SL GREEN REALTY CORP
Form 10-Q
May 12, 2008

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

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

For the quarterly period ended March 31, 2008

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

For the transition period from to .

Commission File Number: 1-13199

SL GREEN REALTY CORP.

(Exact name of registrant as specified in its charter)

Maryland **(State or other jurisdiction of incorporation or organization)**	**13-3956775** **(I.R.S. Employer Identification No.)**

420 Lexington Avenue, New York, New York 10170

(Address of principal executive offices) (Zip Code)

(212) 594-2700

(Registrant s telephone number, including area code)

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

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

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

The number of shares outstanding of the registrant s common stock, $0.01 par value, was 58,370,427 as of April 30, 2008.

SL GREEN REALTY CORP.

INDEX

PART I.	**FINANCIAL INFORMATION**	
ITEM 1.	**FINANCIAL STATEMENTS**	
		PAGE
Condensed Consolidated Balance Sheets as of March 31, 2008 (unaudited) and December 31, 2007		3
Condensed Consolidated Statements of Income for the three months ended March 31, 2008 and 2007 (unaudited)		4
Condensed Consolidated Statement of Stockholders Equity for the three months ended March 31, 2008 (unaudited)		5
Condensed Consolidated Statements of Cash Flows for the three months ended March 31, 2008 and 2007 (unaudited)		6
Notes to Condensed Consolidated Financial Statements (unaudited)		7
ITEM 2.	**MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS**	32
ITEM 3.	**QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK**	46
ITEM 4.	**CONTROLS AND PROCEDURES**	46
PART II.	**OTHER INFORMATION**	47
ITEM 1.	**LEGAL PROCEEDINGS**	47
ITEM 1A.	**RISK FACTORS**	47
ITEM 2.	**UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS**	48
ITEM 3.	**DEFAULTS UPON SENIOR SECURITIES**	48
ITEM 4.	**SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS**	48
ITEM 5.	**OTHER INFORMATION**	48
ITEM 6.	**EXHIBITS**	48
SIGNATURES		49

PART I. FINANCIAL INFORMATION
ITEM 1. Financial Statements

SL Green Realty Corp.

Condensed Consolidated Balance Sheets

(Amounts in thousands, except per share data)

		March 31, 2008 (Unaudited)		December 31, 2007
Assets				
Commercial real estate properties, at cost:				
Land and land interests	**$**	**1,454,060**	$	1,436,569
Building and improvements		**5,994,846**		5,924,626
Building leasehold and improvements		**1,249,121**		1,249,093
Property under capital lease		**12,208**		12,208
		8,710,235		8,622,496
Less: accumulated depreciation		**(432,567)**		(381,510)
		8,277,668		8,240,986
Assets held for sale				41,568
Cash and cash equivalents		**46,793**		45,964
Restricted cash		**144,127**		105,475
Tenant and other receivables, net of allowance of $14,088 and $13,932 in 2008 and 2007, respectively		**45,594**		49,015
Related party receivables		**12,448**		13,082
Deferred rents receivable, net of allowance of $12,863 and $13,400 in 2008 and 2007, respectively		**150,087**		136,595
Structured finance investments, net of discount of $28,716 and $30,783 in 2008 and 2007, respectively		**776,488**		805,215
Investments in unconsolidated joint ventures		**1,431,162**		1,438,123
Deferred costs, net		**137,079**		134,354
Other assets		**427,588**		419,701
Total assets	**$**	**11,449,034**	$	11,430,078
Liabilities and Stockholders Equity				
Mortgage notes payable	**$**	**2,867,593**	$	2,844,644
Revolving credit facility		**720,500**		708,500
Term loan and unsecured notes		**2,070,127**		2,069,938
Accrued interest payable and other liabilities		**39,695**		45,194
Accounts payable and accrued expenses		**135,083**		180,898
Deferred revenue/gain		**808,262**		819,022
Capitalized lease obligation		**16,581**		16,542
Deferred land leases payable		**17,378**		16,960
Dividend and distributions payable		**51,823**		52,077
Security deposits		**34,067**		35,021
Junior subordinate deferrable interest debentures held by trusts that issued trust preferred securities		**100,000**		100,000
Total liabilities		**6,861,109**		6,888,796
Commitments and Contingencies				
Minority interest in operating partnership		**85,201**		82,007
Minority interests in other partnerships		**636,966**		632,400
Stockholders Equity				
Series C preferred stock, $0.01 par value, $25.00 liquidation preference, 6,300 issued and outstanding at March 31, 2008 and December 31, 2007, respectively		**151,981**		151,981
Series D preferred stock, $0.01 par value, $25.00 liquidation preference, 4,000 issued and outstanding at March 31, 2008 and December 31, 2007, respectively		**96,321**		96,321
Common stock, $0.01 par value 160,000 shares authorized and 60,191 and 60,071 issued and outstanding at March 31, 2008 and December 31, 2007, respectively (including 1,907 and 1,312 treasury shares at March 31, 2008 and December 31, 2007, respectively)		**602**		601
Additional paid-in-capital		**2,943,610**		2,931,887
Treasury stock at cost		**(200,630)**		(150,719)
Accumulated other comprehensive income		**2,143**		4,943
Retained earnings		**871,731**		791,861
Total stockholders equity		**3,865,758**		3,826,875
Total liabilities and stockholders equity	**$**	**11,449,034**	$	11,430,078

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

SL Green Realty Corp.

Condensed Consolidated Statements of Income

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

	Three Months Ended March 31,	
	2008	**2007**
Revenues		
Rental revenue, net	**$ 201,395**	$ 147,136
Escalation and reimbursement	**31,124**	27,195
Preferred equity and investment income	**21,306**	21,709
Other income	**18,442**	89,878
Total revenues	**272,267**	285,918
Expenses		
Operating expenses (including approximately $3,571 (2008) and $3,017 (2007) paid to affiliates)	**54,050**	46,464
Real estate taxes	**33,828**	29,613
Ground rent	**8,249**	7,265
Interest	**78,518**	57,591
Amortization of deferred financing costs	**2,046**	3,301
Depreciation and amortization	**55,448**	36,060
Marketing, general and administrative	**27,982**	34,247
Total expenses	**260,121**	214,541
Income from continuing operations before equity in net income of unconsolidated joint ventures, minority interest and discontinued operations	**12,146**	71,377
Equity in net income from unconsolidated joint ventures	**19,425**	9,354
Income from continuing operations before gain on sale, minority interest and discontinued operations	**31,571**	80,731
Equity in net gain on sale of interest in unconsolidated joint ventures/ real estate		78,738
Minority interest in other partnerships	**(5,979)**	(3,922)
Minority interest in operating partnership attributable to continuing operations	**(794)**	(6,732)
Income from continuing operations	**24,798**	148,815
Net income from discontinued operations, net of minority interest	**70**	3,581
Gain on sale of discontinued operations, net of minority interest	**105,992**	
Net income	**130,860**	152,396
Preferred stock dividends	**(4,969)**	(4,969)
Net income available to common stockholders	**$ 125,891**	$ 147,427
Basic earnings per share:		
Net income from continuing operations before gain on sale and discontinued operations	**$ 0.34**	$ 1.19
Net income from discontinued operations, net of minority interest		0.06
Gain on sale of discontinued operations, net of minority interest	**1.81**	
Gain on sale of unconsolidated joint ventures/ real estate		1.35
Net income available to common stockholders	**$ 2.15**	$ 2.60
Diluted earnings per share:		
Net income from continuing operations before gain on sale and discontinued operations	**$ 0.34**	$ 1.18
Net income from discontinued operations, net of minority interest		0.06
Gain on sale of discontinued operations, net of minority interest	**1.80**	
Gain on sale of unconsolidated joint ventures/ real estate		1.29
Net income available to common stockholders	**$ 2.14**	$ 2.53
Dividends per share	**$ 0.7875**	$ 0.70
Basic weighted average common shares outstanding	**58,482**	56,649
Diluted weighted average common shares and common share equivalents outstanding	**61,221**	60,930

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

SL Green Realty Corp.

Condensed Consolidated Statement of Stockholders Equity

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

	Series C Preferred Stock	Series D Preferred Stock	Common Stock Shares	Common Stock Par Value	Additional Paid-In-Capital	Treasury Stock	Accumulated Other Comprehensive Income	Retained Earnings	Total	Comprehensive Income
Balance at December 31, 2007	**$ 151,981**	**$ 96,321**	**58,759**	**$ 601**	**$ 2,931,887**	**$ (150,719)**	**$ 4,943**	**$ 791,861**	**$ 3,826,875**	
Comprehensive Income:										
Net income								130,860	130,860	$ 130,860
Net unrealized loss on derivative instruments							(2,800)		(2,800)	(2,800)
SL Green s share of joint venture net unrealized loss on derivative instruments										(5,384)
Preferred dividends								(4,969)	(4,969)	
Redemption of units and DRIP proceeds			1		80				80	
Deferred compensation plan & stock award, net			104	1	340				341	
Amortization of deferred compensation plan					10,786				10,786	
Proceeds from stock options exercised			14		517				517	
Treasury stock-at cost			(594)			(49,911)			(49,911)	
Cash distribution declared ($0.78785 per common share of which none represented a return of capital for federal income tax purposes)								(46,021)	(46,021)	
	$ 151,981	**$ 96,321**	**58,284**	**$ 602**	**$ 2,943,610**	**$ (200,630)**	**$ 2,143**	**$ 871,731**	**$ 3,865,758**	**$ 122,676**

Balance at
March 31, 2008

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

SL Green Realty Corp.

Condensed Consolidated Statements of Cash Flows

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

	Three Months Ended March 31, 2008	2007
Operating Activities		
Net income	**$ 130,860**	$ 152,396
Adjustment to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	**57,494**	42,011
Gain on sale of discontinued operations	**(110,232)**	
Equity in net income from unconsolidated joint ventures	**(19,425)**	(9,354)
Equity in net gain on sale of unconsolidated joint ventures		(78,738)
Distributions of cumulative earnings from unconsolidated joint ventures/ real estate	**26,410**	9,995
Minority interests	**11,016**	10,823
Deferred rents receivable	**(12,955)**	(8,156)
Other non-cash adjustments	**1,448**	12,595
Changes in operating assets and liabilities:		
Restricted cash operations	**5,676**	(19,469)
Tenant and other receivables	**3,265**	(19,592)
Related party receivables	**634**	(7,743)
Deferred lease costs	**(6,221)**	(3,884)
Other assets	**(21,604)**	(12,237)
Accounts payable, accrued expenses and other liabilities	**(51,668)**	66,082
Deferred revenue and land lease payable	**5,679**	518
Net cash provided by operating activities	**20,377**	135,247
Investing Activities		
Acquisitions of real estate property	**(32,351)**	(3,700,692)
Proceeds from Asset Sale		1,964,914
Additions to land, buildings and improvements	**(24,250)**	(24,251)
Escrowed cash capital improvements/acquisition deposits	**(44,328)**	143,518
Investments in unconsolidated joint ventures	**(11,662)**	(77,570)
Distributions in excess of cumulative earnings from unconsolidated joint ventures	**12,741**	43,150
Net proceeds from disposition of real estate/ partial interest in property	**152,933**	58,421
Other investments	**(14,956)**	(71,265)
Structured finance and other investments net of repayments/participations	**3,765**	(243,015)
Net cash provided by (used in) investing activities	**41,892**	(1,906,790)
Financing Activities		
Proceeds from mortgage notes payable	**30,061**	788,870
Repayments of mortgage notes payable	**(7,113)**	(15,952)
Proceeds from revolving credit facility, term loan and unsecured notes	**212,000**	1,619,006
Repayments of revolving credit facility and term loan	**(200,000)**	(708,000)
Proceeds from stock options exercised	**598**	8,724
Purchases of Treasury Stock	**(49,911)**	
Minority interest in other partnerships	**5,141**	522,798
Dividends and distributions paid	**(50,990)**	(39,676)
Deferred loan costs and capitalized lease obligation	**(1,226)**	(21,677)
Net cash (used in) provided by financing activities	**(61,440)**	2,154,093
Net increase in cash and cash equivalents	**829**	382,550
Cash and cash equivalents at beginning of period	**45,964**	117,178
Cash and cash equivalents at end of period	**$ 46,793**	$ 499,728

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

SL Green Realty Corp.

Notes to Condensed Consolidated Financial Statements

(Unaudited)

March 31, 2008

1. Organization and Basis of Presentation

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

Substantially all of our assets are held by, and our operations are conducted through, the operating partnership. The Company is the sole managing general partner of the operating partnership. As of March 31, 2008, minority investors held, in the aggregate, a 3.86% limited partnership interest in the operating partnership.

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

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

located in White Plains and New Rochelle, New York.

As of March 31, 2008, we owned the following interests in commercial office properties in the New York Metro area, primarily in midtown Manhattan, a borough of New York City, or Manhattan. Our investments in the New York Metro area also include investments in Brooklyn, Queens, Long Island, Westchester County, Connecticut and New Jersey, which are collectively known as the Suburban assets:

Location	Ownership	Number of Properties	Square Feet	Weighted Average Occupancy (1)
Manhattan	Consolidated properties	22	14,290,200	97.4%
	Unconsolidated properties	9	10,099,000	94.8%
Suburban	Consolidated properties	30	4,925,800	90.3%
	Unconsolidated properties	6	2,941,700	94.6%
		67	32,256,700	95.1%

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

7

SL Green Realty Corp.

Notes to Condensed Consolidated Financial Statements

(Unaudited)

March 31, 2008

We also own investments in nine retail properties encompassing approximately 400,212 square feet, one development property encompassing approximately 85,000 square feet and two land interests. In addition, we manage three office properties owned by third parties and affiliated companies encompassing approximately 1.0 million rentable square feet.

As of March 31, 2008, we also owned approximately 22% of the outstanding common stock of Gramercy Capital Corp. (NYSE: GKK), or Gramercy, as well as 65.83 units, or 65.83%, of the Class B limited partner interest in Gramercy s operating partnership. See Note 6.

Partnership Agreement

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

Basis of Quarterly Presentation

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and notes required by accounting principles generally accepted in the United States for complete financial statements. In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for fair presentation have been included. The 2008 operating results for the period presented are not necessarily indicative of the results that may be expected for the year ending December 31, 2008. These financial statements should be read in conjunction with the financial statements and accompanying notes included in our annual report on Form 10-K for the year ended December 31, 2007.

The balance sheet at December 31, 2007 has been derived from the audited financial statements at that date but does not include all the information and footnotes required by accounting principles generally accepted in the United States for complete financial statements.

2. Significant Accounting Policies

Principles of Consolidation

The consolidated financial statements include our accounts and those of our subsidiaries, which are wholly-owned or controlled by us or entities which are variable interest entities in which we are the primary beneficiary under the Financial Accounting Standards Board, or FASB, Interpretation No. 46R, or FIN 46R, Consolidation of Variable Interest Entities - an Interpretation of ARB No. 51. See Note 5, Note 6 and Note 7. Entities which we do not control and entities which are variable interest entities, but where we are not the primary beneficiary are accounted for under the equity method. We consolidate variable interest entities in which we are determined to be the primary beneficiary. The interest that we do not own is included in Minority Interests in Other Partnerships on the balance sheet. All significant intercompany balances and transactions have been eliminated.

In June 2005, the FASB ratified the consensus in EITF Issue No. 04-5, or EITF 04-5, Determining Whether a General Partner, or the General Partners as a Group, Controls a Limited Partnership or Similar Entity When the Limited Partners Have Certain Rights, which provides guidance in determining whether a general partner controls a limited partnership. EITF 04-5 states that the general partner in a limited partnership is presumed to control that limited partnership. The presumption may be overcome if the limited partners have either (1) the substantive ability to dissolve the limited partnership or otherwise remove the general partner without cause or (2) substantive participating rights, which provide the limited partners with the ability to effectively participate in significant decisions that would be expected to be made in the ordinary course of the limited partnership s business and thereby preclude the general partner from exercising unilateral control over the partnership.

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

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

SL Green Realty Corp.

