \$45,000 debt assumed in January 1999.

### 1998 Financings

During March 1998, the Company converted the notes payable that were collateralized by 50 West 23rd Street into fixed rate obligations at an interest rate of 7.33%.

During December 1998, the Company closed two short-term bridge financings. The first financing was a \$51,500 bridge loan with Prudential Securities at an interest rate equal to 200 basis points over the current one-month LIBOR (7.58% at December 31, 1998). The loan which was secured by the properties located at 1412 Broadway and 633 Third Avenue was repaid in April 1999. The second financing was a \$36,000 bridge loan with Lehman Brothers at an interest rate equal to 275 basis points over the current one-month LIBOR (8.29% at December 31, 1998). The loan which was secured by the properties located at 70 West 36th Street, 1414 Avenue of the Americas and The Bar Building was repaid in April 1999.

### Principal Maturities

Combined aggregate principal maturities of mortgages and notes payable and revolving credit facilities as of December 31, 2000 are as follows:

	Total
2001	\$ 55,711
2002	7,770
2003	33,697
2004	80,157
2005	51,687
Thereafter	231,694
	<hr/>
	\$460,716

### Mortgage Recording Tax—Hypothecated Loan

The Operating Partnership mortgage tax credit loans totaled approximately \$134,000 from LBHI at December 31, 1998. These loans were collateralized by the mortgages encumbering the Operating Partnership's interests in 711 Third Avenue. The loans were also collateralized by an equivalent amount of the Company's cash which was held by LBHI and invested in US Treasury securities. Interest earned on the cash collateral was applied by LBHI to service the loans with interest rate commensurate with that of the portfolio of six month US Treasury securities, which matured on May 18, 1999. The Operating Partnership and LBHI each had the right of offset and, therefore, the loans and the cash collateral were presented on a net basis in the consolidated balance sheet at December 31, 1998. The purpose of these loans was to temporarily preserve mortgage recording tax credits for future potential acquisitions of real property which the Company may make, the financing of which may include property based debt, for which these credits would be applicable and provide a financial savings. These mortgage tax credit loans were fully utilized during 1999.

### ■ 10. REVOLVING CREDIT FACILITIES

#### *PSCC Facility*

On December 28, 1999, the Company closed on a \$30,000 credit facility with Prudential Securities Credit Corp. ("PSCC"). The borrowing capacity was \$15,000, of which none was drawn down at December 31, 1999. The PSCC Facility was secured by the Company's preferred equity interest in 1370 Avenue of the Americas and a repurchase mortgage participation interest in the mortgage at 420 Lexington Avenue. On March 30, 2000, PSCC increased the secured PSCC Facility by \$20,000 to \$50,000. No other terms were changed from the original \$30,000 secured PSCC Facility. Interest-only is payable based on the 1-Month LIBOR plus 125 basis

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

December 31, 2000, (Dollars in thousands, except square feet and per share data)

points. The PSCC Facility may be prepaid at any time during its term without penalty. The PSCC Facility, which was to mature on December 27, 2000, was extended for one year. At that time, the PSCC Facility was increased to \$60,000.

At December 31, 2000, the Company had \$23,374 outstanding under its PSCC Facility (interest rate of 8.07 percent). The PSCC Facility is secured by the \$51,905 in mortgage loans receivable on 2 GCT.

### *\$250 Million Credit Facility*

On June 27, 2000, the Company repaid in full and terminated the \$140 Million Credit Facility (defined below) and obtained a new unsecured revolving credit facility in the amount of \$250,000 ("250 Million Credit Facility") from a group of 9 lender banks. The \$250 Million Credit Facility has a term of three years and bears interest at a spread ranging from 137.5 basis points to 175 basis points over LIBOR, based on the Company's leverage ratio. If the Company receives an investment grade rating, the spread over LIBOR will be reduced to 125 basis points. The Company has the ability to upsize this credit facility to \$300,000. At December 31, 2000, \$23,000 was outstanding and carried an interest rate of 8.17 percent. Availability under the \$250 Million Credit Facility at December 31, 2000 was further reduced by the issuance of letters of credit in the amount of \$21,000 for acquisition deposits.

