SL GREEN REALTY CORP
Form 10-Q
August 09, 2013
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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 June 30, 2013

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

420 Lexington Avenue, New York, New York 10170

(Address of principal executive offices) (Zip Code)

(212) 594-2700

(Registrant s telephone number, including area code)

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). YES x 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 x	Accelerated filer o	Non-accelerated filer o (Do not check if a smaller reporting company)	Smaller Reporting Company o

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

The number of shares outstanding of the registrant s common stock, $0.01 par value, was 91,976,638 as of July 31, 2013.

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SL GREEN REALTY CORP.

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PART I. **FINANCIAL INFORMATION**

ITEM 1. **Financial Statements**

SL Green Realty Corp.

Consolidated Balance Sheets

(in thousands, except per share data)

	June 30, 2013 (Unaudited)	December 31, 2012
Assets		
Commercial real estate properties, at cost:		
Land and land interests	$ 2,866,048	$ 2,886,099
Building and improvements	7,393,930	7,389,766
Building leasehold and improvements	1,352,953	1,346,748
Properties under capital lease	50,332	40,340
	11,663,263	11,662,953
Less: accumulated depreciation	(1,502,694)	(1,393,323)
	10,160,569	10,269,630
Assets held for sale	207,665	4,901
Cash and cash equivalents	198,969	189,984
Restricted cash	130,483	136,071
Investment in marketable securities	26,266	21,429
Tenant and other receivables, net of allowance of $20,466 and $21,652 in 2013 and 2012, respectively	51,646	48,544
Related party receivables	6,845	7,531
Deferred rents receivable, net of allowance of $29,821 and $29,580 in 2013 and 2012, respectively	360,954	340,747
Debt and preferred equity investments, net of discounts and deferred origination fees of $27,107 and $22,341 and allowance of $7,000 both in 2013 and 2012, respectively	1,227,421	1,348,434
Investments in unconsolidated joint ventures	1,085,793	1,032,243
Deferred costs, net	246,058	261,145
Other assets	699,256	718,326
Total assets	$ 14,401,925	$ 14,378,985
Liabilities		
Mortgages and other loans payable	$ 4,835,231	$ 4,615,464
Revolving credit facility	40,000	70,000
Term loan and senior unsecured notes	1,735,205	1,734,956
Accrued interest payable and other liabilities	72,415	73,769
Accounts payable and accrued expenses	138,029	159,598
Deferred revenue	296,930	312,995
Capitalized lease obligations	47,240	37,518
Deferred land leases payable	19,948	20,897
Dividend and distributions payable	34,740	37,839
Security deposits	53,604	46,253
Liabilities related to assets held for sale	11,894	136
	100,000	100,000

Junior subordinate deferrable interest debentures held by trusts that issued trust preferred securities				
Total liabilities		**7,385,236**		7,209,425
Commitments and contingencies				
Noncontrolling interest in the Operating Partnership		**243,925**		212,907
Series G preferred units, $25.00 liquidation preference, 1,902 issued and outstanding at both June 30, 2013 and December 31, 2012		**47,550**		47,550
Series H preferred units, $25.00 liquidation preference, 80 issued and outstanding at both June 30, 2013 and December 31, 2012		**2,000**		2,000
Equity				
SL Green stockholders equity:				
Series C Preferred stock, $0.01 par value, $25.00 liquidation preference, 7,700 issued and outstanding at December 31, 2012				180,340
Series I Preferred stock, $0.01 par value, $25.00 liquidation preference, 9,200 issued and outstanding at both June 30, 2013 and December 31, 2012		**221,932**		221,965
Common stock, $0.01 par value, 160,000 shares authorized and 95,376 and 94,896 issued and outstanding at June 30, 2013 and December 31, 2012, respectively (including 3,563 and 3,646 shares held in Treasury at June 30, 2013 and December 31, 2012, respectively)		**955**		950
Additional paid-in-capital		**4,716,012**		4,667,900
Treasury stock at cost		**(316,768)**		(322,858)
Accumulated other comprehensive loss		**(18,622)**		(29,587)
Retained earnings		**1,631,287**		1,701,092
Total SL Green stockholders equity		**6,234,796**		6,419,802
Noncontrolling interests in other partnerships		**488,418**		487,301
Total equity		**6,723,214**		6,907,103
Total liabilities and equity	**$**	**14,401,925**	$	14,378,985

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

SL Green Realty Corp.

Consolidated Statements of Income

(unaudited, in thousands, except per share data)