Notes to Condensed Consolidated Financial Statements

(Unaudited)

March 31, 2008

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

Investment in Commercial Real Estate Properties

In accordance with SFAS No. 141, Business Combinations, we allocate the purchase price of real estate to land and building and, if determined to be material, intangibles, such as the value of above-, below- and at-market leases and origination costs associated with the in-place leases. We depreciate the amount allocated to building and other intangible assets over their estimated useful lives, which generally range from three to 40 years and from one to 14 years, respectively. The values of the above- and below-market leases are amortized and recorded as either an increase (in the case of below-market leases) or a decrease (in the case of above-market leases) to rental income over the remaining term of the associated lease, which range from one to 14 years. The value associated with in-place leases are amortized over the expected term of the associated lease, which includes an estimated probability of the lease renewal, and its estimated term, which range from one to 14 years. If a tenant vacates its space prior to the contractual termination of the lease and no rental payments are being made on the lease, any unamortized balance of the related intangible will be written off. The tenant improvements and origination costs are amortized as an expense over the remaining life of the lease (or charged against earnings if the lease is terminated prior to its contractual expiration date). We assess fair value of the leases based on estimated cash flow projections that utilize appropriate discount and capitalization rates and available market information. Estimates of future cash flows are based on a number of factors including the historical operating results, known trends, and market/economic conditions that may affect the property.

As a result of our evaluations, under SFAS No. 141, of acquisitions made, we recognized an increase of approximately $5.8 million and $0.6 million in rental revenue for the three months ended March 31, 2008 and 2007, respectively, for the amortization of aggregate below-market rents in excess of above-market leases and a reduction in lease origination costs, resulting from the allocation of the purchase price of the applicable properties. We recognized a reduction in interest expense for the amortization of the above-market rate mortgage of approximately $1.7 million and $1.1 million for the three months ended March 31, 2008 and 2007, respectively.

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

		March 31, 2008		**December 31, 2007**
Identified intangible assets (included in other assets):				
Gross amount	**$**	**236,594**	$	236,594
Accumulated amortization		**(20,230)**		(9,970)
Net	**$**	**216,364**	$	226,624
Identified intangible liabilities (included in deferred revenue):				
Gross amount	**$**	**480,770**	$	480,770
Accumulated amortization		**(36,292)**		(20,271)
Net	**$**	**444,478**	$	460,499

Income Taxes

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

Pursuant to amendments to the Code that became effective January 1, 2001, we have elected, and may in the future, elect to treat certain of our existing or newly created corporate subsidiaries as taxable REIT subsidiaries, or a TRS. In general, a TRS of ours may perform non-customary services for our tenants, hold assets that we cannot hold directly and generally may engage in any real estate or non-real estate related business. Our TRSs generate income, resulting in Federal income tax liability for these entities. Our TRSs recorded approximately $1.2 million and $0.9 million in Federal, state and local tax expense during the three months ended March 2008 and 2007, respectively, of which $0.4 million and $0.6 million, respectively, had been paid.

SL Green Realty Corp.

Notes to Condensed Consolidated Financial Statements

(Unaudited)

March 31, 2008

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

Stock-Based Employee Compensation Plans

We have a stock-based employee compensation plan, described more fully in Note 13. We account for this plan under SFAS No. 123-R Shared Based Payment, revised, or SFAS No. 123-R. We adopted SFAS No. 123, Accounting from Stock-Based Compensation on January 1, 2003, prior to which we applied Accounting Principals Board Opinion No. 25, Accounting for Stock Issued to Employees.

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

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

The fair value of each stock option granted is estimated on the date of grant using the Black-Scholes option pricing model with the following weighted average assumptions for grants during the three months ended March 31, 2008 and 2007.

	2008	**2007**
Dividend yield	**3.37**%	2.1%
Expected life of option	**5 years**	5 years
Risk-free interest rate	**4.04**%	4.61%
Expected stock price volatility	**22.31**%	21.48%

Earnings Per Share

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

Use of Estimates

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

Concentrations of Credit Risk

Financial instruments that potentially subject us to concentrations of credit risk consist primarily of cash investments, structured finance investments and accounts receivable. We place our cash investments in excess of insured amounts with high quality financial institutions. The collateral securing our structured finance investments is primarily located in the New York Metro area. (See Note 5). We perform ongoing credit evaluations of our tenants and require certain tenants to provide security deposits or letters of credit. Though these security deposits and letters of credit are insufficient to meet the total value of a tenant s lease obligation, they are a measure of good faith and a source of funds to offset the economic costs associated with lost rent and the costs associated with re-tenanting the space. Although the properties in our real estate portfolio are primarily located in Manhattan, we also have properties located in Brooklyn, Queens, Long Island, Westchester County, Connecticut and New Jersey. The tenants located in our buildings operate in various industries. Other than one tenant who accounts for approximately 9.6% of our annualized rent, no other tenant in

SL Green Realty Corp.

Notes to Condensed Consolidated Financial Statements

(Unaudited)

March 31, 2008

our portfolio accounts for more than 5.9% of our annualized rent, including our share of joint venture annualized rent, at March 31, 2008. Approximately 7%, 7%, 6%, 6%, 6% and 6% of our annualized rent, including our share of joint venture annualized rent, was attributable to 1221 Avenue of the Americas, 1515 Broadway, 420 Lexington Avenue, 1185 Avenue of the Americas, One Madison Avenue and 388-390 Greenwich Street, respectively, for the quarter ended March 31, 2008. One borrower accounted for more than 10.0% of the revenue earned on structured finance investments during the three months ended March 31, 2008.

Reclassification

Certain prior year balances have been reclassified to conform with the current year presentation in order to comply with SFAS No. 144 for discontinued operations presentation.

New Accounting Pronouncements

In September 2006, the FASB issued Statement No. 157, Fair Value Measurements , or SFAS No. 157. SFAS No. 157 provides guidance for using fair value to measure assets and liabilities. This statement clarifies the principle that fair value should be based on the assumptions that market participants would use when pricing the asset or liability. SFAS No. 157 establishes a fair value hierarchy, giving the highest priority to quoted prices in active markets and the lowest priority to unobservable data. SFAS No. 157 applies whenever other standards require assets or liabilities to be measured at fair value. This statement is effective in fiscal years beginning after November 15, 2007. The adoption of this standard on January 1, 2008 did not have a material effect on our consolidated financial statements. In February 2008, the FASB delayed the effective date of SFAS No. 157 for non-financial assets and non-financial liabilities to fiscal year beginning after November 15, 2008.

In February 2007, the FASB issued SFAS No. 159, The Fair Value Option for Financial Assets and Financial Liabilities. SFAS No. 159 allows entities to voluntarily choose, at specified election dates, to measure many financial assets (as well as certain nonfinancial instruments that are similar to financial instruments) at fair value (the fair value option). The election is made on an instrument-by-instrument basis and is irrevocable. If the fair value option is elected for an instrument, the statement specifies that all subsequent changes in fair value for that instrument shall be reported in earnings (or another performance indicator for entities such as not-for profit organizations that do not report earnings). Upon initial adoption, SFAS No. 159 provides entities with a one-time chance to elect the fair value option for existing eligible items. SFAS No. 159 is effective as of the beginning of an entity s first fiscal year that begins after November 15, 2007. We did not make the election to measure financial assets at fair value and therefore, adoption of this standard did not have an effect on the financial statements.

In March 2008, the FASB issued SFAS No. 161, or SFAS No. 161, Disclosures about Derivative Instruments and Hedging Activities, an amendment of FASB Statement No. 133. SFAS No. 161 requires entities to provide greater transparency about (a) how and why and entity uses derivative instruments, (b) how derivative instruments and related hedged items are accounted for under SFAS No. 133 and its related interpretations, and (c) how derivative instruments and related hedged items affect an entity s financial position, results of operations, and cash flows. SFAS No. 161 is effective on January 1, 2009. We do not expect this statement to have a material impact on our financial statements.

3. Property Acquisitions

In February 2008, we, through our joint venture with Jeff Sutton, acquired the properties located at 182 Broadway and 63 Nassau Street for approximately $30.0 million in the aggregate. These properties are located adjacent to 180 Broadway which we acquired in August 2007. As part of the acquisition we also closed on a $31.0 million loan which bears interest at 225 basis points over the 30-day LIBOR. The loan has a three-year term and two one-year extensions. We drew down $21.1 million at the closing to pay the balance of the acquisition costs.

SL Green Realty Corp.

Notes to Condensed Consolidated Financial Statements

(Unaudited)

March 31, 2008

Pro Forma

The following table (in thousands, except per share amounts) summarizes, on an unaudited pro forma basis, our combined results of operations for the three months ended March 31, 2007 as though the Reckson Merger and the acquisition of the 45% interest in One Madison Avenue were completed on January 1, 2007. The supplemental pro forma operating data is not necessarily indicative of what the actual results of operations would have been assuming the transactions had been completed as set forth above, nor do they purport to represent our results of operations for future periods.

		2007
Pro forma revenues	$	334,308
Pro forma net income	$	142,050
Pro forma earnings per common share-basic	$	2.40
Pro forma earnings per common share and common share equivalents-diluted	$	2.34
Pro forma common shares-basic		59,067
Pro forma common share and common share equivalents-diluted		63,347

4. Property Dispositions and Assets Held for Sale

In January 2008, we sold the fee interest in 440 Ninth Avenue for approximately $160.0 million, excluding closing costs. The property is approximately 339,000 square feet. We recognized a gain on sale of approximately $106.0 million.

At March 31, 2008, discontinued operations included the results of operations of real estate assets sold prior to that date. This included 110 East 42nd Street, which was sold in June 2007, 292 Madison Avenue, which was sold in August 2007, 470 Park Avenue South, which was sold in November 2007 and 440 Ninth Avenue, which was sold in January 2008.

The following table summarizes income from discontinued operations (net of minority interest) and the related realized gain on sale of discontinued operations (net of minority interest) for the three months ended March 31, 2008 and 2007 (in thousands).

	Three Months Ended March 31,	
	2008	**2007**
Revenues		
Rental revenue	**$ 796**	$ 12,257
Escalation and reimbursement revenues	**(249)**	2,499

Other income		**1**		48
Total revenues		**548**		14,804
Operating expense		**319**		4,945
Real estate taxes		**156**		2,223
Ground rent				
Interest				1,326
Depreciation and amortization				2,560
Total expenses		**475**		11,054
Income from discontinued operations		**73**		3,750
Gain on disposition of discontinued operations		**110,232**		
Minority interest in operating partnership		**(4,243)**		(169)
Income from discontinued operations, net of minority interest	**$**	**106,062**	$	3,581

SL Green Realty Corp.

Notes to Condensed Consolidated Financial Statements

(Unaudited)

March 31, 2008

5. Structured Finance Investments

During the three months ended March 31, 2008 and 2007, we originated approximately none and $311.4 million in structured finance and preferred equity investments (net of discount), respectively. In addition, in 2007 we assumed approximately $136.9 million of structured finance investments as part of the Reckson Merger. There were approximately $32.1 million and $205.0 million in repayments and participations during those periods, respectively.

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

	Three Months Ended March 31,	
	2008	**2007**
Preferred Equity and Investment income	**$ 19,148**	$ 19,299
Interest income	**2,158**	2,410
Total	**$ 21,306**	$ 21,709

As of March 31, 2008 and December 31, 2007, we held the following structured finance investments, excluding preferred equity investments, with an aggregate weighted average current yield of approximately 10.1% (in thousands):

Loan Type	**Gross Investment**	**Senior Financing**	**2008 Principal Outstanding**	**2007 Principal Outstanding**	**Initial Maturity Date**
Mezzanine Loan (1)	$ 3,500	$ 15,000	**$ 3,500**	$ 3,500	September 2021
Mezzanine Loan (1) (2)	85,000	225,000	**93,093**	92,286	December 2020
Mezzanine Loan (1) (6)	28,500			28,500	August 2008
Mezzanine Loan (1)	60,000	205,000	**58,215**	58,173	February 2016
Mezzanine Loan (1)	25,000	200,000	**25,000**	25,000	May 2016
Mezzanine Loan (1)	35,000	165,000	**38,232**	38,201	October 2016
Mezzanine Loan (1) (3)	75,000	4,200,000	**65,013**	64,822	December 2016
Mezzanine Loan (1)	15,000		**15,000**	15,000	February 2010
Mezzanine Loan (3)	9,815	30,000	**9,890**	9,815	February 2009
Mezzanine Loan (1) (2) (4)	25,000	314,830	**27,742**	27,742	November 2009
Mezzanine Loan	16,000	90,000	**15,651**	15,645	August 2017

Mezzanine Loan (3)	12,500	210,000	**39,270**	38,986	August 2008
Mezzanine Loan (3)(7)	12,500	357,616	**11,250**	12,500	September 2009
Mezzanine Loan (1)	1,000		**1,000**	1,000	January 2010
Mezzanine Loan	500		**500**	500	December 2009
Mezzanine Loan (1)(8)	14,189	15,661	**9,938**	9,938	April 2008
Mezzanine Loan (1)(2)	67,000	1,139,000	**69,805**	67,903	March 2017
Mezzanine Loan (3)	23,145	365,000	**23,573**	23,145	July 2009
Mezzanine Loan (3)	44,733	1,060,000	**45,473**	44,733	August 2009
Mezzanine Loan (3)	22,644	7,316,674	**22,925**	22,644	June 2009
Junior Participation (1)	37,500	477,500	**37,500**	37,500	January 2014
Junior Participation (1) (5)	4,000	44,000	**3,877**	3,884	August 2010
Junior Participation (1)	11,000	53,000	**11,000**	11,000	November 2009
Junior Participation (1) (5)	21,000	115,000	**20,855**	21,000	November 2009
Junior Participation	12,000	73,000	**12,000**	12,000	June 2008
Junior Participation	9,948	45,936	**6,864**	6,864	December 2010
	$ 671,474	$ 16,717,217	**$ 667,166**	$ 692,281	

(1)This is a fixed rate loan.
(2)The difference between the pay and accrual rates is included as an addition to the principal balance outstanding.
(3)Gramercy holds a pari passu interest in this asset.
(4)This loan has been in default since December 2007. We are pursuing our remedies and expect to recover the full value of our investment.
(5)This is an amortizing loan.
(6)We took title to the underlying property in January 2008.
(7)We recorded a loan loss reserve of $1.25 million against this loan.
(8)We are in discussions with the borrower to settle the loan.

SL Green Realty Corp.

Notes to Condensed Consolidated Financial Statements

(Unaudited)

March 31, 2008

Preferred Equity Investments

As of March 31, 2008 and December 31, 2007, we held the following preferred equity investments, with an aggregate weighted average current yield of approximately 10.6% (in thousands):

Type	Gross Investment	Senior Financing	2008 Amount Outstanding	2007 Amount Outstanding	Initial Mandatory Redemption
Preferred equity [1]	$ 75,000	$ 69,724	**$ 82**	$ 3,694	July 2014
Preferred equity [1]	15,000	2,350,000	**15,000**	15,000	February 2015
Preferred equity [1] [2]	51,000	224,000	**51,000**	51,000	February 2014
Preferred equity [1]	7,000	75,000	**7,000**	7,000	August 2015
Preferred equity	34,120	190,300	**29,240**	29,240	March 2010
Preferred equity [1]	7,000		**7,000**	7,000	June 2009
	$ 189,120	$ 2,909,024	**$ 109,322**	$ 112,934	

(1) This is a fixed rate investment.

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

At March 31, 2008 and December 31, 2007, all structured finance investments, other than as noted above, were performing in accordance with the terms of the loan agreements.

6. Investment in Unconsolidated Joint Ventures

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

We assess the accounting treatment for each joint venture on a stand-alone basis. This includes a review of each joint venture or partnership LLC agreement to determine which party has what rights and whether those rights are protective or participating under EITF 04-5 and EITF 96-16. In situations where our minority partner approves the annual budget, receives a detailed monthly reporting package from us, meets with us on a

quarterly basis to review the results of the joint venture, reviews and approves the joint venture s tax return before filing, and approves all leases that cover more than a nominal amount of space relative to the total rentable space at each property we do not consolidate the joint venture as we consider these to be substantive participation rights. Our joint venture agreements also contain certain protective rights such as the requirement of partner approval to sell, finance or refinance the property and the payment of capital expenditures and operating expenditures outside of the approved budget or operating plan.

SL Green Realty Corp.