The terms of the \$250 Million Credit Facility include certain restrictions and covenants which limit, among other things, the payment of dividends (as discussed below), the incurrence of additional indebtedness, the incurrence of liens and the disposition of assets, and which require compliance with financial ratios relating to the minimum amount of tangible net worth, the minimum amount of debt service coverage, the minimum amount of fixed charge coverage, the minimum amount of unsecured indebtedness, the minimum amount of unencumbered property debt service coverage and certain investment limitations. The dividend restriction referred to above provides that, except to enable the Company to continue to qualify as a REIT under the Code, the Company will not during any four consecutive fiscal quarters make distributions with respect to common stock or other equity interests in an aggregate amount in excess of 90 percent of funds from operations for such period, subject to certain other adjustments. The \$250 Million Credit Facility also requires a 15 to 25 basis point fee on the unused balance payable quarterly in arrears.

The lending group for the \$250 Million Credit Facility consists of Fleet National Bank, NA, as administrative agent, Citibank/Salomon Smith Barney, Inc., as syndication agent, Deutsche Banc

Alex Brown, as documentation agent, Commerzbank Aktiengesellschaft, New York Branch, The Bank of New York, Wells Fargo Bank, N.A., Bank Leumi USA, PNCBank, N.A., and Key Bank, N.A.

### *\$140 Million Credit Facility*

On December 19, 1997, the Company entered into a \$140,000 three-year senior unsecured revolving credit facility (the "\$140 Million Credit Facility") due December 2000. Availability under the \$140 Million Credit Facility was limited to an amount less than the \$140,000 which was calculated by several factors including recent acquisition activity and most recent quarterly property performance. Outstanding loans under the \$140 Million Credit Facility bore interest on a graduated rate per annum equal to the LIBOR rate applicable to each interest period plus 120 basis points to 145 basis points per annum. The \$140 Million Credit Facility required the Company to comply with certain covenants, including but not limited to, maintenance of certain financial ratios. At December 31, 1999, the outstanding amount of indebtedness under the \$140 Million Credit Facility was \$83,000 and the interest rate on such indebtedness was 7.82% per annum. Availability under the \$140 Million Credit Facility was reduced further by the issuance of letters of credit in the amount of \$7,500 for acquisition deposits for the year ended December 31, 1999. At December 31, 1999, the Company's borrowing capacity under the \$140 Million Credit Facility was \$49,500.

The \$140 Million Credit Facility was repaid in full and retired in June 2000, in connection with the Company obtaining the new \$250 Million Credit Facility, as described above. The Company recorded a \$430 extraordinary loss, net of the minority interest's share of the loss (\$38) for the early extinguishment of debt related to the write-off of unamortized financing costs associated with the \$140 Million Credit Facility.

### *Acquisition Facility*

In March 1998, the Company requested the \$140 Million Credit Facility banking group to temporarily relieve the Company from its obligations under the financial covenants of the \$140 Million Credit Facility in order to close an additional financing necessary to acquire the Helmsley Properties (the "Acquisition Facility"). This Acquisition Facility closed on March 18, 1998, financed the Helmsley Properties acquisition, paid-off the outstanding balance on the Company's Credit Facility and provided on-going liquidity for future acquisition and corporate needs. The term of the Acquisition Facility was one year. The interest rate was determined by a schedule of the percent of the

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

December 31, 2000, (Dollars in thousands, except square feet and per share data)

loan commitment outstanding and the duration of the loan commitment outstanding ranging from 170 basis points to 300 basis points over LIBOR. As a result of the Company's May 1998 Public Equity Offerings, on May 18, 1998, the Company repaid the Acquisition Facility prior to its scheduled maturity date of March 18, 1999. The Company's early extinguishment of the Acquisition Facility results in the write-off of unamortized deferred financing costs totaling approximately \$522 (net of minority interest of \$52) which were classified as an extraordinary loss during the quarter ended June 30, 1998.