	Three Months Ended June 30, 2013	Three Months Ended June 30, 2012	Six Months Ended June 30, 2013	Six Months Ended June 30, 2012
Revenues				
Rental revenue, net	**$ 273,307**	$ 263,838	**$ 539,755**	$ 520,595
Escalation and reimbursement	**39,381**	40,967	**79,926**	82,080
Investment and preferred equity income	**46,731**	33,448	**99,439**	59,786
Other income	**5,726**	6,282	**11,493**	16,659
Total revenues	**365,145**	344,535	**730,613**	679,120
Expenses				
Operating expenses, including approximately $4,319 and $8,469 (2013) and $4,773 and $8,244 (2012) paid to related parties	**69,432**	67,434	**141,630**	139,319
Real estate taxes	**52,710**	52,256	**106,114**	103,453
Ground rent	**8,649**	8,890	**19,640**	17,696
Interest expense, net of interest income	**83,276**	82,159	**164,447**	162,130
Amortization of deferred financing costs	**4,240**	3,553	**8,703**	7,133
Depreciation and amortization	**82,020**	76,207	**161,114**	151,739
Loan loss and other investment reserves, net of recoveries				564
Transaction related costs	**1,711**	1,970	**3,068**	3,026
Marketing, general and administrative	**21,514**	20,721	**42,582**	40,917
Total expenses	**323,552**	313,190	**647,298**	625,977
Income from continuing operations before equity in net (loss) income from unconsolidated joint ventures, equity in net (loss) gain on sale of interest in unconsolidated joint venture/real estate, loss on sale of investment in marketable securities, purchase price fair value adjustment, depreciable real estate reserves, net of recoveries, and loss on early extinguishment of debt	**41,593**	31,345	**83,315**	53,143
Equity in net (loss) income from unconsolidated joint ventures	**(3,761)**	70,890	**1,313**	69,330
Equity in net (loss) gain on sale of interest in unconsolidated joint venture/real estate	**(3,583)**	9,534	**(3,583)**	16,794
Loss on sale of investment in marketable securities	**(8)**		**(65)**	
Purchase price fair value adjustment	**(2,305)**		**(2,305)**	
Depreciable real estate reserves, net of recoveries		5,789		5,789
Loss on early extinguishment of debt	**(10)**		**(18,523)**	
Income from continuing operations	**31,926**	117,558	**60,152**	145,056
Net (loss) income from discontinued operations	**(678)**	899	**320**	1,931
Gain on sale of discontinued operations			**1,113**	6,627
Net income	**31,248**	118,457	**61,585**	153,614
Net income attributable to noncontrolling interests:				
Noncontrolling interests in the Operating Partnership	**(244)**	(3,421)	**(799)**	(4,309)
Noncontrolling interests in other partnerships	**(3,004)**	(3,887)	**(5,905)**	(4,958)
Preferred unit distributions	**(565)**	(565)	**(1,130)**	(962)
Net income attributable to SL Green	**27,435**	110,584	**53,751**	143,385
Preferred stock redemption costs	**(12,160)**		**(12,160)**	
Perpetual preferred stock dividends	**(6,999)**	(7,544)	**(14,406)**	(15,089)

Net income attributable to SL Green common stockholders	**$**	**8,276**	$	103,040	**$**	**27,185**	$	128,296
Amounts attributable to SL Green common stockholders:								
Income from continuing operations	**$**	**14,722**	$	92,967	**$**	**31,580**	$	103,778
Purchase price fair value adjustment		**(2,305)**				**(2,305)**		
Equity in net (loss) gain on sale of interest in unconsolidated joint venture/real estate		**(3,482)**		9,207		**(3,482)**		16,244
Net (loss) income from discontinued operations		**(659)**		866		**311**		1,864
Gain on sale of discontinued operations						**1,081**		6,410
Net income	**$**	**8,276**	$	103,040	**$**	**27,185**	$	128,296
Basic earnings per share:								
Net income from continuing operations before discontinued operations	**$**	**0.14**	$	1.04	**$**	**0.32**	$	1.18
Equity in net (loss) gain on sale of interest in unconsolidated joint venture/real estate		**(0.04)**		0.10		**(0.03)**		0.18
Net (loss) income from discontinued operations		**(0.01)**		0.01				0.02
Gain on sale of discontinued operations						**0.01**		0.07
Net income attributable to SL Green common stockholders	**$**	**0.09**	$	1.15	**$**	**0.30**	$	1.45
Diluted earnings per share:								
Net income from continuing operations before discontinued operations	**$**	**0.14**	$	1.03	**$**	**0.32**	$	1.18
Equity in net (loss) gain on sale of interest in unconsolidated joint venture/real estate		**(0.04)**		0.10		**(0.03)**		0.18
Net (loss) income from discontinued operations		**(0.01)**		0.01				0.02
Gain on sale of discontinued operations						**0.01**		0.07
Net income attributable to SL Green common stockholders	**$**	**0.09**	$	1.14	**$**	**0.30**	$	1.45
Dividends per share	**$**	**0.33**	$	0.25	**$**	**0.66**	$	0.50
Basic weighted average common shares outstanding		**91,660**		89,789		**91,530**		88,265
Diluted weighted average common shares and common share equivalents outstanding		**94,536**		93,351		**94,452**		91,766

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

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SL Green Realty Corp.

Consolidated Statements of Comprehensive Income

(unaudited, in thousands)

	Three Months Ended June 30, 2013	Three Months Ended June 30, 2012	Six Months Ended June 30, 2013	Six Months Ended June 30, 2012
Net income	**$ 31,248**	$ 118,457	**$ 61,585**	$ 153,614
Other comprehensive income (loss):				
Net unrealized gain (loss) on derivative instruments	**181**	(477)	**140**	(623)
Reclassification of net realized loss on derivatives designated as cashflow hedges into interest expense	**470**	466	**938**	926
SL Green s share of joint venture net unrealized gain (loss) on derivative instruments	**7,888**	(6,388)	**8,109**	(6,330)
Reclassification of SL Green s share of joint venture net realized loss on derivatives designated as cashflow hedges into equity in net income from unconsolidated joint ventures	**1,260**	2,751	**2,500**	5,494
Unrealized (loss) gain on marketable securities	**(1,848)**	(542)	**(207)**	228
Other comprehensive income (loss)	**7,951**	(4,190)	**11,480**	(305)
Comprehensive income	**39,199**	114,267	**73,065**	153,309
Net income attributable to noncontrolling interests	**(3,813)**	(7,873)	**(7,834)**	(10,229)
Other comprehensive (income) loss attributable to noncontrolling interests in the Operating Partnership	**(456)**	153	**(515)**	337
Comprehensive income attributable to SL Green common stockholders	**$ 34,930**	$ 106,547	**$ 64,716**	$ 143,417

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

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SL Green Realty Corp.