Notes to Condensed Consolidated Financial Statements

(Unaudited)

March 31, 2008

The table below provides general information on each joint venture as of March 31, 2008 (in thousands):

Property	Partner	Ownership Interest	Economic Interest	Square Feet	Acquired	Acquisition Price (1)
1221 Avenue of the Americas (2)	RGII	45.00%	45.00%	2,550	12/03	$ 1,000,000
1250 Broadway (3)	SITQ	55.00%	66.18%	670	08/99	$ 121,500
1515 Broadway (4)	SITQ	55.00%	68.45%	1,750	05/02	$ 483,500
100 Park Avenue	Prudential	49.90%	49.90%	834	02/00	$ 95,800
379 West Broadway	Sutton	45.00%	45.00%	62	12/05	$ 19,750
Mack-Green joint venture	Mack-Cali	48.00%	48.00%	900	05/06	$ 127,500
21-25 West 34th Street (5)	Sutton	50.00%	50.00%	30	07/05	$ 22,400
800 Third Avenue (6)	Private Investors	47.34%	47.34%	526	12/06	$ 285,000
521 Fifth Avenue	CIF	50.10%	50.10%	460	12/06	$ 240,000
One Court Square	JP Morgan	30.00%	30.00%	1,402	01/07	$ 533,500
1604-1610 Broadway (7)	Onyx/Sutton	45.00%	63.00%	30	11/05	$ 4,400
1745 Broadway (8)	Witkoff/SITQ	32.26%	32.26%	674	04/07	$ 520,000
1 and 2 Jericho Plaza	Onyx/Credit Suisse	20.26%	20.26%	640	04/07	$ 210,000
2 Herald Square (9)	Gramercy	55.00%	55.00%	354	04/07	$ 225,000
885 Third Avenue (10)	Gramercy	55.00%	55.00%	607	07/07	$ 317,000
16 Court Street	CIF	35.00%	35.00%	318	07/07	$ 107,500
The Meadows	Onyx	25.00%	25.00%	582	09/07	$ 111,500
388 and 390 Greenwich Street (11)	SITQ	50.60%	50.60%	2,600	12/07	$ 1,575,000

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

(2) We acquired our interest from The McGraw-Hill Companies, or MHC. MHC is a tenant at the property and accounted for approximately 15.8% of the property s annualized rent at March 31, 2008. We do not manage this joint venture.

(3) As a result of exceeding the performance thresholds set forth in our joint venture agreement with SITQ, our economic stake in the property was increased to 66.175% in August 2006. See Note 19.

(4) Under a tax protection agreement established to protect the limited partners of the partnership that transferred 1515 Broadway to the joint venture, the joint venture has agreed not to adversely affect the limited partners tax positions before December 2011. One tenant, whose leases end between 2008 and 2015, represents approximately 85.7% of this joint venture s annualized rent at March 31, 2008.

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

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

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

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

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

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

(11) The property is subject to a 13-year triple-net lease arrangement with a single tenant.

SL Green Realty Corp.

Notes to Condensed Consolidated Financial Statements

(Unaudited)

March 31, 2008

We finance our joint ventures with non-recourse debt. The first mortgage notes payable collateralized by the respective joint venture properties and assignment of leases at March 31, 2008 and December 31, 2007, respectively, are as follows (in thousands):

Property	Maturity date	Interest rate (1)	2008	2007
1221 Avenue of the Americas **(2)**	12/2010	4.66%	**$ 170,000**	$ 170,000
1250 Broadway **(3)**	08/2008	4.49%	**$ 115,000**	$ 115,000
1515 Broadway **(4)**	11/2008	4.30%	**$ 625,000**	$ 625,000
100 Park Avenue	11/2015	6.52%	**$ 175,000**	$ 175,000
379 West Broadway	01/2010	6.73%	**$ 20,750**	$ 20,750
Mack-Green joint venture **(5)**	08/2014	6.15%	**$ 102,302**	$ 102,385
21-25 West 34**th** Street	12/2016	5.75%	**$ 100,000**	$ 100,000
800 Third Avenue	07/2017	6.00%	**$ 20,910**	$ 20,910
521 Fifth Avenue	04/2011	4.79%	**$ 140,000**	$ 140,000
One Court Square	12/2010	4.91%	**$ 315,000**	$ 315,000
2 Herald Square	04/2017	5.36%	**$ 191,250**	$ 191,250
1604-1610 Broadway	03/2012	5.66%	**$ 27,000**	$ 27,000
1745 Broadway	01/2017	5.68%	**$ 340,000**	$ 340,000
1 and 2 Jericho Plaza	03/2017	5.65%	**$ 163,750**	$ 163,750
885 Third Avenue	07/2017	6.26%	**$ 267,650**	$ 267,650
The Meadows	09/2012	5.33%	**$ 81,454**	$ 81,265
388 and 390 Greenwich Street	12/2017	5.19%	**$ 560,000**	$ 560,000
16 Court Street	10/2010	5.36%	**$ 81,920**	$ 81,629

(1)Interest rate represents the effective all-in weighted average interest rate for the quarter ended March 31, 2008.
(2)This loan has an interest rate based on the 30-day LIBOR plus 75 basis points. $65.0 million of this loan has been hedged through December 2010. The hedge fixed the LIBOR rate at 4.8%.
(3)The interest only loan carried an interest rate of 120 basis points over the 30-day LIBOR, but was reduced to 80 basis points over the 30-day LIBOR in December 2006. The loan is subject to one one-year as-of-right renewal extension. The joint venture extended this loan for one year.
(4)The interest only loan carries an interest rate of 90 basis points over the 30-day LIBOR. The mortgage is subject to two one-year as-of-right renewal options. The joint venture extended this loan for one year.
(5)Comprised of $91.2 million variable rate debt that matures in May 2008 and $11.1 million fixed rate debt that matures in August 2014. Gramercy provided the variable rate debt.

We act as the operating partner and day-to-day manager for all our joint ventures, except for 1221 Avenue of the Americas, Mack-Green, 800 Third Avenue, 1 and 2 Jericho Plaza and The Meadows. We are entitled to receive fees for providing management, leasing, construction supervision and asset management services to our joint ventures. We earned approximately $4.7 million and $3.0 million from these services for the three months ended March 31, 2008, and 2007, respectively. In addition, we have the ability to earn incentive fees based on the ultimate financial performance of certain of the joint venture properties.

Gramercy Capital Corp.

In April 2004, we formed Gramercy as a commercial real estate specialty finance company that focuses on the direct origination and acquisition of whole loans, subordinate interests in whole loans, mezzanine loans, preferred equity and net lease investments involving commercial properties throughout the United States. Gramercy also established a real estate securities business that focuses on the acquisition, trading and financing of commercial mortgage backed securities and other real estate related securities. Gramercy qualified as a REIT for federal income tax purposes and expects to qualify for its current fiscal year. During the term of the origination agreement between Gramercy and us, we have the right to purchase up to 25% of the shares in any future offering of Gramercy s common stock in order to maintain our percentage ownership interest in Gramercy. At March 31, 2008, we held 7,624,583 shares, or approximately 22% of Gramercy s common stock representing a total investment at book value of approximately $158.5 million. The market value of our investment in Gramercy was approximately $159.6 million at March 31, 2008. See Note 19.

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

SL Green Realty Corp.

Notes to Condensed Consolidated Financial Statements

(Unaudited)

March 31, 2008

In connection with Gramercy s initial public offering, GKK Manager LLC, or the Manager, an affiliate of ours, entered into a management agreement with Gramercy, which provided for an initial term through December 2007, with automatic one-year extension options and certain termination rights. In April 2006, we and Gramercy entered into an amended and restated management agreement, and Gramercy s board of directors approved, among other things, an extension of the management agreement through December 2009. The management agreement was further modified in September 2007. Gramercy pays the Manager an annual management fee equal to 1.75% of their gross stockholders equity (as defined in the amended and restated management agreement), inclusive of trust preferred securities issued by Gramercy or its affiliates. In addition, Gramercy also pays the Manager a collateral management fee (as defined in the amended management agreement). In connection with any and all collateralized debt obligations, or CDO s, except for the 2005 CDO, or other securitization vehicles formed, owned or controlled, directly or indirectly, by Gramercy, which provides for a collateral manager to be retained, the Manager with respect to such CDO s and other securitization vehicles, receives management, service and similar fees equal to (i) 0.25% per annum of the principal amount outstanding of bonds issued by a managed transitional CDO that are owned by third-party investors unaffiliated with Gramercy or the Manager, which CDO is structured to own loans secured by transitional properties, (ii) 0.15% per annum of the book value of the principal amount outstanding of bonds issued by a managed non-transitional CDO that are owned by third-party investors unaffiliated with Gramercy or the Manager, which CDO is structured to own loans secured by non-transitional properties, (iii) 0.10% per annum of the principal amount outstanding of bonds issued by a static CDO that are owned by third party investors unaffiliated with Gramercy or the Manager, which CDO is structured to own non-investment grade bonds, and (iv) 0.05% per annum of the principal amount outstanding of bonds issued by a static CDO that are owned by third-party investors unaffiliated with Gramercy or the Manager, which CDO is structured to own investment grade bonds. For the purposes of the management agreement, a managed transitional CDO means a CDO that is actively managed, has a reinvestment period and is structured to own debt collateral secured primarily by non-stabilized real estate assets that are expected to experience substantial net operating income growth, and a managed non-transitional CDO means a CDO that is actively managed, has a reinvestment period and is structured to own debt collateral secured primarily by stabilized real estate assets that are not expected to experience substantial net operating income growth. Both managed transitional and managed non-transitional CDO s may at any given time during the reinvestment period of the respective vehicles invest in and own non-debt collateral (in limited quantity) as defined by the respective indentures. In connection with the closing of Gramercy s first CDO in July 2005, Gramercy entered into a collateral management agreement with the Manager. Pursuant to the collateral management agreement, the Manager has agreed to provide certain advisory and administrative services in relation to the collateral debt securities and other eligible investments securing the CDO notes. The collateral management agreement provides for a senior collateral management fee, payable quarterly in accordance with the priority of payments as set forth in the indenture, equal to 0.15% per annum of the net outstanding portfolio balance, and a subordinate collateral management fee, payable quarterly in accordance with the priority of payments as set forth in the indenture, equal to 0.25% per annum of the net outstanding portfolio balance. Net outstanding portfolio balance is the sum of the (i) aggregate principal balance of the collateral debt securities, excluding defaulted securities, (ii) aggregate principal balance of all principal proceeds held as cash and eligible investments in certain accounts, and (iii) with respect to the defaulted securities, the calculation amount of such defaulted securities. As compensation for the performance of its obligations as collateral manager under the first CDO, Gramercy s board of directors has allocated to the Manager the subordinate collateral management fee paid on securities not held by Gramercy. The senior collateral management fee and balance of the subordinate collateral management fee is allocated to Gramercy. For the three months ended March 31, 2008 and 2007 we received an aggregate of approximately $4.2 million and $2.7 million, respectively, in fees under the management agreement and $1.3 million and $1.1 million under the collateral management agreement.

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

$2.5 million and $2.8 million under this agreement for the three months ended March 31, 2008 and 2007 respectively. Due to the control we have over the Manager, we consolidate the accounts of the Manager into ours.

SL Green Realty Corp.

Notes to Condensed Consolidated Financial Statements

(Unaudited)

March 31, 2008

In May 2005, our Compensation Committee approved long-term incentive performance awards pursuant to which certain of our officers and employees, including some of whom are our senior executive officers, were awarded a portion of the interests previously held by us in the Manager as well as in the Class B limited partner interests in Gramercy s operating partnership. The vesting of these awards is dependent upon, among other things, tenure of employment and the performance of our investment in Gramercy. We recorded compensation expense of approximately $0.8 million and $0.7 million for the three months ended March 31, 2008 and 2007 respectively, related to these awards. After giving effect to these awards, we own 65.83 units, or 65.83%, of the Class B limited partner interests and 65.83% of the Manager. The officers and employees who received these awards own 15.75 units, or 15.75%, of the Class B limited partner interests and 15.75% of the Manager. See Note 19.

Gramercy is obligated to reimburse the Manager for its costs incurred under an asset servicing agreement and an outsourcing agreement between the Manager and us. The asset servicing agreement, which was amended and restated in April 2006, provides for an annual fee payable to us of 0.05% of the book value of all Gramercy s credit tenant lease assets and non-investment grade bonds and 0.15% of the book value of all other Gramercy assets. We may reduce the asset-servicing fee for fees that Gramercy pays directly to outside servicers. The outsourcing agreement currently provides for a fee of $1.38 million per year, increasing 3% annually over the prior year. For the three months ended March 31, 2008 and 2007 the Manager received an aggregate of approximately $1.3 million and $1.1 million, respectively, under the outsourcing and asset servicing agreements.

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

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

Gramercy holds tenancy-in-common interests along with us in 55 Corporate Drive, NJ, 2 Herald Square and 885 Third Avenue. See Note 5 for information on our structured finance investments in which Gramercy also holds an interest.

In April 2008, Gramercy completed the acquisition of American Financial Realty Trust, or AFR, in a transaction with a total value of approximately $3.3 billion. In addition, Gramercy assumed an aggregate of approximately $1.3 billion of AFR secured debt. This transaction is not reflected in the financial statements below.

The condensed combined balance sheets for the unconsolidated joint ventures, including Gramercy, at March 31, 2008 and December 31, 2007, are as follows (in thousands):

	March 31, 2008	December 31, 2007
Assets		
Commercial real estate property, net	**$ 6,266,677**	$ 6,300,666
Structured finance investments	**3,194,654**	3,211,099
Other assets	**1,167,997**	1,203,259
Total assets	**$10,629,328**	$ 10,715,024
Liabilities and members equity		
Mortgages payable	**$ 3,650,610**	$ 3,650,213
Other loans	**3,088,477**	3,085,342
Other liabilities	**431,945**	453,228
Members equity	**3,458,296**	3,526,241
Total liabilities and members equity	**$ 10,629,328**	$ 10,715,024
Company s net investment in unconsolidated joint ventures	**$ 1,431,116**	$ 1,438,123

SL Green Realty Corp.

Notes to Condensed Consolidated Financial Statements

(Unaudited)

March 31, 2008

The condensed combined statements of operations for the unconsolidated joint ventures, including Gramercy from acquisition date through March 31, 2008 and 2007 are as follows (in thousands):

		Three Months Ended March 31,		
		2008		**2007**
Total revenues	**$**	**255,032**	$	191,123
Operating expenses		**54,190**		42,161
Real estate taxes		**20,130**		20,197
Interest		**95,142**		76,359
Depreciation and amortization		**35,770**		22,825
Total expenses		**205,232**		161,542
Net income before gain on sale	**$**	**49,800**	$	29,581
Company s equity in net income of unconsolidated joint ventures	**$**	**19,425**	$	9,354

7. Investment in and Advances to Affiliates

Service Corporation

Income from management, leasing and construction contracts from third parties and joint venture properties is realized by the Service Corporation. In order to maintain our qualification as a REIT, we, through our operating partnership, own 100% of the non-voting common stock (representing 95% of the total equity) of the Service Corporation our operating partnership receives substantially all of the cash flow from the Service Corporation s operations through dividends on its equity interest. All of the voting common stock of the Service Corporation (representing 5% of the total equity) is held by our affiliate. This controlling interest gives the affiliate the power to elect all directors of the Service Corporation. Effective July 1, 2003, we consolidated the operations of the Service Corporation because it is considered to be a variable interest entity under FIN 46 and we are the primary beneficiary. For the three months ended March 31, 2008 and 2007, the Service Corporation earned approximately $3.7 million and $3.5 million of revenue and incurred approximately $2.8 million and $2.6 million in expenses, respectively. Effective January 1, 2001, the Service Corporation elected to be treated as a TRS.

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

eEmerge

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

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

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

SL Green Realty Corp.