### *Interest Rate Protection Agreements*

In anticipation of financing properties, the Company executed a forward treasury rate lock on September 2, 1998 for \$100,000 of future financing. The underlying rate for that position was 5.13%. On December 3, 1998, this rate lock expired and was not renewed. The negative value of this hedge at expiration was \$3,200. In connection with the hedge, the Company had commitments to complete five permanent mortgage financings totaling \$103,000 on properties located at 70 West 36th Street, 36 West 44th Street, 1414 Avenue of the Americas, 633 Third Avenue and 1412 Broadway. The hedge cost represents a deferred financing cost which will be amortized over the life of these financings, except for \$200 which related to a mismatch in terms resulting in a charge to 1998 earnings.

### ■ 11. FAIR VALUE OF FINANCIAL INSTRUMENTS

The following disclosures of estimated fair value were determined by management, using available market information and appropriate valuation methodologies. Considerable judgment is necessary to interpret market data and develop estimated fair value. Accordingly, the estimates presented herein are not necessarily indicative of the amounts the Company could realize on disposition of the financial instruments. The use of different market assumptions and/or estimation methodologies may have a material effect on the estimated fair value amounts.

Cash equivalents, accounts receivable, mortgage receivables, accounts payable, and mortgage notes payable and revolving credit facilities amounts reasonably approximate their fair values based on discounted cash flow models.

Disclosure about fair value of financial instruments is based on pertinent information available to management as of December 31, 2000. Although management is not aware of any factors that would significantly affect the reasonable fair value amounts, such amounts have not been comprehensively revalued for purposes of

these financial statements since that date and current estimates of fair value may differ significantly from the amounts presented herein.

### ■ 12. RENTAL INCOME

The Operating Partnership is the lessor and the sublessor to tenants under operating leases with expiration dates ranging from 2001 to 2020. The minimum rental amounts due under the leases are generally either subject to scheduled fixed increases or adjustments. The leases generally also require that the tenants reimburse the Company for increases in certain operating costs and real estate taxes above their base year costs. Approximate future minimum rents to be received over the next five years and thereafter for non-cancelable operating leases in effect at December 31, 2000 are as follows:

2001	\$ 178,540
2002	170,537
2003	163,047
2004	147,456
2005	135,030
Thereafter	613,304
	<hr/>
	\$1,407,914

### ■ 13. RELATED PARTY TRANSACTIONS

There are several business relationships with related parties, entities owned by Stephen L. Green or relatives of Stephen L. Green exclusive of the uncombined joint ventures which involve management, leasing, and construction fee revenues, rental income and maintenance expenses in the ordinary course of business. These transactions for the years ended December 31, include the following:

	2000	1999	1998
Management revenues	\$ 209	\$ 171	\$ 178
Leasing commission revenues	—	107	181
Maintenance expense	4,644	4,707	2,118
Rental revenue	123	—	—

Amounts due from related parties at December 31, consist of:

	2000	1999
17 Battery Condominium Association	\$127	\$176
Morgan Stanley Real Estate Funds	464	197
Carlyle Group	12	13
Officers	77	141
SLG 100 Park LLC	121	—
	<hr/>	<hr/>
	\$801	\$527

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

December 31, 2000, (Dollars in thousands, except square feet and per share data)

### ■ 14. STOCKHOLDERS' EQUITY

The authorized capital stock of the Company consists of 200,000,000 shares, \$.01 par value, of which the Company has 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. On August 20, 1997, the Company issued 11,615,000 shares of its Common Stock (including the underwriters' over-allotment option of 1,520,000 shares) through an initial public offering (the "Offering"). Concurrently with the consummation of the Offering, the Company issued 38,095 shares of restricted common stock pursuant to officer stock loans and 85,600 shares of restricted common stock to a financial advisor. In addition, the Company previously issued to its executive officers approximately 553,616 shares, as founders' shares. As of December 31, 2000, no shares of Excess Stock were issued and outstanding.