Consolidated Statement of Equity

(unaudited, in thousands, except per share data)

	SL Green Realty Corp. Stockholders									
	Series C Preferred Stock	Series I Preferred Stock	Common Stock Shares	Common Stock Par Value	Additional Paid-In-Capital	Treasury Stock	Accumulated Other Comprehensive Income (Loss)	Retained Earnings	Noncontrolling Interests	Total
Balance at December 31, 2012	$ 180,340	$ 221,965	91,250	$ 950	$ 4,667,900	$ (322,858)	$ (29,587)	$ 1,701,092	$ 487,301	$ 6,907,103
Net income								53,751	5,905	59,656
Other comprehensive income							10,965			10,965
Preferred dividends								(14,406)		(14,406)
DRIP proceeds					26					26
Conversion of units of the Operating Partnership to common stock			224	2	17,285					17,287
Reallocation of noncontrolling interest in the Operating Partnership								(36,091)		(36,091)
Amortization of deferred compensation plan			4		13,324					13,324
Redemption of preferred stock	(180,340)							(12,160)		(192,500)
Preferred stock issuance costs		(33)								(33)
Issuance of common stock			95	1	8,510					8,511
Sale of treasury stock			83			6,090				6,090
Proceeds from stock options exercised			157	2	8,967					8,969
Contributions to consolidated joint venture									3,364	3,364
Cash distributions to noncontrolling interests									(8,152)	(8,152)
Cash distribution declared ($0.66 per common share, none of which represented a return of capital for federal income tax purposes)								(60,899)		(60,899)
Balance at June 30, 2013	**$**	**$ 221,932**	**91,813**	**$ 955**	**$ 4,716,012**	**$ (316,768)**	**$ (18,622)**	**$ 1,631,287**	**$ 488,418**	**$ 6,723,214**

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

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SL Green Realty Corp.

Consolidated Statements of Cash Flows

(unaudited, in thousands)

	Six Months Ended June 30, 2013	2012
Operating Activities		
Net income	$ **61,585**	$ 153,614
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	**173,028**	162,028
Depreciable real estate reserves, net of recoveries	**2,150**	(5,789)
Equity in net income from unconsolidated joint ventures	**(1,313)**	(69,330)
Distributions of cumulative earnings from unconsolidated joint ventures	**13,467**	77,981
Purchase price fair value adjustment	**2,305**	
Equity in net loss (gain) on sale of interest in unconsolidated joint venture/real estate	**3,583**	(16,794)
Gain on sale of discontinued operations	**(1,113)**	(6,627)
Loan loss and other investment reserves, net of recoveries		564
Loss on early extinguishment of debt	**10,968**	
Deferred rents receivable	**(29,452)**	(37,318)
Other non-cash adjustments	**(28,375)**	3,759
Changes in operating assets and liabilities:		
Restricted cash operations	**6,127**	(7,104)
Tenant and other receivables	**4,896**	(5,006)
Related party receivables	**768**	(3,792)
Deferred lease costs	**(19,106)**	(28,549)
Other assets	**4,075**	(27,176)
Accounts payable, accrued expenses and other liabilities	**1,793**	9,609
Deferred revenue and land leases payable	**8,102**	(2,135)
Net cash provided by operating activities	**213,488**	197,935
Investing Activities		
Acquisitions of real estate property	**(52,534)**	(248,468)
Additions to land, buildings and improvements	**(61,531)**	(76,585)
Escrowed cash capital improvements/acquisition deposits	**(394)**	(65,030)
Investments in unconsolidated joint ventures	**(81,913)**	(131,820)
Distributions in excess of cumulative earnings from unconsolidated joint ventures	**11,117**	44,172
Net proceeds from disposition of real estate/joint venture interest	**5,852**	26,099
Other investments	**(18,038)**	(31,206)
Debt and preferred equity and other investments, net of repayments/participations	**150,919**	(75,209)
Net cash used in investing activities	**(46,522)**	(558,047)
Financing Activities		
Proceeds from mortgages and other loans payable	**980,333**	1,113,500
Repayments of mortgages and other loans payable	**(833,728)**	(472,288)
Proceeds from credit facility and senior unsecured notes	**370,000**	468,339
Repayments of credit facility and senior unsecured notes	**(404,970)**	(840,793)
Proceeds from stock options exercised and DRIP issuance	**8,995**	105,195
Net proceeds from sale of common stock/preferred stock	**8,478**	201,307
Redemption of preferred stock	**(192,500)**	
Purchases of treasury stock		(11,158)
Distributions to noncontrolling interests in other partnerships	**(8,152)**	(11,999)
Contributions from noncontrolling interests in other partnerships	**3,364**	18,799
Distributions to noncontrolling interests in the Operating Partnership	**(1,775)**	(1,561)

Dividends paid on common and preferred stock	**(79,534)**	(59,155)
Deferred loan costs and capitalized lease obligations	**(8,492)**	(31,467)
Net cash (used in) provided by financing activities	**(157,981)**	478,719
Net increase in cash and cash equivalents	**8,985**	118,607
Cash and cash equivalents at beginning of period	**189,984**	138,192
Cash and cash equivalents at end of period	**$ 198,969**	$ 256,799

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

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SL Green Realty Corp.