Notes to Condensed Consolidated Financial Statements

(Unaudited)

March 31, 2008

8. Deferred Costs

Deferred costs at March 31, 2008 and December 31, 2007 consisted of the following (in thousands):

		2008		2007
Deferred financing	**$**	**67,924**	$	66,659
Deferred leasing		**139,686**		133,512
	$	**207,610**	$	200,171
Less accumulated amortization		**(70,531)**		(65,817)
	$	**137,079**	$	134,354

9. Mortgage Notes Payable

The first mortgage notes payable collateralized by the respective properties and assignment of leases at March 31, 2008 and December 31, 2007, respectively, were as follows (in thousands):

Property	Maturity Date	Interest Rate(2)	2008	2007
711 Third Avenue (1)	06/2015	4.99%	**$ 120,000**	$ 120,000
420 Lexington Avenue (1)	11/2010	8.44%	**112,032**	112,694
673 First Avenue (1)	02/2013	5.67%	**32,939**	33,115
220 East 42nd Street (1)	12/2013	5.24%	**205,547**	206,466
625 Madison Avenue (1)	11/2015	6.27%	**99,240**	99,775
55 Corporate Drive (1)	12/2015	5.75%	**95,000**	95,000
609 Fifth Avenue (1)	10/2013	5.85%	**100,272**	100,591
609 Partners, LLC (1)	07/2014	5.00%	**63,891**	63,891
485 Lexington Avenue (1)	02/2017	5.61%	**450,000**	450,000
120 West 45th Street (1)	02/2017	6.12%	**170,000**	170,000
919 Third Avenue (1) (3)	07/2018	6.87%	**231,048**	231,680
300 Main Street (1)	02/2017	5.75%	**11,500**	11,500
399 Knollwood Rd (1)	03/2014	5.75%	**18,950**	19,024
500 West Putnam (1)	01/2016	5.52%	**25,000**	25,000
141 Fifth Avenue (1) (4)	06/2017	5.70%	**25,000**	25,000
One Madison Avenue (1) (5)	05/2020	5.91%	**670,874**	673,470
Total fixed rate debt			**2,431,293**	2,437,206
1551/1555 Broadway (1)	10/2009	5.17%	**94,700**	86,938
717 Fifth Avenue (1) (6)	09/2008	5.00%	**192,500**	192,500
180/182 Broadway (1) (7)	02/2011	5.37%	**21,100**	
Landmark Square (1)	02/2009	5.25%	**128,000**	128,000
Total floating rate debt			**436,300**	407,438
Total mortgage notes payable			**$ 2,867,593**	$ 2,844,644

(1) Held in bankruptcy remote special purpose entity.
(2) Effective interest rate for the quarter ended March 31, 2008.
(3) We own a 51% controlling interest in the joint venture that is the borrower on this loan. This loan is non-recourse to us.
(4) We own a 50% controlling interest in the joint venture that is the borrower on this loan. This loan is non-recourse to us. This loan was refinanced in June 2007.
(5) From April 2005 until August 2007, we held a 55% partnership interest in the joint venture that owned this property. We now own 100% of the property.
(6) We hold a 92.25% ownership interest in this consolidated joint venture property.
(7) We own a 50% controlling interest in the joint venture that is the borrower on this loan. This loan is non-recourse to us.

At March 31, 2008 and December 31, 2007 the gross book value of the properties collateralizing the mortgage notes was approximately $4.8 billion and $4.7 billion, respectively.

For the three months ended March 31, 2008 and 2007, we incurred approximately $80.6 million and $60.9 million of interest expense, respectively, excluding interest which was capitalized of approximately $1.5 million and $3.9 million, respectively.

SL Green Realty Corp.

Notes to Condensed Consolidated Financial Statements

(Unaudited)

March 31, 2008

10. Corporate Indebtedness

2005 Unsecured Revolving Credit Facility

We have a $1.5 billion unsecured revolving credit facility, or the 2005 unsecured revolving credit facility. The 2005 unsecured revolving credit facility bears interest at a spread ranging from 70 basis points to 110 basis points over LIBOR, based on our leverage ratio. This facility matures in June 2011 and has a one-year extension option. The 2005 unsecured revolving credit facility also requires a 12.5 to 20 basis point fee on the unused balance payable annually in arrears. The 2005 unsecured revolving credit facility had a balance of $720.5 million and carried a spread over LIBOR of 90 basis points at March 31, 2008. Availability under the 2005 unsecured revolving credit facility was further reduced by the issuance of approximately $38.1 million in letters of credit. The effective all-in interest rate on the 2005 unsecured revolving credit facility was 4.79% for the three months ended March 31, 2008. The 2005 unsecured revolving credit facility includes certain restrictions and covenants (see restrictive covenants below).

Term Loans

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

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

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

In December 2007, we closed on a $276.7 million ten-year term loan which carries an effective fixed interest rate of 5.19%. This loan is secured by our interest in 388 and 390 Greenwich Street. This secured term loan matures in December 2017.

Senior Unsecured Notes

In March 2007, we issued $750.0 million of 3.00% exchangeable senior notes which are due in 2027. The notes were offered in accordance with Rule 144A under the Securities Act of 1933, as amended. The notes will pay interest semi-annually at a rate of 3.00% per annum and mature on March 30, 2027. Interest on these notes is payable semi-annually on March 30 and September 30. The notes will have an initial exchange rate representing an exchange price that is at a 25.0% premium to the last reported sale price of our common stock on March 20, 2007, or $173.30. The initial exchange rate is subject to adjustment under certain circumstances. The notes will be senior unsecured obligations of our operating partnership and will be exchangeable upon the occurrence of specified events, and during the period beginning on the twenty-second scheduled trading day prior to the maturity date and ending on the second business day prior to the maturity date, into cash or a combination of cash and shares of our common stock, if any, at our option. The notes will be Redeemable, at our option on, and after April 15, 2012. We may be required to repurchase the notes on March 30, 2012, 2017 and 2022, and upon the occurrence of certain designated events. The net proceeds from the offering were approximately $736.0 million, after deducting estimated fees and expenses. The proceeds of the offering were used to repay certain of our existing indebtedness, make investments in additional properties, and make open market purchases of our common stock and for general corporate purposes.

SL Green Realty Corp.

Notes to Condensed Consolidated Financial Statements

(Unaudited)

March 31, 2008

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

Issuance		Face Amount	Coupon Rate(3)	Term (in Years)	Maturity
March 26, 1999 (1)	$	200,000	7.75%	10	March 15, 2009
January 22, 2004 (1)		150,000	5.15%	7	January 15, 2011
August 13, 2004 (1)		150,000	5.875%	10	August 15, 2014
March 31, 2006 (1)		275,000	6.00%	10	March 31, 2016
June 27, 2005 (1) (2)		287,500	4.00%	20	June 15, 2025
March 26, 2007		750,000	3.00%	20	March 30, 2027
		1,812,500			
Net discount		(19,023)			
	$	**1,793,477**			

(1) Assumed as part of the Reckson Merger.

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

(3) Interest on the senior unsecured notes is payable semi-annually with principal and unpaid interest due on the scheduled maturity dates.

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

Restrictive Covenants

The terms of the 2005 unsecured revolving credit facility and unsecured bonds include certain restrictions and covenants which limit, among other things, the payment of dividends (as discussed below), the incurrence of additional indebtedness, the incurrence of liens and the disposition of assets, and which require compliance with financial ratios relating to the minimum amount of tangible net worth, the minimum amount of debt service coverage and fixed charge coverage, the maximum amount of unsecured indebtedness, the minimum amount of unencumbered property debt service coverage and certain investment limitations. The dividend restriction referred to above provides that, except to enable us to continue to qualify as a REIT for Federal Income Tax purposes, we will not during any four consecutive fiscal quarters make distributions with respect to common stock or other equity interests in an aggregate amount in excess of 90% of funds from operations for such period, subject to certain other adjustments. As of March 31, 2008 and December 31, 2007, we were in compliance with all such covenants.

Junior Subordinate Deferrable Interest Debentures

In June 2005, we issued $100.0 million in unsecured floating rate trust preferred securities through a newly formed trust, SL Green Capital Trust I, or the Trust, which is a wholly-owned subsidiary of our operating partnership. The securities mature in 2035 and bear interest at a fixed rate of 5.61% for the first ten years ending July 2015, a period of up to eight consecutive quarters if our operating partnership exercises its right to defer such payments. The trust preferred securities are redeemable, at the option of our operating partnership, in whole or in part, with no prepayment premium any time after July 2010. We do not consolidate the Trust even though it is a variable interest entity under FIN46 as we are not the primary beneficiary. Because the Trust is not consolidated, we have recorded the debt and the related payments are classified as interest expense.

SL Green Realty Corp.

Notes to Condensed Consolidated Financial Statements

(Unaudited)

March 31, 2008

Principal Maturities

Combined aggregate principal maturities of mortgages and notes payable, 2005 unsecured revolving credit facility, secured term loan, trust preferred securities, unsecured notes and our share of joint venture debt as of March 31, 2008, excluding extension options, were as follows (in thousands):

	Scheduled Amortization	Principal Repayments	Revolving Credit Facility	Trust Preferred Securities	Term Loan and Unsecured Notes	Total	Joint Venture Debt
2008	$ 18,973	$ 287,199	$	$	$	$ 306,172	$ 451,156
2009	26,750	128,000			200,000	354,750	438
2010	28,089	104,691				132,780	115,264
2011	26,805	237,756	720,500		150,000	1,135,061	72,062
2012	29,846					29,846	33,424
Thereafter	218,954	1,760,530		100,000	1,720,127	3,799,611	921,011
	$ 349,417	**$ 2,518,176**	**$ 720,500**	**$ 100,000**	**$ 2,070,127**	**$ 5,758,220**	**$ 1,593,355**

11. Related Party Transactions

Cleaning/ Security/ Messenger and Restoration Services

Through Alliance Building Services, or Alliance, First Quality Maintenance, L.P., or First Quality, provides cleaning, extermination and related services, Classic Security LLC provides security services, Bright Star Couriers LLC provides messenger services, and Onyx Restoration Works provides restoration services with respect to certain properties owned by us. Alliance is owned by Gary Green, a son of Stephen L. Green, the chairman of our board of directors. In addition, First Quality has the non-exclusive opportunity to provide cleaning and related services to individual tenants at our properties on a basis separately negotiated with any tenant seeking such additional services. We paid Alliance approximately $3.6 million and $3.0 million for the three months ended March 31, 2008 and 2007, respectively, for these services (excluding services provided directly to tenants).

Leases

Nancy Peck and Company leases 507 square feet of space at 420 Lexington Avenue on a month-to-month basis. Nancy Peck and Company is owned by Nancy Peck, the wife of Stephen L. Green. The rent due pursuant to the lease is $15,210 per year. Prior to February 2007, Nancy Peck and Company leased 2,013 square feet of space at 420 Lexington Avenue, pursuant to a lease that expired on June 30, 2005 and which provided for annual rental payments of approximately $66,000. The rent due pursuant to that lease was offset against a consulting fee of

$11,025 per month an affiliate paid to her pursuant to a consulting agreement, which was cancelled in July 2006.

Brokerage Services

Sonnenblick-Goldman Company, or Sonnenblick, a nationally recognized real estate investment banking firm, provided mortgage brokerage services to us. Mr. Morton Holliday, the father of Mr. Marc Holliday, was a Managing Director of Sonnenblick at the time of the financings. In 2007, our 1604-1610 Broadway joint venture paid approximately $146,500 to Sonnenblick in connection with obtaining a $27.0 million first mortgage and we paid $759,000 in connection with the refinancing of 485 Lexington Avenue.

In 2007, we paid a consulting fee of $525,000 to Stephen Wolff, the brother-in-law of Marc Holliday, in connection with our aggregate investment of $119.1 million in the joint venture that owns 800 Third Avenue and approximately $68,000 in connection with our acquisition of 16 Court Street for $107.5 million.

Management Fees

S.L. Green Management Corp. receives property management fees from an entity in which Stephen L. Green owns an interest. The aggregate amount of fees paid to S.L. Green Management Corp. from such entity was approximately $92,000 and $66,000 for the three months ended March 31, 2008 and 2007, respectively.

SL Green Realty Corp.

Notes to Condensed Consolidated Financial Statements

(Unaudited)

March 31, 2008

Other

Amounts due from related parties at March 31, 2008 and December 31, 2007 consisted of the following (in thousands):

		2008		2007
Due from joint ventures	**$**	**5,801**	$	6,098
Officers and employees		**153**		153
Other		**6,494**		6,831
Related party receivables	**$**	**12,448**	$	13,082

Gramercy Capital Corp.

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

12. Stockholders Equity

Common Stock

Our authorized capital stock consists of 260,000,000 shares, $.01 par value, of which we have authorized the issuance of up to 160,000,000 shares of common stock, $.01 par value per share, 75,000,000 shares of excess stock, at $.01 par value per share, and 25,000,000 shares of preferred stock, par value $.01 per share. As of March 31, 2008, 58,284,271 shares of common stock and no shares of excess stock were issued and outstanding.

In March 2007, our board of directors approved a stock repurchase plan under which we can buy up to $300.0 million shares of our common stock. This plan will expire on December 31, 2008. As of April 30, 2008, we purchased and settled approximately $209.1 million, or 2.0 million shares of our common stock at an average price of $104.13 per share.

Perpetual Preferred Stock

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

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

Rights Plan

In February 2000, our board of directors authorized a distribution of one preferred share purchase right, or Right, for each outstanding share of common stock under a shareholder rights plan. This distribution was made to all holders of record of the common stock on March 31, 2000. Each Right entitles the registered holder to purchase from us one one-hundredth of a share of Series B junior participating preferred stock, par value $0.01 per share, or Preferred Shares, at a price of $60.00 per one one-hundredth of a Preferred Share, or Purchase Price, subject to adjustment as provided in the rights agreement. The Rights expire on March 5, 2010, unless we extend the expiration date or the Right is redeemed or exchanged earlier. The Rights are attached to each share of common stock. The Rights are generally exercisable only if a person or group becomes the beneficial owner of 17% or more of the outstanding common stock or announces a tender offer for 17% or more of the outstanding common stock, or Acquiring Person. In the event that a person or group becomes an Acquiring Person, each holder of a Right, excluding the Acquiring Person, will have the right to receive, upon exercise, common stock having a market value equal to two times the Purchase Price of the Preferred Shares.

SL Green Realty Corp.

Notes to Condensed Consolidated Financial Statements

(Unaudited)

March 31, 2008

Dividend Reinvestment and Stock Purchase Plan

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

During the three months ended March 31, 2008 and 2007, approximately 1,000 and 17,000 shares were issued and approximately $80,000 and $2.3 million of proceeds were received, respectively, from dividend reinvestments and/or stock purchases under the DRIP. DRIP shares may be issued at a discount to the market price.

2003 Long-Term Outperformance Compensation Program

Our board of directors adopted a long-term, seven-year compensation program for certain members of senior management. The program, which measured our performance over a 48-month period (unless terminated earlier) commencing April 1, 2003, provided that holders of our common equity were to achieve a 40% total return during the measurement period over a base share price of $30.07 per share before any restricted stock awards were granted. Plan participants would receive an award of restricted stock in an amount between 8% and 10% of the excess total return over the baseline return. At the end of the four-year measurement period, 40% of the award will vest on the measurement date and 60% of the award will vest ratably over the subsequent three years based on continued employment. Any restricted stock to be issued under the program will be allocated from our 2005 Stock Option and Incentive Plan (as defined below), which was previously approved through a stockholder vote in May 2005. In April 2007, the Compensation Committee determined that under the terms of the 2003 Outperformance Plan, as of March 31, 2007, the performance hurdles had been met and the maximum performance pool of $22,825,000, taking into account forfeitures, was established. In connection with this event, approximately 166,312 shares of restricted stock (as adjusted for forfeitures) were allocated under the 2005 Stock Option and Incentive Plan. These awards are subject to vesting as noted above. We record the expense of the restricted stock award in accordance with SFAS 123-R. The fair value of the award on the date of grant was determined to be $3.2 million. Forty percent of the value of the award will be amortized over four years and the balance will be amortized at 20% per year over five, six and seven years, respectively, such that 20% of year five, 16.67% of year six, and 14.29% of year seven will be recorded in year one. Compensation expense of $58,000 and $0.1 million related to this plan was recorded during the three months ended March 31, 2008 and 2007, respectively.

2005 Long-Term Outperformance Compensation Program

In December 2005, the compensation committee of our board of directors approved a long-term incentive compensation program, the 2005 Outperformance Plan. Participants in the 2005 Outperformance Plan will share in a performance pool if our total return to stockholders for the period from December 1, 2005 through November 30, 2008 exceeds a cumulative total return to stockholders of 30% during the measurement period over a base share price of $68.51 per share. The size of the pool was to be 10% of the outperformance amount in excess of the 30% benchmark, subject to a maximum dilution cap equal to the lesser of 3% of our outstanding shares and units of limited partnership interest as of December 1, 2005 or $50.0 million. In the event the potential performance pool reached this dilution cap before November 30, 2008 and remained at that level or higher for 30 consecutive days, the performance period was to end early and the pool would be formed on the last day of such 30 day period. Each participant s award under the 2005 Outperformance Plan would be designated as a specified percentage of the aggregate performance pool to be allocated to him or her assuming the 30% benchmark is achieved. Individual awards would be made in the form of partnership units, or LTIP Units, that may ultimately become exchangeable for shares of our common stock or cash, at our election. LTIP Units would be granted prior to the determination of the performance pool; however, they were only to vest upon satisfaction of

performance and other thresholds, and were not entitled to distributions until after the performance pool was established. The 2005 Outperformance Plan provides that if the pool was established, each participant would also be entitled to the distributions that would have been paid on the number of LTIP Units earned, had they been issued at the beginning of the performance period. Those distributions were to be paid in the form of additional LTIP Units.