On May 12, 1998 (the "May 1998 Offering"), the Company completed the sale of 11,500,000 shares of common stock and 4,600,000 shares of 8% Preferred Income Equity Redeemable Shares with a mandatory liquidation preference of \$25.00 per share (the "PIERS"). Gross proceeds from these equity offerings (\$353,000, net of underwriter's discount) were used principally to repay the Acquisition Facility (see Note 10) and acquire additional properties. These offerings resulted in the reduction of continuing investor's interest in the Operating Partnership from 16.2% to 9.2%.

As of December 31, 2000 and 1999, the minority interest unitholders owned 8.6% (2,307,515 units) and 9.1% (2,428,217 units) of the Operating Partnership, respectively.

At December 31, 2000, 10,275,480 shares of common stock were reserved for the conversion of 2,307,515 units, 3,268,965 stock options and 4,699,000 PIERS.

### Rights Plan

On February 16, 2000, the Board of Directors of the Company authorized a dividend distribution of one preferred share purchase right ("Right") for each outstanding share of common stock which was distributed to all holders of record of the common stock on June 30, 2000. Each Right entitles the registered holder to purchase from the Company one one-hundredth of a share of Series B junior participating preferred stock, par value \$.01 per share ("Preferred Shares"), at a price of \$60.00 per one one-hundredth of a Preferred Share ("Purchase Price"), subject to adjustment as provided in the rights agreement. The

Rights expire on March 5, 2010, unless the expiration date is extended or the Right is redeemed or exchanged earlier by the Company.

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

### Stock Option Plans

During August 1997, the Company instituted the 1997 Stock Option and Incentive Plan (The "Stock Option Plan"). The Stock Option Plan authorizes (i) the grant of stock options that qualify as incentive stock options under Section 422 of the Code ("ISOs"), (ii) the grant of stock options that do not so qualify ("NQSOs"), (iii) the grant of stock options in lieu of cash Directors' fees and employee bonuses, (iv) grants of shares of Common Stock, in lieu of compensation; and (v) the making of loans to acquire shares of Common Stock, in lieu of compensation. The exercise price of stock options will be determined by the Compensation Committee, but may not be less than 100% of the fair market value of the shares of Common Stock on the date of grant in the case of ISOs; provided that, in the case of grants of NQSOs granted in lieu of cash Director's fees and employee bonuses, the exercise price may not be less than 50% of the fair market value of the shares of Common Stock on the date of grant. At December 31, 2000, approximately 3,268,965 shares of Common Stock were reserved for exercise of warrants and stock options.

Options granted under the 1997 qualified stock option plan are exercisable at the fair market value on the date of grant and, subject to termination of employment, expire ten years from the date of grant, are not transferable other than on death, and are exercisable in three equal annual installments commencing one year from the date of grant (with the exception of 10,000 options which had a vesting period of one year).

The Company applies APB No. 25 and related interpretations in accounting for its plan. Statement of Financial Accounting Standards No. 123 ("FAS 123") was issued by the Financial Accounting Standards Board in 1995 and, if fully adopted, changes the methods for recognition of cost on plans similar to that of the Company. Adoption of FAS 123 is optional,

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

December 31, 2000, (Dollars in thousands, except square feet and per share data)

however, pro forma disclosure, as if the Company adopted the cost recognition requirements under FAS 123, are presented below. The Company did not record any compensation expense under APB 25.