Notes to Consolidated Financial Statements

June 30, 2013

(unaudited)

1. Organization and Basis of Presentation

SL Green Realty Corp., which is referred to as the Company or SL Green, a Maryland corporation, and SL Green Operating Partnership, L.P., which is referred to as SLGOP or the Operating Partnership, a Delaware limited partnership, were formed in June 1997 for the purpose of combining the commercial real estate business of S.L. Green Properties, Inc. and its affiliated partnerships and entities. The Operating Partnership received a contribution of interest in the real estate properties, as well as 95% of the economic interest in the management, leasing and construction companies, which are referred to as the Service Corporation, a consolidated variable interest entity. All of the management, leasing and construction services with respect to the properties that are wholly-owned by us are conducted through SL Green Management LLC which is 100% owned by the Operating Partnership. The Company has qualified, and expects to qualify in the current fiscal year, as a real estate investment trust, or REIT, under the Internal Revenue Code of 1986, as amended, or the Code, and operates as a self-administered, self-managed REIT. A REIT is a legal entity that holds real estate interests and, through payments of dividends to stockholders, is permitted to minimize the payment of Federal income taxes at the corporate level. Unless the context requires otherwise, all references to we, our and us means the Company and all entities owned or controlled by the Company, including the Operating Partnership.

Substantially all of our assets are held by, and our operations are conducted through, the Operating Partnership. The Company is the sole managing general partner of the Operating Partnership. As of June 30, 2013, noncontrolling investors held, in the aggregate, a 2.95% limited partnership interest in the Operating Partnership. We refer to these interests as the noncontrolling interests in the Operating Partnership. See Note 13, Noncontrolling Interests in Operating Partnership.

Reckson Associates Realty Corp., or Reckson, and Reckson Operating Partnership, L.P., or ROP, are wholly-owned subsidiaries of the Operating Partnership.

As of June 30, 2013, we owned the following interests in commercial office properties in the New York Metropolitan area, primarily in midtown Manhattan, a borough of New York City. Our investments in the New York Metropolitan area also include investments in Brooklyn, Long Island, Westchester County, Connecticut and Northern New Jersey, which are collectively known as the Suburban assets:

Location	Ownership	Number of Properties	Square Feet	Weighted Average Occupancy(1)
Manhattan	Consolidated properties	27	18,347,945	93.9%
	Unconsolidated properties	9	5,934,434	95.1%
Suburban	Consolidated properties	27	4,217,400	79.4%
	Unconsolidated properties	4	1,222,100	84.3%

	67	29,721,879	91.7%

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

As of June 30, 2013, we also owned investments in 14 stand-alone retail properties encompassing approximately 465,200 square feet, 15 development properties encompassing approximately 2,580,700 square feet, three residential properties encompassing 468 units (approximately 497,100 square feet), two land interests encompassing approximately 961,400 square feet and 30 west coast office properties encompassing approximately 4,066,900 square feet. In addition, we manage two office properties owned by third parties and affiliated companies encompassing approximately 626,400 rentable square feet. As of June 30, 2013, we also held debt and preferred equity investments with a book value of $1.2 billion.

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 minimize any Federal income or excise tax at the Company level. Under the Operating Partnership agreement, each limited partner has the right to redeem units of limited partnership interests for cash, or if we so elect, for shares of our common stock on a one-for-one basis.

Basis of Quarterly Presentation

The accompanying unaudited consolidated financial statements have been prepared in accordance with accounting principles generally

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SL Green Realty Corp.

Notes to Consolidated Financial Statements

June 30, 2013

(unaudited)

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 the fair presentation of the financial position of the Company at June 30, 2013 and the results of operations for the periods presented have been included. The 2013 operating results for the period presented are not necessarily indicative of the results that may be expected for the year ending December 31, 2013. 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, 2012.

The balance sheet at December 31, 2012 has been derived from the audited financial statements at that date but does not include all the information and footnotes required by accounting principles generally accepted in the United States for complete financial statements.

2. Significant Accounting Policies

Principles of Consolidation

The consolidated financial statements include our accounts and those of our subsidiaries, which are wholly-owned or controlled by us. Entities which we do not control through our voting interest and entities which are variable interest entities, but where we are not the primary beneficiary, are accounted for under the equity method or as debt and preferred equity investments. See Note 5, Debt and Preferred Equity Investments and Note 6, Investments in Unconsolidated Joint Ventures. All significant intercompany balances and transactions have been eliminated.

We consolidate variable interest entities, or VIEs, in which we are considered the primary beneficiary. The primary beneficiary of a VIE is the entity that has (i) the power to direct the activities that most significantly impact the entity s economic performance and (ii) the obligation to absorb losses of the VIE or the right to receive benefits from the VIE that could be significant to the VIE. Included in commercial real estate properties on our consolidated balance sheets as of June 30, 2013 and December 31, 2012 are approximately $599.3 million and $607.4 million, respectively, related to our consolidated VIEs. Included in mortgages and other loans payable on our consolidated balance sheets as of June 30, 2013 and December 31, 2012 are approximately $375.3 million and $379.6 million, respectively, related to our consolidated VIEs.

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

We assess the accounting treatment for each joint venture and debt and preferred equity investment. This assessment includes a review of each joint venture or limited liability company agreement to determine which party has what rights and whether those rights are protective or participating. For all VIE s, we review such agreements in order to determine which party has the power to direct the activities that most significantly impact the entity s economic performance. In situations where we and our partner approves, among other things, the annual budget, receives a detailed monthly reporting package from us, meets on a quarterly basis to review the results of the joint venture, reviews and approves the joint venture s tax return before filing, and approves all leases that cover more than a nominal amount of space relative to the total rentable space at each property, we do not consolidate the joint venture as we consider these to be substantive participation rights that result in shared power of the activities that most significantly impact the performance of our joint venture. Our joint venture agreements typically contain certain protective rights such as the requirement of partner approval to sell, finance or refinance the property and the payment of capital expenditures and operating expenditures outside of the approved budget or operating plan.