After the performance pool was established, the earned LTIP Units are to receive regular quarterly distributions on a per unit basis equal to the dividends per share paid on our common stock, whether or not they are vested. Any LTIP Units not earned upon the establishment of the performance pool were to be automatically forfeited, and the LTIP Units that are earned are subject to time-based vesting, with one-third of the LTIP Units earned vesting on November 30, 2008 and each of the first two anniversaries thereafter based on continued employment. On June 14, 2006, the Compensation Committee determined that under the terms of the 2005 Outperformance Plan, as of June 8, 2006, the performance period had accelerated and the maximum performance pool of $49,250,000, taking into account forfeitures, was established. Individual awards under the 2005 Outperformance Plan are in the form of partnership units, or LTIP Units, in our operating partnership that, subject to certain conditions, are convertible into shares of the Company s common stock or cash, at our election. The total number of LTIP Units earned by all participants as a result of the establishment of the performance pool was 490,475 and are subject to time-based vesting.

SL Green Realty Corp.

Notes to Condensed Consolidated Financial Statements

(Unaudited)

March 31, 2008

The cost of the 2005 Outperformance Plan (approximately $8.0 million, subject to adjustment for forfeitures) will continue to be amortized into earnings through the final vesting period in accordance with SFAS 123-R. We recorded approximately $0.5 million and $0.5 million of compensation expense during the three months ended March 31, 2008 and 2007, respectively, in connection with the 2005 Outperformance Plan.

2006 Long-Term Outperformance Compensation Program

On August 14, 2006, the compensation committee of our board of directors approved a long-term incentive compensation program, the 2006 Outperformance Plan. Participants in the 2006 Outperformance Plan will share in a performance pool if our total return to stockholders for the period from August 1, 2006 through July 31, 2009 exceeds a cumulative total return to stockholders of 30% during the measurement period over a base share price of $106.39 per share. The size of the pool will be 10% of the outperformance amount in excess of the 30% benchmark, subject to a maximum award of $60 million. The maximum award will be reduced by the amount of any unallocated or forfeited awards. In the event the potential performance pool reaches the maximum award before July 31, 2009 and remains at that level or higher for 30 consecutive days, the performance period will end early and the pool will be formed on the last day of such 30 day period. Each participant s award under the 2006 Outperformance Plan will be designated as a specified percentage of the aggregate performance pool. Assuming the 30% benchmark is achieved, the pool will be allocated among the participants in accordance with the percentage specified in each participant s participation agreement. Individual awards will be made in the form of LTIP Units, that, subject to vesting and the satisfaction of other conditions, are exchangeable for a per unit value equal to the then trading price of one share of our common stock. This value is payable in cash or, at our election, in shares of common stock. LTIP Units will be granted prior to the determination of the performance pool; however, they will only vest upon satisfaction of performance and time vesting thresholds under the 2006 Outperformance Plan, and will not be entitled to distributions until after the performance pool is established. Distributions on LTIP Units will equal the dividends paid on our common stock on a per unit basis. The 2006 Outperformance Plan provides that if the pool is established, each participant will also be entitled to the distributions that would have been paid had the number of earned LTIP Units been issued at the beginning of the performance period. Those distributions will be paid in the form of additional LTIP Units. Thereafter, distributions will be paid currently with respect to all earned LTIP Units that are a part of the performance pool, whether vested or unvested. Although the amount of earned awards under the 2006 Outperformance Plan (i.e. the number of LTIP Units earned) will be determined when the performance pool is established, not all of the awards will vest at that time. Instead, one-third of the awards will vest on July 31, 2009 and each of the first two anniversaries thereafter based on continued employment.

In the event of a change in control of our company on or after August 1, 2007 but before July 31, 2009, the performance pool will be calculated assuming the performance period ended on July 31, 2009 and the total return continued at the same annualized rate from the date of the change in control to July 31, 2009 as was achieved from August 1, 2006 to the date of the change in control; provided that the performance pool may not exceed 200% of what it would have been if it was calculated using the total return from August 1, 2006 to the date of the change in control and a pro rated benchmark. In either case, the performance pool will be formed as described above if the adjusted benchmark target is achieved and all earned awards will be fully vested upon the change in control. If a change in control occurs after the performance period has ended, all unvested awards issued under our 2006 Outperformance Plan will become fully vested upon the change in control.

The cost of the 2006 Outperformance Plan (approximately $9.6 million, subject to adjustment for forfeitures) will be amortized into earnings through the final vesting period in accordance with SFAS 123-R. We recorded approximately $0.6 million and $0.6 million of compensation expense during the three months ended March 31, 2008 and 2007, respectively, in connection with the 2006 Outperformance Plan.

Deferred Stock Compensation Plan for Directors

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

During the three months ended March 31, 2008, 3,681 phantom stock units were earned. As of March 31, 2008, there were approximately 19,194 phantom stock units outstanding.

SL Green Realty Corp.

Notes to Condensed Consolidated Financial Statements

(Unaudited)

March 31, 2008

Employee Stock Purchase Plan

On September 18, 2007, our board of directors adopted, subject to stockholder approval, the 2008 Employee Stock Purchase Plan, or ESPP, to encourage our employees to increase their efforts to make our business more successful by providing equity-based incentives to eligible employees. The ESPP is intended to qualify as an employee stock purchase plan under Section 423 of the Internal Revenue Code of 1986, as amended, and has been adopted by the board to enable our eligible employees to purchase our shares of common stock through payroll deductions. The ESPP became effective on January 1, 2008 with a maximum of 500,000 shares of the common stock available for issuance, subject to adjustment upon a merger, reorganization, stock split or other similar corporate change. We filed a registration statement on Form S-8 with the Securities and Exchange Commission with respect to the ESPP. The common stock will be offered for purchase through a series of successive offering periods. Each offering period will be three months in duration and will begin on the first day of each calendar quarter, with the first offering period having commenced on January 1, 2008. The ESPP provides for eligible employees to purchase the common stock at a purchase price equal to 85% of the lesser of (1) the market value of the common stock on the first day of the offering period or (2) the market value of the common stock on the last day of the offering period. The ESPP will be submitted to our stockholders for approval at our 2008 annual meeting of stockholders.

Stock Option Plan

During August 1997, we instituted the 1997 Stock Option and Incentive Plan, or the 1997 Plan. The 1997 Plan was amended in December 1997, March 1998, March 1999 and May 2002. The 1997 Plan, as amended, authorizes (i) the grant of stock options that qualify as incentive stock options under Section 422 of the Code, or ISOs, (ii) the grant of stock options that do not qualify, or NQSOs, (iii) the grant of stock options in lieu of cash Directors fees and (iv) grants of shares of restricted and unrestricted common stock. The exercise price of stock options are determined by our compensation committee, but may not be less than 100% of the fair market value of the shares of our common stock on the date of grant. At March 31, 2008, approximately 500,000 shares of our common stock were reserved for issuance under the 1997 Plan.

Amended and Restated 2005 Stock Option and Incentive Plan

The amended and restated 2005 Stock Option and Incentive Plan was approved by our board of directors in March 2005 and our stockholders in May 2005 at our annual meeting of stockholders. Subject to adjustments upon certain corporate transactions or events, up to a maximum of 7,000,000 shares, or the Fungible Pool Limit, may be granted as Options, Restricted Stock, Phantom Shares, dividend equivalent rights and other equity-based awards under the amended and restated 2005 stock option and incentive plan, or the 2005 Plan. As described below, the manner in which the Fungible Pool Limit is finally determined can ultimately result in the issuance under the 2005 Plan of up to 6,000,000 shares (subject to adjustments upon certain corporate transactions or events). Each share issued or to be issued in connection with Full-Value Awards (as defined below) that vest or are granted based on the achievement of certain performance goals that are based on (A) FFO growth, (B) total return to stockholders (either in absolute terms or compared with a peer group of other companies) or (C) a combination of the foregoing (as set forth in the 2005 Plan), shall be counted against the Fungible Pool Limit as 2.0 units. Full-Value Awards are awards other than Options, Stock Appreciation Rights or other awards that do not deliver the full value at grant thereof of the underlying shares (e.g., Restricted Stock). Each share issued or to be issued in connection with any other Full-Value Awards shall be counted against the Fungible Pool Limit as 3.0 units. Options, Stock Appreciation Rights and other awards that do not deliver the value at grant thereof of the underlying shares and that expire 10 years from the date of grant shall be counted against the Fungible Pool Limit as one unit. Options, Stock Appreciation Rights and other awards that do not deliver the value at grant thereof of the underlying shares and that expire five years from the date of grant shall be counted against the Fungible Pool Limit as 0.7 of a unit, or five-year option. Thus, under the foregoing rules, depending on the type of grants made, as many as 6,000,000 shares could be the subject of grants under the 2005 Plan. At the end of the third calendar year following April 1, 2005, which is the

effective date of the original 2005 Plan, as well as at the end of the third calendar year following April 1, 2007, which is the effective date of the 2005 Plan, (i) the three-year average of (A) the number of shares subject to awards granted in a single year, divided by (B) the number of shares of our outstanding common stock at the end of such year shall not exceed the (ii) greater of (A) 2%, with respect to the third calendar year following April 1, 2005, or 2.23%, with respect to the third calendar year following April 1, 2007, or (B) the mean of the applicable peer group. For purposes of calculating the number of shares granted in a year in connection with the limitation set forth in the foregoing sentence, shares underlying Full-Value Awards will be taken into account as (i) 1.5 shares if our annual common stock price volatility is 53% or higher, (ii) two shares if our annual common stock price volatility is between 25% and 52%, and (iii) four shares if our annual common stock price volatility is less than 25%. No award may be granted to any person who, assuming exercise of all options and payment of all awards held by such person would own or be deemed to own more than 9.8% of the outstanding shares of the Company s common stock. In addition, subject to adjustment upon certain corporate transactions or events, a participant may not receive awards (with shares subject to awards being counted, depending on the type of award, in the proportions ranging from 0.7 to 3.0, as described above) in any one year covering more than 700,000 shares; thus, under this provision, depending on the type of grant involved, as many as 1,000,000 shares can be the subject of option grants to any one person in any year, and as many as 350,000 shares may be granted as restricted stock (or be the subject of other Full-

SL Green Realty Corp.

Notes to Condensed Consolidated Financial Statements

(Unaudited)

March 31, 2008

Value Grants) to any one person in any year. If an option or other award granted under the 2005 Plan expires or terminates, the common stock subject to any portion of the award that expires or terminates without having been exercised or paid, as the case may be, will again become available for the issuance of additional awards. Shares of our common stock distributed under the 2005 Plan may be treasury shares or authorized but unissued shares. Unless the 2005 Plan is previously terminated by the Board, no new Award may be granted under the 2005 Plan after the tenth anniversary of the date that the 2005 Plan was approved by the Board. At March 31, 2008, approximately 3.7 million shares of our common stock, calculated on a weighted basis, were available for issuance under the 2005 Plan, or 5.3 million if all shares available under the 2005 Plan were issued as five-year options.

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

A summary of the status of our stock options as of March 31, 2008 and December 31, 2007 and changes during the periods then ended are presented below:

	2008		2007	
	Options Outstanding	Weighted Average Exercise Price	Options Outstanding	Weighted Average Exercise Price
Balance at beginning of year	1,774,385	$ 88.21	1,645,643	$ 58.77
Granted	261,000	$ 93.40	531,000	$ 143.22
Exercised	(10,035)	$ 51.52	(348,458)	$ 36.95
Lapsed or cancelled	(12,666)	$ 92.36	(53,800)	$ 62.81
Balance at end of period	2,012,684	$ 89.04	1,774,385	$ 88.21
Options exercisable at end of period	1,082,073	$ 66.65	780,171	$ 54.00
Weighted average fair value of options granted during the period	$ 4,313,600		$ 16,619,000	

The weighted average fair value of restricted stock granted during the three months ended March 31, 2008 was approximately $11.7 million.

All options were granted within a price range of $18.44 to $152.76. The remaining weighted average contractual life of the options outstanding and exercisable was 7.6 years and 6.5 years, respectively.

Earnings Per Share

Earnings per share for the three months ended March 31, 2008 and 2007 is computed as follows (in thousands):

	Three Months Ended March 31,	
	2008	**2007**
Numerator (Income)		
Basic Earnings:		
Income available to common stockholders	**$ 125,891**	$ 147,427
Effect of Dilutive Securities:		
Redemption of units to common shares	**5,037**	6,900
Stock options		
Diluted Earnings:		
Income available to common stockholders	**$ 130,928**	$ 154,327

	Three Months Ended March 31,	
	2008	**2007**
Denominator (Weighted Average Shares)		
Basic Earnings:		
Shares available to common stockholders	**58,482**	56,649
Effect of Dilutive Securities:		
Redemption of units to common shares	**2,340**	2,652
4.0% exchangeable senior debentures		215
Stock-based compensation plans	**399**	1,414
Diluted Shares	**61,221**	60,930

SL Green Realty Corp.

Notes to Condensed Consolidated Financial Statements

(Unaudited)

March 31, 2008

13. Minority Interest

The unit holders represent the minority interest ownership in our operating partnership. As of March 31, 2008 and December 31, 2007, the minority interest unit holders owned 3.86% (2,339,853 units) and 3.83% (2,340,359 units) of the operating partnership, respectively. At March 31, 2008, 2,339,853 shares of our common stock were reserved for the conversion of units of limited partnership interest in our operating partnership.

14. Commitments and Contingencies

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

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 March 31, 2008 (in thousands):

March 31,	Capital lease	Non-cancellable operating leases
2008	$ 1,061	$ 26,776
2009	1,416	32,803
2010	1,451	32,362
2011	1,555	29,588
2012	1,555	28,708
Thereafter	48,760	611,036
Total minimum lease payments	55,798	$ 761,273
Less amount representing interest	(39,217)	
Present value of net minimum lease payments	$ 16,581	

15. Financial Instruments: Derivatives and Hedging

In accordance with SFAS No. 133, Accounting for Derivative Instruments and Hedging Activities, we recognize all derivatives on the balance sheet at fair value. Derivatives that are not hedges must be adjusted to fair value through earnings. If a derivative is a hedge, depending on the nature of the hedge, changes in the fair value of the derivative will either be offset against the change in fair value of the hedged asset, liability, or firm commitment through earnings, or recognized in other comprehensive income until the hedged item is recognized in earnings. The ineffective portion of a derivative s change in fair value will be immediately recognized in earnings. SFAS No. 133 may increase or decrease reported net income and stockholders equity prospectively, depending on future levels of interest rates and other variables affecting the fair values of derivative instruments and hedged items, but will have no effect on cash flows.

The following table summarizes the notional and fair value of our derivative financial instruments at March 31, 2008. The notional value is an indication of the extent of our involvement in these instruments at that time, but does not represent exposure to credit, interest rate or market risks (in thousands).

		Notional Value	Strike Rate	Effective Date	Expiration Date		Fair Value
Interest Rate Swap	$	100,000	4.650%	5/2006	12/2008	$	(1,760)
Interest Rate Swap	$	60,000	4.364%	1/2007	5/2010	$	(2,478)
Interest Rate Cap	$	112,700	6.000%	7/2006	8/2008	$	
Interest Rate Cap	$	192,500	6.000%	6/2007	1/2008	$	
Interest Rate Cap	$	128,000	6.000%	1/2007	2/2009	$	

On March 31, 2008, the derivative instruments were reported as an obligation at their fair value of approximately $4.2 million. This is included in Other Liabilities on the consolidated balance sheet at March 31, 2008. Offsetting adjustments are represented as deferred gains or losses in Accumulated Other Comprehensive Income of $2.1 million, including a gain of approximately $7.2 million from the settlement of a forward swap, which is being amortized over the ten-year term of the related mortgage obligation from December 2003. Currently, all of our derivative instruments are designated as effective hedging instruments.

SL Green Realty Corp.

Notes to Condensed Consolidated Financial Statements

(Unaudited)

March 31, 2008

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

16. Environmental Matters

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

17. Segment Information

We are a REIT engaged in owning, managing, leasing, acquiring and repositioning commercial office and retail properties in the New York Metro area and have two reportable segments, real estate and structured finance investments. Our investment in Gramercy and its related earnings are included in the structured finance segment. We evaluate real estate performance and allocate resources based on earnings contribution to income from continuing operations.