A summary of the status of the Company's stock options as of December 31, 2000 and 1999 and changes during the years ended December 31, 2000 and 1999 are presented below:

	Outstanding Options	Weighted Average Exercise Price
Balance at December 31, 1998	1,798,000	\$21.19
Granted	609,000	\$20.59
Exercised	—	—
Lapsed or cancelled	(356,000)	\$22.41
Balance at December 31, 1999	2,051,000	\$20.80
Granted	626,000	\$24.98
Exercised	(206,035)	\$20.99
Lapsed or cancelled	(29,999)	\$21.58
Balance at December 31, 2000	2,440,966	\$21.85
Options exercisable at December 31, 1999	529,364	\$21.06
Options exercisable at December 31, 2000	742,993	\$20.95

The weighted average exercise price of the 742,993 options exercisable was \$20.95 at December 31, 2000. All options were granted within a price range of \$17.75 to \$27.75. The remaining weighted average contractual life of the options was 8.31 years. The weighted average fair value of options granted during the year was \$2,405 and \$2,300 for the years ended December 31, 2000 and 1999, respectively. The fair value of each share 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 2000, 1999, and 1998.

	2000	1999	1998
Dividend yield	5.50%	5.00%	5.00%
Expected life of option	4 years	4 years	4 years
Risk-free interest rate	5.00%	5.00%	5.00%
Expected stock price volatility	25.35%	28.76%	36.95%

The compensation cost under FAS 123 for the stock performance-based plan would have been \$2,455, \$1,600 and \$2,600 in 2000, 1999 and 1998, respectively. Had compensation cost for the Company's grants for stock-based compensation plans been determined consistent with FAS 123, the Company's net income and net income per common share for 2000, 1999 and 1998 would approximate the pro forma amounts below:

	2000	1999	1998
Net income available to common shareholders	\$74,136	\$31,705	\$20,900
Basic earnings per common share	\$3.04	\$1.31	\$1.06
Diluted earnings per common share	\$2.85	\$1.31	\$1.06

The effects of applying FAS 123 in this pro forma disclosure are not indicative of future amounts.

### Earnings Per Share

Earnings per share is computed as follows:

	For the year ended December 31, 2000		
	Income (Numerator)	Shares (Denominator)	Per Share Amount
Basic Earnings:			
Income available to common shareholders	\$76,591	24,373,000	\$3.14
Effect of Dilutive Securities:			
Redemption of Units to common shares	7,430	2,365,000	
Preferred Stock (if converted to common stock)	9,200	4,698,900	
Stock Options	—	381,000	
Diluted Earnings:			
Income available to common shareholders	\$93,221	31,817,900	\$2.93

	For the year ended December 31, 1999		
	Income (Numerator)	Shares (Denominator)	Per Share Amount
Basic Earnings:			
Income available to common shareholders	\$33,258	24,192,000	\$1.37
Effect of Dilutive Securities:			
Redemption of Units to common shares	3,356	2,428,000	
Stock Options	—	60,000	
Diluted Earnings:			
Income available to common shareholders	\$36,614	26,680,000	\$1.37

	For the year ended December 31, 1998		
	Income (Numerator)	Shares (Denominator)	Per Share Amount
Basic Earnings:			
Income available to common shareholders	\$23,482	19,675,000	\$1.19
Effect of Dilutive Securities:			
Redemption of Units to common shares	3,043	2,406,000	
Stock Options	—	64,000	
Diluted Earnings:			
Income available to common shareholders	\$26,525	22,145,000	\$1.19

The PIERS outstanding in 1999 and 1998 were not included in the 1999 and 1998 computations of earnings per share as they were anti-dilutive during those periods.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

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### Preferred Stock

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

### ■ 15. BENEFIT PLANS

The building employees are covered by multi-employer defined benefit pension plans and post-retirement health and welfare plans. Contributions to these plans amounted to \$825, \$644 and \$366, during the years ended December 31, 2000, 1999 and 1998, respectively. Separate actuarial information regarding such plans is not made available to the contributing employers by the union administrators or trustees, since the plans do not maintain separate records for each reporting unit.