Investment in Commercial Real Estate Properties

On a periodic basis, we assess whether there are any indications that the value of our real estate properties may be impaired or that their carrying value may not be recoverable. A property s value is considered impaired if management s estimate of the aggregate future cash flows (undiscounted and without interest charges for consolidated properties) to be generated by the property is less than the carrying value of the property. To the extent impairment has occurred, the loss will be measured as the excess of the carrying amount of the property over the calculated fair value of the property. In June 2013, we recorded a $2.2 million impairment charge in connection with the expected sale of 300 Main Street in Stamford, Connecticut, which is accounted for as held for sale as of June 30, 2013.

We assess our investments in unconsolidated joint ventures for recoverability, and if it is determined that a loss in value of the investment is other than temporary, we write down the investment to its fair value. We evaluate our equity investments for

SL Green Realty Corp.

Notes to Consolidated Financial Statements

June 30, 2013

(unaudited)

impairment based on the joint venture s projected discounted cash flows. We do not believe that the values of any of our consolidated properties or equity investments were impaired at either June 30, 2013 or December 31, 2012.

When we acquire equity interests in an existing unconsolidated joint venture and gain control over the investment, we record the consolidated investment at fair value. The difference between the book value of our equity investment on the purchase date and our share of the fair value of the investment s purchase price is recorded as a purchase price fair value adjustment in our consolidated statements of income. In April 2013, we recognized a purchase price fair value adjustment of $(2.3) million in connection with the consolidation of 16 Court Street, which was previously accounted for as an investment in unconsolidated joint venture.

We allocate the purchase price of real estate to land and building (inclusive of tenant improvements) and, if determined to be material, intangibles, such as the value of above- and below-market leases and origination costs associated with the in-place leases. We depreciate the amount allocated to building (inclusive of tenant improvements) 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 generally range from one to 14 years. The value associated with in-place leases is amortized over the expected term of the associated lease, which generally ranges 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. To the extent acquired leases contain fixed rate renewal options that are below market and determined to be material, we amortize such below market lease value into rental income over the renewal period.

We recognized an increase of approximately $6.2 million, $10.1 million, $2.8 million and $4.8 million in rental revenue for the three and six months ended June 30, 2013 and 2012, respectively, for the amortization of aggregate below-market leases in excess of above-market leases and a reduction in lease origination costs, resulting from the allocation of the purchase price of the applicable properties. We recognized an increase/(reduction) in interest expense for the amortization of the above-market rate mortgages assumed of approximately $(1.3) million, $(2.6) million, $1.6 million and $0.6 million for the three and six months ended June 30, 2013 and 2012, respectively.

The following summarizes our identified intangible assets (acquired above-market leases and in-place leases) and intangible liabilities (acquired below-market leases) as of June 30, 2013 and December 31, 2012 (in thousands):

		June 30, 2013		December 31, 2012
Identified intangible assets (included in other assets):				
Gross amount	**$**	**732,160**	$	725,861
Accumulated amortization		**(296,573)**		(263,107)
Net	**$**	**435,587**	$	462,754
Identified intangible liabilities (included in deferred revenue):				
Gross amount	**$**	**667,495**	$	651,921
Accumulated amortization		**(391,631)**		(357,225)
Net	**$**	**275,864**	$	294,696

Fair Value Measurements

Fair value is a market-based measurement, not an entity-specific measurement, and should be determined based on the assumptions that market participants would use in pricing the asset or liability. As a basis for considering market participant assumptions in fair value measurements, FASB guidance establishes a fair value hierarchy that distinguishes between market participant assumptions based on market data obtained from sources independent of the reporting entity (observable inputs that are classified within Levels 1 and 2 of the hierarchy) and the reporting entity s own assumptions about market participant assumptions (unobservable inputs classified within Level 3 of the hierarchy).

We determined the fair value of our current investments in marketable securities using Level 1, Level 2 and Level 3 inputs.

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The estimated fair values of tangible and intangible assets and liabilities recorded in connection with business combinations are based on Level 3 inputs. We estimate fair values based on cash flow projections utilizing appropriate discount and/or capitalization rates and available market information.

We determine impairment in real estate investments and debt and preferred equity investments, including intangibles, utilizing cash flow projections that apply estimated revenue and expense growth rates, discount rates and capitalization rates, which are classified as Level 3 inputs.

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

- *Cash and cash equivalents, restricted cash, accounts receivable, and accounts payable and accrued expenses:* The carrying amount of cash and cash equivalents, restricted cash, accounts receivable, and accounts payable and accrued expenses reported in our consolidated balance sheets approximates fair value due to the short term nature of these instruments.

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

- *Derivative instruments:* The fair value of derivative instruments is based on current market data received from financial sources that trade such instruments and are based on prevailing market data and derived from third party proprietary models based on well-recognized financial principles and reasonable estimates about relevant future market conditions.

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

The methodologies used for measuring fair value have been categorized into three broad levels as follows:

Level 1 Quoted prices in active markets for identical instruments.

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

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

Level 3 Valuations based significantly on unobservable inputs.