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

Selected results of operations for the three months ended March 31, 2008 and 2007, and selected asset information as of March 31, 2008 and December 31, 2007, regarding our operating segments are as follows (in thousands):

	Real Estate Segment	Structured Finance Segment	Total Company
Total revenues			
Three months ended:			
March 31, 2008	$ 250,961	$ 21,306	$ 272,267
March 31, 2007	264,209	21,709	285,918
Income from continuing operations before minority interest:			
Three months ended:			
March 31, 2008	$ 20,820	$ 10,751	$ 31,571
March 31, 2007	72,382	8,349	80,731

Total assets			
As of:			
March 31, 2008	$ 10,508,457	$ 940,577	$ 11,449,034
December 31, 2007	10,446,673	983,405	11,430,078

Income from continuing operations represents total revenues less total expenses for the real estate segment and total investment income less allocated interest expense for the structured finance segment. Interest costs for the structured finance segment are imputed assuming 100% leverage at our 2005 unsecured revolving credit facility borrowing cost. We do not allocate marketing, general and administrative expenses (approximately $28.0 million and $34.2 million for the three months ended March 31, 2008 and 2007, respectively) to the structured finance segment, since we base performance on the individual segments prior to allocating marketing, general and administrative expenses. All other expenses, except interest, relate entirely to the real estate assets. There were no transactions between the above two segments.

SL Green Realty Corp.

Notes to Condensed Consolidated Financial Statements

(Unaudited)

March 31, 2008

The table below reconciles income from continuing operations before minority interest to net income available to common stockholders for the three months ended March 31, 2008 and 2007 (in thousands):

	Three Months Ended March 31,	
	2008	**2007**
Income from continuing operations before minority interest	**$ 31,571**	$ 80,731
Gain on sale of unconsolidated joint venture		78,738
Minority interest in operating partnership attributable to continuing operations	**(794)**	(6,732)
Minority interest in other partnerships	**(5,979)**	(3,922)
Net income from continuing operations	**24,798**	148,815
Income/ gains from discontinued operations, net of minority interest	**70**	3,581
Gain on sale of real estate	**105,992**	
Net income	**130,860**	152,396
Preferred stock dividends	**(4,969)**	(4,969)
Net income available to common stockholders	**$ 125,891**	$ 147,427

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

A summary of our non-cash investing and financing activities for the three months ended March 31, 2008 and 2007 is presented below (in thousands):

	Three Months Ended March 31,	
	2008	**2007**
Issuance of common stock as deferred compensation	**$ 341**	$ 477
Redemption of units and dividend reinvestments		4,254
Derivative instruments at fair value	**4,238**	(3,531)
Issuance of preferred units		1,200
Assumption of mortgage loans and unsecured notes		1,523,756
SFAS 141 mark-to-market of debt assumed		54,270
Common stock issued in connection with the Reckson Merger		1,010,078
Real estate investments consolidated under FIN 46(R)	**14,760**	

19. Subsequent Events

In January 2008, we entered into an agreement to sell the 39-story, 670,000 square foot Class A office tower located at 1250 Broadway in Manhattan to an entity affiliated with Murray Hill Properties for $310.0 million. We expect to recognize an incentive fee of at least $15.0 million upon consummation of the sale which is subject to customary closing conditions, and is expected to close in the second quarter of 2008.

In April 2008, Gramercy closed on its acquisition of American Financial Realty Trust. We provided $50.0 million of financing to Gramercy in connection with this acquisition. As a result of this acquisition, the Gramercy board of directors awarded 644,787 shares of Gramercy s common stock to us. As of April 30, 2008, we held 8,159,370 shares, or approximately 15.9% of Gramercy s common stock.

As of May 12, 2008, we acquired an additional 12.42% ownership interest in the Manager increasing our ownership to 78.25% of the Manager. We also acquired 12.42 units of the Class B limited partner interests increasing our ownership interests to 78.25 units, or 78.25%, of the Class B limited partner interests in Gramercy s operating partnership.

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

Overview

SL Green Realty Corp., or the Company, a Maryland corporation, and SL Green Operating Partnership, L.P., or the Operating Partnership, a Delaware limited partnership, were formed in June 1997 for the purpose of combining the commercial real estate business of S.L. Green Properties, Inc. and its affiliated partnerships and entities. We are a self-managed real estate investment trust, or REIT, with in-house capabilities in property management, acquisitions, financing, development, construction and leasing. Unless the context requires otherwise, all references to we, our and us means the Company and all entities owned or controlled by the Company, including the Operating Partnership.

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

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

The following discussion related to our consolidated financial statements should be read in conjunction with the financial statements appearing in this Quarterly Report on Form 10-Q and in Item 8 of our Annual Report on Form 10-K for the year ended December 31, 2007.

As of March 31, 2008, we owned the following interests in commercial office properties in the New York Metro area, primarily in midtown Manhattan, a borough of New York City, or Manhattan. Our investments in the New York Metro area also include investments in Brooklyn, Queens, Long Island, Westchester County, Connecticut and New Jersey, which are collectively known as the Suburban assets:

Location	Ownership	Number of Properties	Square Feet	Weighted Average Occupancy (1)
Manhattan	Consolidated properties	22	14,290,200	97.4%
	Unconsolidated properties	9	10,099,000	94.8%
Suburban	Consolidated properties	30	4,925,800	90.3%
	Unconsolidated properties	6	2,941,700	94.6%
		67	32,256,700	95.1%

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

We also own investments in nine retail properties encompassing approximately 400,212 square feet, one development property encompassing approximately 85,000 square feet and two land interests. In addition, we manage three office properties owned by third parties and affiliated companies encompassing approximately 1.0 million rentable square feet.

As of March 31, 2008, we also owned approximately 22% of the outstanding common stock of Gramercy Capital Corp. (NYSE: GKK), or Gramercy, as well as 65.83 units, or 65.83%, of the Class B limited partner interest in Gramercy s operating partnership. See Note 6.

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

Critical Accounting Policies

Refer to our 2007 Annual Report on Form 10-K for a discussion of our critical accounting policies, which include rental property, investment in unconsolidated joint ventures, revenue recognition, allowance for doubtful accounts, reserve for possible credit losses and derivative instruments. There have been no changes to these policies in 2008.

Results of Operations

Comparison of the three months ended March 31, 2008 to the three months ended March 31, 2007

The following comparison for the three months ended March 31, 2008, or 2008, to the three months ended March 31, 2007, or 2007, makes reference to the following: (i) the effect of the Same-Store Properties, which represents all properties owned by us at January 1, 2007 and at March 31, 2008 and total 14 of our 67 consolidated properties, representing approximately 39% of our share of annualized rental revenue, (ii) the effect of the Acquisitions, which represents all properties or interests in properties acquired in 2007, namely, 300 Main Street, 399 Knollwood and the Reckson assets (all January 2007), 333 West 34th Street, 331 Madison Avenue and 48 East 43rd Street (April), 1010 Washington Avenue, CT, and 500 West Putnam Avenue, CT (June), and 180 Broadway and One Madison Avenue (August) and (iii) Other, which represents corporate level items not allocable to specific properties, the Service Corporation and eEmerge. Assets classified as held for sale, are excluded from the following discussion.

Rental Revenues (in millions)		**2008**		**2007**		**$ Change**	**% Change**
Rental revenue	$	201.4	$	147.1	$	54.3	36.9%
Escalation and reimbursement revenue		31.1		27.2		3.9	14.3
Total	$	232.5	$	174.3	$	58.2	33.4%
Same-Store Properties	$	96.9	$	92.0	$	4.9	5.3%
Acquisitions		134.2		80.2		54.0	67.3
Other		1.4		2.1		(0.7)	33.3
Total	$	232.5	$	174.3	$	58.2	33.4%

Occupancy in the Same-Store Properties increased from 95.9% at March 31, 2007 to 97.7% at March 31, 2008. The increase in the Acquisitions is primarily due to owning these properties for a period during the quarter in 2008 compared to a partial period or not being included in 2007.

At March 31, 2008, we estimated that the current market rents on our consolidated Manhattan properties and consolidated Suburban properties were approximately 34.4% and 19.3% higher, respectively, than then existing in-place fully escalated rents. Approximately 4.0% of the space leased at our consolidated properties expires during the remainder of 2008. We believe that occupancy rates will moderate at the Same-Store Properties in 2008.

The increase in escalation and reimbursement revenue was due to the recoveries at the Acquisitions ($4.8 million) and was partially offset by a decrease at the Same-Store Properties ($0.7 million). The decrease in recoveries at the Same-Store Properties was primarily due to operating expense escalations ($0.3 million) and real estate tax escalations ($0.4 million).

Investment and Other Income (in millions)	2008	2007	$ Change	% Change
Equity in net income of unconsolidated joint ventures	$ 19.4	$ 9.4	$ 10.0	106.4%
Investment and preferred equity income	21.3	21.7	(0.4)	(1.8)
Other income	18.4	89.9	(71.5)	(79.5)
Total	$ 59.1	$ 121.0	$ (61.9)	(51.2)%

The increase in equity in net income of unconsolidated joint ventures was primarily due to higher net income contributions from Gramercy ($0.8 million), 388 Greenwich Street ($4.3 million), 1515 Broadway ($2.0 million), 1250 Broadway ($1.3 million), 521 Fifth Avenue ($0.8 million), 2 Herald Square ($1.5 million) and 885 Third Avenue ($1.9 million). This was partially offset by lower net income contributions primarily from our investments in 100 Park which is under redevelopment ($1.1 million), 1745 Broadway ($0.5 million) and 1221 Avenue of the Americas ($0.5 million). Occupancy at our joint venture properties decreased from 96.2% in 2007 to 94.7% in 2008 primarily due to increased vacancy at 100 Park Avenue and 1250 Broadway. At March 31, 2008, we estimated that current market rents at our Manhattan and Suburban joint venture properties were approximately 43.4% and 11.4% higher, respectively, than then existing in-place fully escalated rents. Approximately 5.4% of the space leased at our joint venture properties expires during the remainder of 2008.

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

Investment and preferred equity income decreased slightly during the current quarter. The weighted average investment balance outstanding and weighted average yield were $766.6 million and 10.2%, respectively, for 2008 compared to $718.7 million and 9.98%, respectively, for 2007.

The decrease in other income was primarily due to an incentive distribution earned in 2007 upon the sale of One Park Avenue (approximately $77.2 million). This was partially offset by fee income earned by GKK Manager, an affiliate of ours and the external manager of Gramercy (approximately $1.8 million) and other income ($3.9 million).

Property Operating Expenses (in millions)	2008	2007	$ Change	% Change
Operating expenses	$ 54.1	$ 46.5	$ 7.6	16.3%
Real estate taxes	33.8	29.6	4.2	14.2
Ground rent	8.3	7.3	1.0	13.7
Total	$ 96.2	$ 83.4	$ 12.8	15.4%
Same-Store Properties	$ 48.3	$ 45.9	$ 2.4	5.2%
Acquisitions	46.3	33.6	12.7	37.8
Other	1.6	3.9	(2.3)	(59.0)
Total	$ 96.2	$ 83.4	$ 12.8	15.4%

Same-Store Properties operating expenses, excluding real estate taxes ($0.2 million), increased approximately $2.2 million. There were increases in payroll expenses ($0.6 million), utilities ($0.3 million), ground rent expense ($1.7 million) and other miscellaneous expenses ($0.2 million), respectively. This was partially offset by a decrease in repairs and maintenance ($0.3 million) and insurance costs ($0.3 million).

The increase in real estate taxes was primarily attributable to the Same-Store Properties ($0.2 million) due to higher assessed property values and the Acquisitions ($4.2 million).

Other Expenses (in millions)	2008	2007	$ Change	% Change
Interest expense	$ 80.6	$ 60.9	$ 19.7	32.4%
Depreciation and amortization expense	55.4	36.1	19.3	53.5
Marketing, general and administrative expense	28.0	34.2	(6.2)	(18.1)
Total	$ 164.0	$ 131.2	$ 32.8	25.0%

The increase in interest expense was primarily attributable to borrowings associated with new investment activity, primarily the Reckson Merger, and the funding of ongoing capital projects and working capital requirements. The weighted average interest rate decreased from 5.64% for the quarter ended March 31, 2007 to 5.27% for the quarter ended March 31, 2008. As a result of the new investment activity, the weighted average debt balance increased from $5.0 billion as of March 31, 2007 to $5.8 billion as of March 31, 2008.

Marketing, general and administrative expenses represented 10.3% of total revenues in 2008 compared to 12.0% in 2007. The decrease is primarily due to higher compensation cost in 2007 associated with amended and restated employment agreements entered into with certain of our executive officers.

Liquidity and Capital Resources

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

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

Cash flow from operations is primarily dependent upon the occupancy level of our portfolio, the net effective rental rates achieved on our leases, the collectibility of rent and operating escalations and recoveries from our tenants and the level of operating and other

costs. Additionally, we believe that our joint venture investment programs will also continue to serve as a source of capital for acquisitions.

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

We believe that our sources of working capital, specifically our cash flow from operations and borrowings available under our 2005 unsecured revolving credit facility, and our ability to access private and public debt and equity capital, are adequate for us to meet our short-term and long-term liquidity requirements for the foreseeable future.

Cash Flows

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

Cash and cash equivalents were $46.8 million and $499.7 million at March 31, 2008 and 2007, respectively, representing a decrease of $452.9 million. The decrease was a result of the following increases and decreases in cash flows (in thousands):

	Three months ended March 31,		
	2008	2007	Increase (Decrease)
Net cash provided by operating activities	$ 20,377	$ 135,247	$ (114,870)
Net cash provided by (used in) investing activities	$ 41,892	$ (1,906,790)	$ 1,948,682
Net cash (used in) provided by financing activities	$ (61,440)	$ 2,154,093	$ (2,215,533)

Our principal source of operating cash flow is related to the leasing and operating of the properties in our portfolio. Our properties provide a relatively consistent stream of cash flow that provides us with resources to pay operating expenses, debt service and fund quarterly dividend and distribution payment requirements. At March 31, 2008 our portfolio was 95.1% occupied. In addition, rental rates continue to increase and tenant concession packages decrease in the Manhattan and Suburban marketplace. Our structured finance and joint venture investments also provide a steady stream of operating cash flow to us.

Cash is used in investing activities to fund acquisitions, redevelopment projects and recurring and nonrecurring capital expenditures. We selectively invest in new projects that enable us to take advantage of our development, leasing, financing and property management skills and invest in existing buildings that meet our investment criteria. In the first quarter of 2007, we acquired Reckson for approximately $4.0 billion which included the assumption of approximately $1.5 billion of consolidated debt. During the three months ended March 31, 2008, when compared to the three months ended March 31, 2007, we used cash primarily for the following investing activities (in thousands):

Acquisitions of real estate	$ 3,668,342
Escrow cash-capital improvements/acquisition deposits	(187,846)
Joint venture investments	65,908
Distributions from joint ventures	(30,409)
Proceeds from sales of real estate	94,512
Structured finance and other investments	303,089
Net proceeds from Asset Sale	(1,964,914)

We generally fund our investment activity through property-level financing, our 2005 unsecured revolving credit facility, term loans, unsecured notes, construction loans and from time to time we issue common or preferred stock. During the three months ended March 31, 2008, when compared to the three months ended March 31, 2007, the following financing activities provided the funds to complete the investing activity noted above (in thousands):

Proceeds from our debt obligations	$	(2,165,815)
Repayments under our debt obligations		516,839
Minority interest in other partnerships and other financing activities		(505,332)
Repurchases of common stock		(49,911)
Dividends and distributions paid		(11,314)

Capitalization

As of March 31, 2008, we had 58,284,271 shares of common stock, 2,339,853 units of limited partnership interest in our operating partnership, 6,300,000 shares of our 7.625% Series C cumulative redeemable preferred stock, or Series C preferred stock, and 4,000,000 shares of our 7.875% Series D cumulative redeemable preferred stock, or Series D preferred stock, outstanding.

In March 2007, our board of directors approved a stock repurchase plan under which we can buy up to $300.0 million shares of our common stock. This plan will expire on December 31, 2008. As of April 30, 2008, we purchased and settled approximately $209.1 million, or 2.0 million shares of our common stock, at an average price of $104.13 per share.