### Executive Stock Compensation

During July 1998, the Company issued 150,000 shares in connection with an employment contract. These shares vest annually at rates of 15% to 35% and were recorded at fair value. At December 31, 2000, 45,000 of these shares had vested. The Company recorded compensation expense of approximately \$534 for each of the years ended December 31, 2000 and 1999.

Effective January 1, 1999, the Company implemented a deferred compensation plan (the "Deferred Plan") covering certain executives of the Company. In connection with the Deferred Plan the Company issued 240,000 restricted shares. The shares issued under the Deferred Plan were granted to certain executives and vesting will occur annually upon the Company meeting established financial performance criteria. Annual vesting occurs at rates ranging from 15% to 35% once performance criteria are reached. As of December 31, 2000, 80,320 of these shares had vested. The Company recorded compensation expense of approximately \$880 and \$893 for the years ended December 31, 2000 and 1999, respectively.

### Deferred Compensation Award

Contemporaneous with the closing of 1370 Avenue of the Americas, an award of \$2,833 was granted to several members of management earned in connection with the realization of this investment gain. This award, which will be paid out over a three-year period, is presented as Deferred Compensation Award on the balance sheet.

### 401(k) Plan

During August 1997, the Company implemented a 401(k) Savings/Retirement Plan (the "401(k) Plan") to cover eligible employees of the Company and any designated affiliate. The 401(k) Plan permits eligible employees of the Company to defer up to 15% of their annual compensation, subject to certain limitations imposed by the Code. The employees' elective deferrals are immediately vested and non-forfeitable upon contribution to the 401(k) Plan. As of December 31, 1999, the Company had not made any contributions to the 401(k) Plan. During 2000, the Company amended its 401(k) Plan to include a matching contribution, subject to ERISA limitations, equal to 50% of the first 4% of annual compensation deferred by an employee. For the year ended December 31, 2000, the Company made a matching contribution of \$54.

### ■ 16. COMMITMENTS AND CONTINGENCIES

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

The Company has entered into employment agreements with certain executives. Seven executives have employment agreements which expire between October 2001 and January 2007. The cash based compensation associated with these employment agreements totals approximately \$2,075 annually.

During March 1998, the Company acquired an operating sub-leasehold position at 420 Lexington Avenue. The operating sub-leasehold position requires annual ground lease payments totaling \$6,000 and sub-leasehold position payments totaling \$1,100 (excluding an operating sub-lease position purchased January 1999—see Note 3). The ground lease and sub-leasehold positions expire 2008. The Company may extend the positions through 2029 at no additional cost.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

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The property located at 1140 Avenue of the Americas operates under a net ground lease (\$348 annually) with a term expiration date of 2016 and with an option to renew for an additional 50 years.

The property located at 711 Third Avenue operates under an operating sub-lease which expires in 2083. Under the sub-lease, the Company is responsible for ground rent payments of \$1,600 annually increasing to \$3,100 in July 2001 for ten years. The ground rent is reset after year ten based on the estimated fair market value of the property.

In April 1988, the SL Green Predecessor entered into a lease agreement for property at 673 First Avenue in New York City, which has been capitalized for financial statement purposes. Land was estimated to be approximately 70% of the fair market value of the property. The portion of the lease attributed to land is classified as an operating lease and the remainder as a capital lease. The initial lease term is 49 years with an option for an additional 26 years. Beginning in lease years 11 and 25, the lessor is entitled to additional rent as defined by the lease agreement.

The Company continues to lease the 673 First Avenue property which has been classified as a capital lease with a cost basis of \$12,208 and cumulative amortization of \$3,035 and \$2,782 at December 31, 2000 and 1999, respectively. The following is a schedule of future minimum lease payments under capital leases and noncancellable operating leases with initial terms in excess of one year as of December 31, 2000.