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

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

Investment in Marketable Securities

We invest in marketable securities. At the time of purchase, we are required to designate a security as held-to-maturity, available-for-sale, or trading depending on ability and intent. We do not have any securities designated as held-to-maturity or trading at this time. Securities available-for-sale are reported at fair value pursuant to ASC 820-10, with the net unrealized gains or losses reported as a component of accumulated other comprehensive loss. Unrealized losses that are determined to be other-than-temporary are recognized in earnings up to their credit component. Included in accumulated other comprehensive loss at June 30, 2013 and December 31, 2012 is approximately $3.1 million and $3.3 million, respectively, in net unrealized gains related to marketable securities.

The cost of bonds and marketable securities sold was determined using the specific identification method.

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At June 30, 2013 and December 31, 2012, we held the following marketable securities (in thousands):

		June 30, 2013	December 31, 2012
Level 1	Equity marketable securities	**$ 3,371**	$ 2,202
Level 2	Commercial mortgage-backed securities	**19,406**	15,575
Level 3	Rake bonds	**3,489**	3,652
Total marketable securities available-for-sale		**$ 26,266**	$ 21,429

The cost basis of the Level 3 securities was $3.7 million at both June 30, 2013 and December 31, 2012, respectively. There were no sales of Level 3 securities during the three and six months ended June 30, 2013. The Level 3 securities mature at various times through 2030.

Revenue Recognition

Rental revenue is recognized on a straight-line basis over the term of the lease. Rental revenue recognition commences when the tenant takes possession or controls the physical use of the leased space. In order for the tenant to take possession, the leased space must be substantially ready for its intended use. To determine whether the leased space is substantially ready for its intended use, management evaluates whether we are or the tenant is the owner of tenant improvements for accounting purposes. When management concludes that we are the owner of tenant improvements, rental revenue recognition begins when the tenant takes possession of the finished space, which is when such tenant improvements are substantially complete. In certain instances, when management concludes that we are not the owner (the tenant is the owner) of tenant improvements, rental revenue recognition begins when the tenant takes possession of or controls the space. When management concludes that we are the owner of tenant improvements for accounting purposes, management records amounts funded to construct the tenant improvements as a capital asset. For these tenant improvements, management records amounts reimbursed by tenants as a reduction of the capital asset. When management concludes that the tenant is the owner of tenant improvements for accounting purposes, management records our contribution towards those improvements as a lease incentive, which is included in deferred leasing costs on our consolidated balance sheets and amortized as a reduction to rental revenue on a straight-line basis over the term of the lease. The excess of rents recognized over amounts contractually due pursuant to the underlying leases are included in deferred rents receivable on the accompanying consolidated balance sheets. We establish, on a current basis, an allowance for future potential tenant credit losses, which may occur against this account. The balance reflected on the consolidated balance sheet is net of such allowance.

In addition to base rent, our tenants also generally will pay their pro rata share of increases in real estate taxes and operating expenses for the building over a base year. In some leases, in lieu of paying additional rent based upon increases in building operating expenses, the tenant will pay additional rent based upon increases in the wage rate paid to porters over the porters wage rate in effect during a base year or increases in the consumer price index over the index value in effect during a base year. In addition, many of our leases contain fixed percentage increases over the base rent to cover escalations. Electricity is most often supplied by the landlord either on a sub-metered basis, or rent inclusion basis (i.e., a fixed fee is included in the rent for electricity, which amount may increase based upon increases in electricity rates or increases in electrical usage by the tenant). Base building services other than electricity (such as heat, air conditioning and freight elevator service during business hours, and base building cleaning) are typically provided at no additional cost, with the tenant paying additional rent only for services which exceed base building services or for services which are provided outside normal business hours. These escalations are based on actual expenses incurred in the prior calendar year. If the expenses in the current year are different from those in the prior year, then during the current year, the escalations will be adjusted to reflect the actual expenses for the current year.

We record a gain on sale of real estate when title is conveyed to the buyer, subject to the buyer s financial commitment being sufficient to provide economic substance to the sale and we have no substantial economic involvement with the buyer.

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

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

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

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

Reserve for Possible Credit Losses

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

Where impairment is indicated on an investment that is held to maturity, a valuation allowance is measured based upon the excess of the recorded investment amount over the net fair value of the collateral. Any deficiency between the carrying amount of an asset and the calculated value of the collateral is charged to expense. The write-off of the reserve balance is called a charge off. We recorded no loan loss reserves during the three and six months ended June 30, 2013. During the three and six months ended June 30, 2012, we recorded loan loss reserves of zero and $3.0 million, respectively, on investments being held to maturity and approximately zero and $2.4 million, respectively, in recoveries in connection with the sale of our investments. This is included in loan loss and other investment reserves, net of recoveries in the accompanying consolidated statements of income.

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

Income Taxes

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

Pursuant to amendments to the Code that became effective January 1, 2001, we have elected, and may in the future, elect to treat certain of our existing or newly created corporate subsidiaries as taxable REIT subsidiaries, or a TRS. In general, our TRSs 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 and state income tax liability for these entities.

During the three and six months ended June 30, 2013, we recorded Federal, state and local tax provisions of $2.3 million and $3.9 million, respectively, and made estimated tax payments of zero and $0.1 million, respectively. During the three and six months ended June 30, 2012, we recorded Federal, state and local tax provisions of $0.1 million and less than $0.1 million, respectively. We made no estimated payments during the three and six months ended June 30, 2012.

We follow a two-step approach for evaluating uncertain tax positions. Recognition (step one) occurs when an enterprise concludes that a tax position, based solely on its technical merits, is more-likely-than-not to be sustained upon examination. Measurement (step two) determines the amount of benefit that is more-likely-than-not to be realized upon settlement. Derecognition of a tax position that was previously recognized would occur when a company subsequently determines that a tax position no longer meets the more-likely-than-not threshold of being sustained. The use of a valuation allowance as a substitute for derecognition of tax positions is prohibited.