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

Rights Plan

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

Dividend Reinvestment and Stock Purchase Plan

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

During the three months ended March 31, 2008 and 2007, approximately 1,000 and 17,000 shares were issued and approximately $80,000 and $2.3 million of proceeds were received, respectively, from dividend reinvestments and/or stock purchases under the DRIP. DRIP shares may be issued at a discount to the market price.

2003 Long-Term Outperformance Compensation Program

Our board of directors adopted a long-term, seven-year compensation program for certain members of senior management. The program, which measured our performance over a 48-month period (unless terminated earlier) commencing April 1, 2003, provided that holders of our common equity were to achieve a 40% total return during the measurement period over a base share price of $30.07 per share before any restricted stock awards were granted. Plan participants would receive an award of restricted stock in an amount between 8% and 10% of the excess total return over the baseline return. At the end of the four-year measurement period, 40% of the award will vest on the measurement date and 60% of the award will vest ratably over the subsequent three years based on continued employment. Any restricted stock to be issued under the program will be allocated from our 2005 Stock Option and Incentive Plan (as defined below), which was previously approved through a stockholder vote in May 2005. In April 2007, the Compensation Committee determined that under the terms of the 2003 Outperformance Plan, as of March 31, 2007, the performance hurdles had been met and the maximum performance pool of $22,825,000, taking into account forfeitures, was established. In connection with this event, approximately 166,312 shares of restricted stock (as adjusted for forfeitures) were allocated under the 2005 Stock Option and Incentive Plan. These awards are subject to vesting as noted above. We record the expense of the restricted stock award in accordance with SFAS 123-R. The fair value of the award on the date of grant was determined to be $3.2 million. Forty percent of the value of the award will be amortized over four years and the balance will be amortized at 20% per year over five, six and seven years, respectively, such that 20% of year five, 16.67% of year six, and 14.29% of year seven will be recorded in year one. Compensation expense of $58,000 and $0.1 million related to this plan was recorded during the three months ended March 31, 2008 and 2007, respectively.

2005 Long-Term Outperformance Compensation Program

In December 2005, the compensation committee of our board of directors approved a long-term incentive compensation program, the 2005 Outperformance Plan. Participants in the 2005 Outperformance Plan will share in a performance pool if our total return to stockholders for the period from December 1, 2005 through November 30, 2008 exceeds a cumulative total return to stockholders of 30% during the measurement period over a base share price of $68.51 per share. The size of the pool was to be 10% of the outperformance amount in excess of the 30% benchmark, subject to a maximum dilution cap equal to the lesser of 3% of our outstanding shares and units of limited partnership interest as of

December 1, 2005 or $50.0 million. In the event the potential performance pool reached this dilution cap before November 30, 2008 and remained at that level or higher for 30 consecutive days, the performance period was to end early and the pool would be formed on the last day of such 30 day period. Each participant s award under the 2005 Outperformance Plan would be designated as a specified percentage of the aggregate performance pool to be allocated to him or her assuming the 30% benchmark is achieved. Individual awards would be made in the form of partnership units, or LTIP Units, that may ultimately become exchangeable for shares of our common stock or cash, at our election. LTIP Units would be granted prior to the determination of the performance pool; however, they were only to vest upon satisfaction of performance and other thresholds, and were not entitled to distributions until after the performance pool was established. The 2005 Outperformance Plan provides that if the pool was established, each participant would also be entitled to the distributions that would have been paid on the number of LTIP Units earned, had they been issued at the beginning of the performance period. Those distributions were to be paid in the form of additional LTIP Units.

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

After the performance pool was established, the earned LTIP Units are to receive regular quarterly distributions on a per unit basis equal to the dividends per share paid on our common stock, whether or not they are vested. Any LTIP Units not earned upon the establishment of the performance pool were to be automatically forfeited, and the LTIP Units that are earned are subject to time-based vesting, with one-third of the LTIP Units earned vesting on November 30, 2008 and each of the first two anniversaries thereafter based on continued employment. On June 14, 2006, the Compensation Committee determined that under the terms of the 2005 Outperformance Plan, as of June 8, 2006, the performance period had accelerated and the maximum performance pool of $49,250,000, taking into account forfeitures, was established. Individual awards under the 2005 Outperformance Plan are in the form of partnership units, or LTIP Units, in our operating partnership that, subject to certain conditions, are convertible into shares of the Company s common stock or cash, at our election. The total number of LTIP Units earned by all participants as a result of the establishment of the performance pool was 490,475 and are subject to time-based vesting.

The cost of the 2005 Outperformance Plan (approximately $8.0 million, subject to adjustment for forfeitures) will continue to be amortized into earnings through the final vesting period in accordance with SFAS 123-R. We recorded approximately $0.5 million and $0.5 million of compensation expense during the three months ended March 31, 2008 and 2007, respectively, in connection with the 2005 Outperformance Plan.

2006 Long-Term Outperformance Compensation Program

On August 14, 2006, the compensation committee of our board of directors approved a long-term incentive compensation program, the 2006 Outperformance Plan. Participants in the 2006 Outperformance Plan will share in a performance pool if our total return to stockholders for the period from August 1, 2006 through July 31, 2009 exceeds a cumulative total return to stockholders of 30% during the measurement period over a base share price of $106.39 per share. The size of the pool will be 10% of the outperformance amount in excess of the 30% benchmark, subject to a maximum award of $60 million. The maximum award will be reduced by the amount of any unallocated or forfeited awards. In the event the potential performance pool reaches the maximum award before July 31, 2009 and remains at that level or higher for 30 consecutive days, the performance period will end early and the pool will be formed on the last day of such 30 day period. Each participant s award under the 2006 Outperformance Plan will be designated as a specified percentage of the aggregate performance pool. Assuming the 30% benchmark is achieved, the pool will be allocated among the participants in accordance with the percentage specified in each participant s participation agreement. Individual awards will be made in the form of LTIP Units, that, subject to vesting and the satisfaction of other conditions, are exchangeable for a per unit value equal to the then trading price of one share of our common stock. This value is payable in cash or, at our election, in shares of common stock. LTIP Units will be granted prior to the determination of the performance pool; however, they will only vest upon satisfaction of performance and time vesting thresholds under the 2006 Outperformance Plan, and will not be entitled to distributions until after the performance pool is established. Distributions on LTIP Units will equal the dividends paid on our common stock on a per unit basis. The 2006 Outperformance Plan provides that if the pool is established, each participant will also be entitled to the distributions that would have been paid had the number of earned LTIP Units been issued at the beginning of the performance period. Those distributions will be paid in the form of additional LTIP Units. Thereafter, distributions will be paid currently with respect to all earned LTIP Units that are a part of the performance pool, whether vested or unvested. Although the amount of earned awards under the 2006 Outperformance Plan (i.e. the number of LTIP Units earned) will be determined when the performance pool is established, not all of the awards will vest at that time. Instead, one-third of the awards will vest on July 31, 2009 and each of the first two anniversaries thereafter based on continued employment.

In the event of a change in control of our company on or after August 1, 2007 but before July 31, 2009, the performance pool will be calculated assuming the performance period ended on July 31, 2009 and the total return continued at the same annualized rate from the date of the change in control to July 31, 2009 as was achieved from August 1, 2006 to the date of the change in control; provided that the performance pool may not exceed 200% of what it would have been if it was calculated using the total return from August 1, 2006 to the date of the change in control and a pro rated benchmark. In either case, the performance pool will be formed as described above if the adjusted benchmark target is achieved and all earned awards will be fully vested upon the change in control. If a change in control occurs after the performance period has ended, all unvested awards issued under our 2006 Outperformance Plan will become fully vested upon the change in control.

The cost of the 2006 Outperformance Plan (approximately $9.6 million, subject to adjustment for forfeitures) will be amortized into earnings through the final vesting period in accordance with SFAS 123-R. We recorded approximately $0.6 million and $0.6 million of compensation expense during the three months ended March 31, 2008 and 2007, respectively, in connection with the 2006 Outperformance Plan.

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

Deferred Stock Compensation Plan for Directors

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

During the three months ended March 31, 2008, approximately 3,681 phantom stock units were earned. As of March 31, 2008, there were approximately 19,194 phantom stock units outstanding.

Employee Stock Purchase Plan

On September 18, 2007, our board of directors adopted, subject to stockholder approval, the 2008 Employee Stock Purchase Plan, or ESPP, to encourage our employees to increase their efforts to make our business more successful by providing equity-based incentives to eligible employees. The ESPP is intended to qualify as an employee stock purchase plan under Section 423 of the Internal Revenue Code of 1986, as amended, and has been adopted by the board to enable our eligible employees to purchase our shares of common stock through payroll deductions. The ESPP became effective on January 1, 2008 with a maximum of 500,000 shares of the common stock available for issuance, subject to adjustment upon a merger, reorganization, stock split or other similar corporate change. We filed a registration statement on Form S-8 with the Securities and Exchange Commission with respect to the ESPP. The common stock will be offered for purchase through a series of successive offering periods. Each offering period will be three months in duration and will begin on the first day of each calendar quarter, with the first offering period having commenced on January 1, 2008. The ESPP provides for eligible employees to purchase the common stock at a purchase price equal to 85% of the lesser of (1) the market value of the common stock on the first day of the offering period or (2) the market value of the common stock on the last day of the offering period. The ESPP will be submitted to our stockholders for approval at our 2008 annual meeting of stockholders.

Amended and Restated 2005 Stock Option and Incentive Plan

Subject to adjustments upon certain corporate transactions or events, up to a maximum of 6,000,000 shares, or the Fungible Pool Limit, may be granted as options, restricted stock, phantom shares, dividend equivalent rights and other equity-based awards under the Amended and Restated 2005 Stock Option and Incentive Plan, or the 2005 Plan. At March 31, 2008, approximately 3.7 million shares of our common stock, calculated on a weighted basis, were available for issuance under the 2005 Plan, or 5.3 million shares if all shares available under the 2005 Plan were issued as five-year options.

Market Capitalization

At March 31, 2008, borrowings under our mortgage loans, 2005 unsecured revolving credit facility, term loan, unsecured notes and trust preferred securities (including our share of joint venture debt of approximately $1.6 billion) represented 58.6% of our combined market capitalization of approximately $12.5 billion (based on a common stock price of $81.47 per share, the closing price of our common stock on the New York Stock Exchange on March 31, 2008). Market capitalization includes our consolidated debt, common and preferred stock and the conversion of all units of limited partnership interest in our Operating Partnership, and our share of joint venture debt.

38

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

Indebtedness

The table below summarizes our consolidated mortgage debt, 2005 unsecured revolving credit facility, term loan, unsecured notes and trust preferred securities outstanding at March 31, 2008 and December 31, 2007, respectively (dollars in thousands):

		March 31, 2008		December 31, 2007
Debt Summary:				
Balance				
Fixed rate	**$**	**4,601,420**	$	4,607,144
Variable rate hedged		**160,000**		160,000
Total fixed rate		**4,761,420**		4,767,144
Variable rate		**804,873**		764,011
Variable rate supporting variable rate assets		**191,927**		191,927
Total variable rate		**996,800**		955,938
Total	**$**	**5,758,220**	$	5,723,082
Percent of Total Debt:				
Total fixed rate		**82.7%**		83.3%
Variable rate		**17.3%**		16.7%
Total		**100.0%**		100.0%
Effective Interest Rate for the Quarter:				
Fixed rate		**5.35%**		5.35%
Variable rate		**4.85%**		6.57%
Effective interest rate		**5.27%**		5.66%

The variable rate debt shown above bears interest at an interest rate based on 30-day LIBOR (2.70% and 5.32% at March 31, 2008 and 2007, respectively). Our consolidated debt at March 31, 2008 had a weighted average term to maturity of approximately 8.8 years.

Certain of our structured finance investments, totaling approximately $191.9 million, are variable rate investments which mitigate our exposure to interest rate changes on our unhedged variable rate debt at March 31, 2008.

Mortgage Financing

As of March 31, 2008, our total mortgage debt (excluding our share of joint venture debt of approximately $1.6 billion) consisted of approximately $2.4 billion of fixed rate debt, including hedged variable rate debt, with an effective weighted average interest rate of approximately 5.96% and $0.4 billion of variable rate debt with an effective weighted average interest rate of approximately 5.13%.

Corporate Indebtedness

2005 Unsecured Revolving Credit Facility

We have a $1.5 billion unsecured revolving credit facility. The 2005 unsecured revolving credit facility bears interest at a spread ranging from 70 basis points to 110 basis points over the 30-day LIBOR which, based on our leverage ratio, is currently 90 basis points. This facility matures in June 2011 and has a one-year extension option. The 2005 unsecured revolving credit facility also requires a 12.5 to 20 basis point fee on the unused balance payable annually in arrears. The 2005 unsecured revolving credit facility had $720.5 million outstanding at March 31, 2008. Availability under the 2005 unsecured revolving credit facility was further reduced at March 31, 2008 by the issuance of approximately $38.1 million in letters of credit. The 2005 unsecured revolving credit facility includes certain restrictions and covenants (see restrictive covenants below).

Term Loans

We had a $325.0 million unsecured term loan, which was scheduled to mature in August 2009. This unsecured term loan bore interest at a spread ranging from 110 basis points to 140 basis points over the 30-day LIBOR. The unsecured term loan was repaid and terminated in March 2007.

We had a $200.0 million five-year non-recourse term loan, secured by a pledge of our ownership interest in 1221 Avenue of the Americas. The loan was scheduled to mature in May 2010. This term loan had a floating rate of 125 basis points over the current 30-day LIBOR rate. The secured term loan was repaid and terminated in June 2007.

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

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

In December 2007, we closed on a $276.7 million ten-year term loan which carries an effective fixed interest rate of 5.19%. This loan is secured by our interest in 388 and 390 Greenwich Street. This secured term loan matures in December 2017.

Senior Unsecured Notes

In March 2007, we issued $750.0 million of 3.00% exchangeable senior notes which are due in 2027. The notes were offered in accordance with Rule 144A under the Securities Act of 1933, as amended. The notes will pay interest semiannually at a rate of 3.00% per annum and mature on March 30, 2027. Interest on these notes is payable semi-annually on March 30 and September 30. The notes will have an initial exchange rate representing an exchange price that is at a 25.0% premium to the last reported sale price of our common stock on March 20, 2007, or $173.30. The initial exchange rate is subject to adjustment under certain circumstances. The notes will be senior unsecured obligations of our operating partnership and will be exchangeable upon the occurrence of specified events, and during the period beginning on the twenty-second scheduled trading day prior to the maturity date and ending on the second business day prior to the maturity date, into cash or a combination of cash and shares of our common stock, if any, at our option. The notes will be redeemable, at our option, on and after April 15, 2012. We may be required to repurchase the notes on March 30, 2012, 2017 and 2022, and upon the occurrence of certain designated events. The net proceeds from the offering were approximately $736.0 million, after deducting estimated fees and expenses. The proceeds of the offering were used to repay certain of our existing indebtedness, make investments in additional properties, and make open market purchases of our common stock and for general corporate purposes.

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

Issuance		Face Amount	Coupon Rate(3)	Term (in Years)	Maturity
March 26, 1999 (1)	$	200,000	7.75%	10	March 15, 2009
January 22, 2004 (1)		150,000	5.15%	7	January 15, 2011
August 13, 2004 (1)		150,000	5.875%	10	August 15, 2014
March 31, 2006 (1)		275,000	6.00%	10	March 31, 2016
June 27, 2005 (1) (2)		287,500	4.00%	20	June 15, 2025
March 26, 2007		750,000	3.00%	20	March 30, 2027
		1,812,500			
Net discount		(19,023)			
	$	**1,793,477**			

(1) Assumed as part of the Reckson Merger.

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

(3) Interest on the senior unsecured notes is payable semi-annually with principal and unpaid interest due on the scheduled maturity dates.

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

Junior Subordinate Deferrable Interest Debentures

In June 2005, we issued $100.0 million of Trust Preferred Securities, which are reflected on the balance sheet at March 31, 2007 as Junior Subordinate Deferrable Interest Debentures. The proceeds were used to repay our unsecured revolving credit facility. The $100.0 million of junior subordinate deferred interest debentures have a 30-year term ending July 2035. They bear interest at a fixed rate of 5.61% for the first 10 years ending July 2015. Thereafter, the rate will float at three month LIBOR plus 1.25%. The securities are redeemable at par beginning in July 2010.