December 31,	Capital leases	Noncancellable Operating leases
2001	\$ 1,290	\$ 11,594
2002	1,290	11,982
2003	1,290	11,982
2004	1,290	11,982
2005	1,322	11,982
Thereafter	59,009	320,242
Total minimum lease payments	65,491	<u>\$379,764</u>
Less amount representing interest	(50,188)	
Present value of net minimum lease payments	<u>\$ 15,303</u>	

### ■ 17. TECHNOLOGY INVESTMENTS AND ALLIANCES

Through December 31, 2000, the Company had 476,705 warrants from Onsite Access Inc. ("Onsite") in exchange for providing Onsite with access to its portfolio of properties. This arrangement provides certain marketing preferences to Onsite in exchange for which the Company will receive a share in the revenues of the service provider. The Company is also entitled to receive up to an additional 405,648 warrants based on the terms of the Warrant Issuance Agreement. Onsite provides comprehensive communications solutions for

small and medium-sized business customers in multi-tenant commercial office buildings. The warrants had an estimated fair value of \$306 at December 31, 1999. This was recorded as Deferred Revenue at December 31, 1999 and will be amortized over the term of the agreement. The warrants are held in an LLC of which the Company owns a 75 percent managing member interest, and the remaining interest is held by certain members of management.

On March 29, 2000, the Company entered into an agreement with Broadband Office, Inc. ("Broadband") to provide telecommunication and Internet services to its tenants. In exchange for providing Broadband with access to tenants at some of the Company's properties, the Company received 164,000 shares of common stock with a fair value of \$235 on that date.

Through December 31, 2000, the Company made a \$1,500 limited partnership investment in Internet Realty Partners, L.P. ("IRP"). The Company is committed to fund an additional \$500. IRP invests in real estate-related Internet, technology and e-commerce companies.

On June 6, 2000, the Company entered into a marketing and cooperation agreement with Eureka to provide telecommunication and Internet services to its tenants. In exchange for providing Eureka with access to tenants at some of the Company's properties, the Company will receive warrants based on the square footage of property provided. As of December 31, 2000, 58,000 warrants had been received. Such warrants had no value at December 31, 2000.

On August 22, 2000, the Company entered into an agreement with Verticore Communications Ltd. ("Verticore") to participate in the elevator news network program. In exchange for providing Verticore with access to the Company's properties, the Company will receive warrants based on the number of qualifying elevator cabs. As of December 31, 2000, 195,000 warrants had been received by the Company. Such warrants had no value at December 31, 2000. In addition, the Company made a \$750 capital investment in exchange for 150,000 shares of Series 2 Class C Convertible Preferred Stock.

### ■ 18. ENVIRONMENTAL MATTERS

The management of the Company 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 management believes would have a materially adverse impact on the Company's 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 the properties were sold.



## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

December 31, 2000, (Dollars in thousands, except square feet and per share data)

### ■ 19. QUARTERLY FINANCIAL DATA (UNAUDITED)

Quarterly data for the last two years is presented in the tables below:

2000 Quarter Ended	December 31	September 30	June 30	March 31
Total revenues	\$58,195	\$60,874	\$56,494	\$54,759
Income net of minority interest and before gain on sale and extraordinary item	12,104	12,774	11,028	9,815
Gain on sale	16,770	5,624	4,797	14,225
Extraordinary item	(491)	—	(430)	—
Net income before preferred dividends	28,383	18,398	15,395	24,040
Preferred dividends and accretion	(2,407)	(2,407)	(2,407)	(2,407)
Income available to common shareholders	\$25,976	\$15,991	\$12,988	\$21,633
Net income per common share—Basic	\$1.07	\$0.65	\$0.53	\$0.89
Diluted	\$0.89	\$0.58	\$0.49	\$0.76