Stock-Based Employee Compensation Plans

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

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Our stock options are recorded at fair value at the time of issuance. Fair value of the stock options is determined using the Black-Scholes option-pricing model. The Black-Scholes 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 common stock on the grant date. Awards of stock or restricted stock are expensed as compensation over the benefit period based on the fair value of the stock on the grant date.

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

Awards can also be made in the form of a separate series of units of limited partnership interest in the Operating Partnership called long-term incentive plan units, or LTIP Units. LTIP Units, which can be granted either as free-standing awards or in tandem with other awards under our stock incentive plan, are valued by reference to the value of our common stock at the time of grant, and are subject to such conditions and restrictions as the compensation committee of our board of directors may determine, including continued employment or service, computation of financial metrics and/or achievement of pre-established performance goals and objectives.

Earnings per Share

We present both basic and diluted earnings per share, or EPS. Basic EPS excludes dilution and is computed by dividing net income attributable to common stockholders by the weighted average number of common shares outstanding during the period. Basic EPS includes participating securities, consisting of unvested restricted stock that receive nonforfeitable dividends similar to shares of common stock. Diluted EPS reflects the potential dilution that could occur if securities or other contracts to issue common stock were exercised or converted into common stock, where such exercise or conversion would result in a lower EPS amount. This also includes units of limited partnership interest. The dilutive effect of stock options is reflected in the weighted average diluted outstanding shares calculation by application of the treasury stock method. There is no dilutive effect for the exchangeable senior debentures as the conversion premium will be paid in cash.

Use of Estimates

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

Concentrations of Credit Risk

Financial instruments that potentially subject us to concentrations of credit risk consist primarily of cash investments, debt and preferred equity investments and accounts receivable. We place our cash investments in excess of insured amounts with high quality financial institutions. The collateral securing our debt and preferred equity investments is located in the New York Metropolitan area. See Note 5, Debt and Preferred Equity Investments. We perform ongoing credit evaluations of our tenants and require most tenants to provide security deposits or letters of credit. Though these security deposits and letters of credit are insufficient to meet the total value of a tenant s lease obligation, they are a measure of good faith and a source of funds to offset the economic costs associated with lost rent and the costs associated with re-tenanting the space. Although the properties in our real estate portfolio are primarily located in Manhattan, we also have Suburban properties located in Brooklyn, Long Island, Westchester County, Connecticut, Northern New Jersey and the west coast. The tenants located in our buildings operate in various industries. Other than three tenants who account for

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approximately 6.0%, 6.4% and 7.1% of our share of annualized cash rent, no other tenant in our portfolio accounted for more than 1.9% of our annualized cash rent, including our share of joint venture annualized cash rent for the three months ended June 30, 2013. Approximately 9%, 6% and 6% of our annualized cash rent for consolidated properties for the three months ended June 30, 2013 was attributable to 1515 Broadway, 1185 Avenue of the Americas and One Madison Avenue, respectively. In addition, two debt and preferred equity investments accounted for more than 10% of the income earned on debt and preferred equity investments during the three months ended June 30, 2013.

Reclassification

Certain prior year balances have been reclassified to conform to our current year presentation primarily in order to eliminate discontinued operations from income from continuing operations and to reclassify deferred origination fees from deferred income to debt and preferred equity investments.

Accounting Standards Updates

In February 2013, the FASB issued guidance on the presentation and disclosure of reclassification adjustments out of accumulated other comprehensive income, or AOCI. The standard requires an entity to present information about significant items reclassified out of AOCI by component either on the face of the statement where net income is presented or as a separate disclosure in the notes to financial statements. The guidance became effective for calendar year-end public companies beginning in the first quarter of 2013 and its adoption did not have a material impact on our consolidated financial statements.

3. Property Acquisitions

2013 Acquisitions

In April 2013, we acquired interests from our joint venture partner, City Investment Fund, or CIF, in 16 Court Street for $4.0 million. We have consolidated the ownership of the 318,000 square foot building. The transaction valued the consolidated interest at $96.2 million, inclusive of the $84.7 mortgage encumbering the property. We recognized a purchase price fair value adjustment of $(2.3) million upon the closing of this transaction. This property, which we initially acquired in July 2007, was previously accounted for as an investment in unconsolidated joint ventures. We are currently in the process of analyzing the fair value of the investment. Therefore, the purchase price allocation is preliminary and subject to change.

In March 2013, we, along with Magnum Real Estate Group, acquired 84 residential apartment units, consisting of 72 apartment units and 12 townhouses, located at 248-252 Bedford Avenue, Williamsburg, Brooklyn for $54.9 million. Simultaneous with the closing, the joint venture closed on a five-year $22.0 million mortgage loan which carries a floating rate of interest of 225 basis points over LIBOR. The property sits on top of a commercial property already owned by us. We hold a 90% controlling interest in this joint venture.

2012 Acquisitions

In December 2012, we acquired a 68,000 square foot mixed use retail, office and residential building located at 131-137 Spring Street for $122.3 million.

In December 2012, we acquired the aggregate 42,000 square foot vacant retail buildings located at 985-987 Third Avenue for $18.0 million.

In October 2012, we, along with Stonehenge Partners, acquired a 99-year leasehold position covering an 82,250 square foot, 96 unit residential building located at 1080 Amsterdam Avenue which we plan to redevelop into luxury residential units.

In September 2012, we acquired the aggregate 267,000 square foot office buildings located at 635 and 641 Sixth Avenue for $173.0 million.