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

Restrictive Covenants

The terms of our 2005 unsecured revolving credit facility and unsecured bonds include certain restrictions and covenants which limit, among other things, the payment of dividends (as discussed below), the incurrence of additional indebtedness, the incurrence of liens and the disposition of assets, and which require compliance with financial ratios relating to the minimum amount of tangible net worth, the minimum amount of debt service coverage and fixed charge coverage, the maximum amount of unsecured indebtedness, the minimum amount of unencumbered property debt service coverage and certain investment limitations. The dividend restriction referred to above provides that, except to enable us to continue to qualify as a REIT for Federal income tax purposes, we will not during any four consecutive fiscal quarters make distributions with respect to common stock or other equity interests in an aggregate amount in excess of 90% of funds from operations for such period, subject to certain other adjustments. As of March 31, 2008 and December 31, 2007, we were in compliance with all such covenants.

Market Rate Risk

We are exposed to changes in interest rates primarily from our floating rate borrowing arrangements. We use interest rate derivative instruments to manage exposure to interest rate changes. A hypothetical 100 basis point increase in interest rates along the entire interest rate curve for 2008 would increase our annual interest cost by approximately $8.9 million and would increase our share of joint venture annual interest cost by approximately $7.0 million, respectively.

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

Approximately $4.8 billion of our long-term debt bears interest at fixed rates, and therefore the fair value of these instruments is affected by changes in the market interest rates. The interest rate on our variable rate debt and joint venture debt as of March 31, 2008 ranged from LIBOR plus 62 basis points to LIBOR plus 275 basis points.

Contractual Obligations

Combined aggregate principal maturities of mortgages and notes payable, 2005 unsecured revolving credit facility, term loan, unsecured notes and bonds, trust preferred securities, our share of joint venture debt, excluding extension options, estimated interest expense, and our obligations under our capital lease and ground leases, as of March 31, 2008 are as follows (in thousands):

	2008	2009	2010	2011	2012	Thereafter	Total
Property Mortgages	$ 306,172	$ 154,750	$ 132,780	$ 264,561	$ 29,846	$ 1,979,484	$ 2,867,593
Revolving Credit Facility				720,500			720,500
Trust Preferred Securities						100,000	100,000
		200,000		150,000		1,720,127	2,070,127

Term loan and Unsecured Notes							
Capital lease	1,061	1,416	1,451	1,555	1,555	48,760	55,798
Ground leases	26,776	32,803	32,362	29,588	28,708	611,036	761,273
Estimated interest expense	297,298	277,498	260,266	225,067	194,284	1,107,641	2,362,054
Joint venture debt	451,156	438	115,264	72,062	33,424	921,011	1,593,355
Total	$ 1,082,463	$ 666,905	$ 542,123	$ 1,463,333	$ 287,817	$ 6,488,059	$ 10,530,700

Off-Balance Sheet Arrangements

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

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

Capital Expenditures

We estimate that for the nine months ending December 31, 2008, we will incur approximately $112.6 million of capital expenditures (including tenant improvements and leasing commissions) on existing wholly-owned properties and our share of capital expenditures at our joint venture properties will be approximately $32.8 million. We expect to fund these capital expenditures with operating cash flow, borrowings under our credit facilities, additional property level mortgage financings, and cash on hand. Future property acquisitions may require substantial capital investments for refurbishment and leasing costs. We expect that these financing requirements will be met in a similar fashion. We believe that we will have sufficient resources to satisfy our capital needs during the next 12-month period. Thereafter, we expect that our capital needs will be met through a combination of net cash provided by operations, borrowings, potential asset sales or additional equity or debt issuances.

Dividends

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

To maintain our qualification as a REIT, we must pay annual dividends to our stockholders of at least 90% of our REIT taxable income, determined before taking into consideration the dividends paid deduction and net capital gains. We intend to continue to pay regular quarterly dividends to our stockholders. Based on our current annual dividend rate of $3.15 per share, we would pay approximately $183.9 million in dividends. Before we pay any dividend, whether for Federal income tax purposes or otherwise, which would only be paid out of available cash to the extent permitted under our unsecured and secured credit facilities, and our term loans, we must first meet both our operating requirements and scheduled debt service on our mortgages and loans payable.

Related Party Transactions

Cleaning/ Security/ Messenger and Restoration Services

Through Alliance Building Services, or Alliance, First Quality Maintenance, L.P., or First Quality, provides cleaning, extermination and related services, Classic Security LLC provides security services, Bright Star Couriers LLC provides messenger services, and Onyx Restoration Works provides restoration services with respect to certain properties owned by us. Alliance is owned by Gary Green, a son of Stephen L. Green, the chairman of our board of directors. In addition, First Quality has the non-exclusive opportunity to provide cleaning and related services to individual tenants at our properties on a basis separately negotiated with any tenant seeking such additional services. We paid Alliance approximately $3.6 million and $3.0 million for the three months ended March 31, 2008 and 2007 respectively, for these services (excluding services provided directly to tenants).

Leases

Nancy Peck and Company leases 507 square feet of space at 420 Lexington Avenue on a month-to-month basis. Nancy Peck and Company is owned by Nancy Peck, the wife of Stephen L. Green. The rent due pursuant to the lease is $15,210 per year. Prior to February 2007, Nancy Peck and Company leased 2,013 square feet of space at 420 Lexington Avenue, pursuant to a lease that expired on June 30, 2005 and which provided for annual rental payments of approximately $66,000. The rent due pursuant to that lease was offset against a consulting fee of $11,025 per month an affiliate paid to her pursuant to a consulting agreement, which was canceled in July 2006.

Management Fees

S.L. Green Management Corp. receives property management fees from an entity in which Stephen L. Green owns an interest. The aggregate amount of fees paid to S.L. Green Management Corp. from such entity was approximately $92,000 and $66,000 for the three months ended March 31, 2008 and 2007, respectively.

Brokerage Services

Sonnenblick-Goldman Company, or Sonnenblick, a nationally recognized real estate investment banking firm, provided mortgage brokerage services to us. Mr. Morton Holliday, the father of Mr. Marc Holliday, was a Managing Director of Sonnenblick at the time of the financings. In 2007, our 1604-1610 Broadway joint venture paid approximately $146,500 to Sonnenblick in connection with obtaining a $27.0 million first mortgage and we paid $759,000 in connection with the refinancing of 485 Lexington Avenue.

In 2007, we paid a consulting fee of $525,000 to Stephen Wolff, the brother-in-law of Marc Holliday, in connection with our aggregate investment of $119.1 million in the joint venture that owns 800 Third Avenue and approximately $68,000 in connection with our acquisition of 16 Court Street for $107.5 million.

Gramercy Capital Corp.

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

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

Other

Insurance

We maintain all-risk property and rental value coverage (including coverage regarding the perils of flood, earthquake and terrorism) and liability insurance with limits of $200.0 million per location within two property insurance portfolios. The first portfolio maintains a blanket limit of $600.0 million per occurrence for the majority of the New York City properties in our portfolio with a sub-limit of $450.0 million for acts of terrorism. This policy expires on December 31, 2008. The second portfolio maintains a limit of $600.0 million per occurrence, including terrorism, for the majority of the Suburban properties. This policy expires on December 31, 2008. The liability policies expire on October 31, 2008. The New York City portfolio incorporates our captive, Belmont Insurance Company, which we formed in an effort to, among other things, stabilize to some extent the fluctuations of insurance market conditions. Belmont is licensed in New York to write up to $100.0 million of terrorism coverage for us, and at this time is providing $50.0 million of terrorism coverage in excess of $250.0 million and is insuring a large deductible on the liability insurance with a $250,000 deductible per occurrence and a $2.4 million annual aggregate loss limit. We have secured an excess insurer to protect against catastrophic liability losses (above $250,000 deductible per occurrence) and a stop loss for aggregate claims that exceed $2.4 million. We have retained a third party administrator to manage all claims within the deductible and we anticipate that direct management of liability claims will improve loss experience and ultimately lower the cost of liability insurance in future years. We have a 45% interest in the property at 1221 Avenue of the Americas, where we participate with The Rockefeller Group Inc., which carries a blanket policy providing $1.0 billion of all-risk property insurance, including terrorism coverage, and a 49.9% interest in the property at 100 Park Avenue, where we participate with Prudential, which carries a blanket policy of $500.0 million of all-risk property insurance, including terrorism coverage. We own One Madison Avenue, which is under a triple net lease with insurance provided by the tenant, Credit Suisse Securities (USA) LLC, or CS. We monitor the coverage provided by CS to make sure that our asset is adequately protected. Although we consider our insurance coverage to be appropriate, in the event of a major catastrophe, such as an act of terrorism, we may not have sufficient coverage to replace certain properties.

In October 2006, we formed a wholly-owned taxable REIT subsidiary, Belmont, to act as a captive insurance company and be one of the elements of our overall insurance program. Belmont acts as a direct property insurer with respect to a portion of our terrorism coverage for the New York City properties and provides primary liability insurance to cover the deductible program. As long as we own Belmont, we are responsible for its liquidity and capital resources, and the accounts of Belmont are part of our consolidated financial statements. If we experience a loss and Belmont is required to pay under its insurance policy, we would ultimately record the loss to the extent of Belmont s required payment. Therefore, insurance coverage provided by Belmont should not be considered as the equivalent of third-party insurance, but rather as a modified form of self-insurance.

The Terrorism Risk Insurance Act, or TRIA, which was enacted in November 2002, was renewed on December 31, 2007. Congress extended TRIA, now called TRIPRA (Terrorism Risk Insurance Program Reauthorization and Extension Act of 2007) until December 31, 2014. The law extends the federal Terrorism Insurance Program that requires insurance companies to offer terrorism coverage and provides for compensation for insured losses resulting from acts of terrorism. Our debt instruments, consisting of mortgage loans secured by our properties (which are generally non-recourse to us), mezzanine loans, ground leases and our 2005 unsecured revolving credit facility and secured term loan, contain customary covenants requiring us to maintain insurance. There can be no assurance that the lenders or ground lessors under these instruments will not take the position that a total or partial exclusion from all-risk insurance coverage for losses due to terrorist acts is a breach of these debt and ground lease instruments that allows the lenders or ground lessors to declare an event of default and accelerate repayment of debt or recapture of ground lease positions. In addition, if lenders insist on full coverage for these risks and prevail in asserting that we are required to maintain such coverage, it could result in substantially higher insurance premiums.

Funds from Operations

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

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

We also use FFO as one of several criteria to determine performance-based bonuses for members of our senior management. FFO is intended to exclude GAAP historical cost depreciation and amortization of real estate and related assets, which assumes that the value of real estate assets diminishes ratably over time. Historically, however, real estate values have risen or fallen with market conditions. Because FFO excludes depreciation and amortization unique to real estate, gains and losses from property dispositions and extraordinary items, it provides a performance measure that, when compared year over year, reflects the impact to operations from trends in occupancy rates, rental rates, operating costs, interest costs, providing perspective not immediately apparent from net income. FFO does not represent cash generated from operating activities in accordance with GAAP and should not be considered as an alternative to net income (determined in accordance with GAAP), as an indication of our financial performance or to cash flow from operating activities (determined in accordance with GAAP) as a measure of our liquidity, nor is it indicative of funds available to fund our cash needs, including our ability to make cash distributions.

FFO for the three months ended March 31, 2008 and 2007 are as follows (in thousands):

	Three Months Ended March 31,			
		2008		**2007**
Net income available to common stockholders	**$**	**125,891**	$	147,427
Add:				
Depreciation and amortization		**55,448**		36,060
Minority interest		**6,773**		10,654
FFO from discontinued operations		**73**		6,308
FFO adjustment for unconsolidated joint ventures		**6,043**		5,822
Less:				
Income from discontinued operations		**(70)**		(3,581)
Gain on sale of discontinued operations		**(105,992)**		
Equity in net gain on sale of joint venture property/ real estate				(78,738)
Depreciation on non-rental real estate assets		**(223)**		(236)
Funds from Operations - available to all stockholders	**$**	**87,943**	$	123,716
Cash flows provided by operating activities	**$**	**20,377**	$	135,247
Cash flows provided by (used in) investing activities	**$**	**41,892**	$	(1,906,790)
Cash flows (used in) provided by financing activities	**$**	**(61,440)**	$	2,154,093

Inflation

Substantially all of the office leases provide for separate real estate tax and operating expense escalations as well as operating expense recoveries based on increases in the Consumer Price Index or other measures such as porters wage. In addition, many of the leases provide for fixed base rent increases. We believe that inflationary increases may be at least partially offset by the contractual rent increases and expense escalations described above.

Recently Issued Accounting Pronouncements

The Recently Issued Accounting Pronouncements are discussed in Note 2, Significant Accounting Policies-Recently Issued Accounting Pronouncements in the accompanying financial statements.

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

Forward-Looking Information

This report includes certain statements that may be deemed to be forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, or the Act, and Section 21E of the Securities Exchange Act of 1934, as amended, or the Exchange Act. Such forward-looking statements relate to, without limitation, our future capital expenditures, dividends and acquisitions (including the amount and nature thereof) and other development trends of the real estate industry and the Manhattan, Westchester County, Connecticut, Long Island and New Jersey office markets, business strategies, and the expansion and growth of our operations. These statements are based on certain assumptions and analyses made by us in light of our experience and our perception of historical trends, current conditions, expected future developments and other factors we believe are appropriate. We intend such forward-looking statements to be covered by the safe harbor provisions for forward-looking statements contained in Section 27A of the Act and Section 21E of the Exchange Act. Such statements are subject to a number of assumptions, risks and uncertainties which may cause our actual results, performance or achievements to be materially different from future results, performance or achievements expressed or implied by these forward-looking statements. Forward-looking statements are generally identifiable by the use of the words may, will, should, expect, anticipate, estimate, believe, intend, projec the negative of these words, or other similar words or terms. Readers are cautioned not to place undue reliance on these forward-looking statements. Among the factors about which we have made assumptions are:

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

- the continuing threat of terrorist attacks on the national, regional and local economies including, in particular, the New York City area and our tenants;

- legislative or regulatory changes adversely affecting REITs and the real estate business; and

- environmental, regulatory and/or safety requirements.

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

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

ITEM 3. Quantitative and Qualitative Disclosure About Market Risk

For quantitative and qualitative disclosures about market risk, see item 7A, Quantitative and Qualitative Disclosures About Market Risk, of our Annual Report on Form 10-K for the year ended December 31, 2007. Our exposures to market risk have not changed materially since December 31, 2007.

ITEM 4. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

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

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

Changes in Internal Control over Financial Reporting

There have been no significant changes in our internal control over financial reporting during the quarter ended March 31, 2008, that has materially affected, or is reasonably likely to material affect, our internal control over financial reporting.

PART II OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

As of March 31, 2008, we were not involved in any material litigation nor, to management s knowledge, is any material litigation threatened against us or our portfolio other than routine litigation arising in the ordinary course of business or litigation that is adequately covered by insurance.

On December 6, 2006, the company announced that it and Reckson Associates Realty Corp. had reached an agreement in principal to settle the previously disclosed class action lawsuits relating to the SL Green/Reckson merger. The settlement, which remains subject to documentation and judicial review and approval, provides (1) for certain contingent profit sharing participations for Reckson stockholders relating to specified assets, (2) for potential payments to Reckson stockholders of amounts relating to Reckson s interest in contingent profit sharing participations in connection with the sale of certain Long Island industrial properties in a prior transaction, and (3) for the dismissal by the plaintiffs of all actions with prejudice and customary releases of all defendants and related parties.

ITEM 1A. RISK FACTORS

There have been no material changes to the risk factors disclosed in Item 1A-Risk Factors in our Annual Report on Form 10-K for the year ended December 31, 2007.

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

In March 2007, our Board of Directors approved a stock purchase plan under which we can buy up to $300.0 million of our common stock. This plan will expire on December 31, 2008. In 2008, we purchased approximately 696,000 shares of our common stock at an average price of $83.89 per share.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None

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

None

ITEM 5. OTHER INFORMATION

None

ITEM 6. EXHIBITS

(a) Exhibits:

31.1 Certification by the Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 filed herewith.

31.2 Certification by the Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 filed herewith.

32.1 Certification pursuant to 18 U.S.C. section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 filed herewith.

32.2 Certification pursuant to 18 U.S.C. section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 filed herewith.

SIGNATURES

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

SL GREEN REALTY CORP.

By: /s/ Gregory F. Hughes
Gregory F. Hughes
Chief Operating Officer and Chief Financial Officer

Date: May 12, 2008