1999 Quarter Ended	December 31	September 30	June 30	March 31
Total revenues	\$53,890	\$54,652	\$50,809	\$46,662
Income net of minority interest and before extraordinary item	11,345	10,472	11,404	10,613
Extraordinary item	(361)	—	(628)	—
Net income before preferred dividends	10,984	10,472	10,776	10,613
Preferred dividends and accretion	(2,399)	(2,399)	(2,399)	(2,399)
Income available to common shareholders	\$ 8,585	\$ 8,073	\$ 8,377	\$ 8,214
Net income per common share— basic and diluted	\$0.35	\$0.33	\$0.35	\$0.34

### ■ 20. SEGMENT INFORMATION

The Company is a REIT engaged in owning, managing, leasing and repositioning class B office properties in Manhattan and has one reportable segment, office real estate. The Company evaluates real estate performance and allocates resources based on net income.

The Company's real estate portfolio is located in one geographical market of Manhattan. The primary sources of revenue are generated from tenant rents and escalations and reimbursement revenue. Real estate property operating expenses primarily consist of security, maintenance, utility costs and ground rent expense (at certain applicable properties) and real estate taxes. The single office real estate business segment meets the quantitative threshold for determining reportable segments. The Company has no tenant with rental revenue greater than 10% of the Company's revenue.

# REPORT OF INDEPENDENT AUDITORS

To the Board of Directors and Shareholders of  
SL Green Realty Corp.

We have audited the accompanying consolidated balance sheets of SL Green Realty Corp. as of December 31, 2000 and 1999, and the related consolidated statements of income, stockholders' equity, and cash flows for each of the three years in the period ended December 31, 2000. These financial statements are the responsibility of SL Green Realty Corp.'s management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of SL Green Realty Corp. at December 31, 2000 and 1999, and the consolidated results of their operations and their cash flows for each of the three years in the period ended December 31, 2000, in conformity with accounting principles generally accepted in the United States.



*Ernst & Young LLP*

New York, New York  
February 5, 2001

# CORPORATE DIRECTORY

## **Directors—Non-Officers**

**John H. Alschuler, Jr.**  
*Executive Committee; Audit Committee;  
Compensation Committee  
President;  
Hamilton, Rabinowitz & Alschuler, Inc.*

**Edwin Thomas Burton, Jr.**  
*Audit Committee, Chairman;  
Compensation Committee  
Professor of Economics;  
University of Virginia*

**John S. Levy**  
*Audit Committee; Compensation Committee  
Private Investor*

**Benjamin P. Feldman**  
*Executive Committee  
Private Investor*

## **Officers**

**Stephen L. Green**  
*Chairman of the Board and  
Chief Executive Officer;  
Executive Committee*

**David J. Nettina**  
*President and Chief Operating Officer*

**Marc Holliday**  
*Executive Vice President and  
Chief Investment Officer*

**Andrew S. Levine**  
*Executive Vice President  
Secretary and General Counsel*

**Gerard T. Nocera**  
*Executive Vice President  
Leasing*

**Thomas E. Wirth, CPA**  
*Chief Financial Officer*

## **Counsel**

Brown & Wood LLP  
New York, NY

## **Auditors**

Ernst & Young LLP  
New York, NY

## **Registrar & Transfer Agent**

The Bank of New York  
Investor Relations Department  
Church Street Station  
P.O. Box 11258  
New York, NY 10277-0758  
Tel: 1-800-524-4458  
TDD: 1-800-936-4237  
Email: Shareowner-Svcs@Email.bony.com

## **Stock Listing**

NYSE Symbol: SLG, SLG PrA

## **Annual Report, Form 10K**

Request Financials from the Company

## **Annual Meeting**

Tuesday, May 15, 2001  
At the Grand Hyatt Hotel  
Park Avenue at Grand Central (42nd Street)  
at 10 am

## **Shareholders**

On March 19, 2001 the Company had  
approximately 3,000 shareholders.

## **Executive Offices**

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New York, NY 10170  
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Fax: 212-216-1785  
E-mail: investor.relations@slgreen.com



# SL GREEN REALTY CORP.

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