In June 2012, we acquired a 215,000 square foot office building located at 304 Park Avenue South for $135.0 million. The property was acquired with approximately $102.0 million in cash and $33.0 million in units of limited partnership interest of the Operating Partnership.

In October 2011, we formed a joint venture with Stonehenge Partners and, in January 2012, we acquired five retail and two multifamily properties in Manhattan for $193.1 million, inclusive of the issuance of $47.6 million aggregate liquidation preference of 4.5% Series G preferred units of limited partnership interest of the Operating Partnership. Simultaneous with the closing, we financed the multifamily component, which encompasses 385 units and 488,000 square feet, with an aggregate 12-year $100.0 million fixed

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rate mortgage which bears interest at 4.125% and one of the retail properties financed with a five-year $8.5 million fixed rate mortgage which bears interest at 3.75%. We hold an 80% interest in this joint venture, which we consolidate as a VIE since we have been designated as the primary beneficiary.

The following summarizes our allocation of the purchase price of the assets acquired and liabilities assumed upon the closing of these acquisitions (in thousands):

	248-252 Bedford Avenue	131-137 Spring Street	635-641 Sixth Avenue	304 Park Avenue South	Stonehenge Properties
Land	$ $10,865	$ 27,021	$ 69,848	$ 54,189	$ 65,533
Building and building leasehold	44,035	105,342	104,474	75,619	128,457
Above market lease value		179		2,824	594
Acquired in-place leases		7,046	7,727	8,265	9,573
Other assets, net of other liabilities					2,190
Assets acquired	54,900	139,588	182,049	140,897	206,347
Fair value adjustment to mortgage note payable					
Below market lease value		17,288	9,049	5,897	13,239
Liabilities assumed		17,288	9,049	5,897	13,239
Purchase price allocation	$ 54,900	$ 122,300	$ 173,000	$ 135,000	$ 193,108
Net consideration funded by us at closing, excluding consideration financed by debt	$ 21,782	$ 122,300	$ 173,000	$ 135,000	$ 78,121
Equity and/or debt investment held	$	$	$	$	$
Debt assumed	$	$	$	$	$

4. Property Dispositions and Assets Held for Sale

In June 2013, we entered into an agreement to sell the property located at 333 West 34th, New York, New York for $220.3 million. This transaction is expected to close during the third quarter of 2013.

In March 2013, we entered into an agreement to sell the property located at 300 Main Street, Stamford, Connecticut for $13.5 million. We recorded a $2.2 million impairment charge, in the second quarter of 2013, in connection with the expected sale of this property. This transaction is expected to close during the third quarter of 2013.

In February 2013, we, along with our joint venture partner, sold our property located at 44 West 55th Street for $6.3 million. We recognized a gain of $1.1 million on the sale.

In February 2012, we sold our leased fee interest at 292 Madison Avenue for $85.0 million. We recognized a gain of $6.6 million on the sale.

Discontinued operations included the results of operations of real estate assets under contract or sold prior to June 30, 2013. This included 300 Main Street and 333 West 34th Street, which were held for sale at June 30, 2013, 44 West 55th Street, which was sold in February 2013 and 292 Madison Avenue, which was sold in February 2012.

The following table summarizes income from discontinued operations for the three and six months ended June 30, 2013 and 2012, respectively (in thousands).

	Three Months Ended June 30,		Six Months Ended June 30,	
	2013	**2012**	**2013**	**2012**
Revenues				
Rental revenue	**$ 4,930**	$ 3,853	**$ 8,960**	$ 8,425
Escalation and reimbursement revenues	**155**	618	**609**	1,167
Other income			**7**	
Total revenues	**5,085**	4,471	**9,576**	9,592
Operating expenses	**1,542**	1,488	**2,983**	2,866
Real estate taxes	**284**	313	**578**	614
Interest expense, net of interest income	**167**	166	**331**	930
Depreciable real estate reserves	**2,150**		**2,150**	
Transaction related costs	**3**		**3**	95
Depreciation and amortization	**1,617**	1,605	**3,211**	3,156
Total expenses	**5,763**	3,572	**9,256**	7,661
Net (loss) income from discontinued operations	**$ (678)**	$ 899	**$ 320**	$ 1,931

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5. Debt and Preferred Equity Investments

During the six months ended June 30, 2013 and 2012, our debt and preferred equity investments (net of discounts and deferred origination fees) increased approximately $298.8 million and $159.1 million, respectively, due to originations, purchases, accretion of discounts and paid-in-kind interest. We recorded repayments, participations and sales of approximately $419.8 million and $159.8 million, respectively, and loan loss reserves of zero and $3.0 million during the six months ended June 30, 2013 and 2012, respectively, which offset the increases in debt and preferred equity investments.

Debt Investments

As of June 30, 2013 and December 31, 2012, we held the following debt investments with an aggregate weighted average current yield of approximately 11.2% at June 30, 2013 (in thousands):

Loan Type	June 30, 2013 Senior Financing	June 30, 2013 Carrying Value, Net of Discounts and Deferred Origination Fees	December 31, 2012 Carrying Value, Net of Discounts and Deferred Origination Fees	Initial Maturity Date
Other Loan	**$ 398,500**	**$ 14,820**	$	March 2015
Mezzanine Loan	**205,000**	**67,170**	66,307	February 2016
Mortgage/Mezzanine Loan	**167,966**	**44,358**	44,013	May 2016
Mezzanine Loan	**177,000**	**15,436**	15,906	May 2016
Junior Participation	**133,000**	**49,000**	49,000	June 2016
Mezzanine Loan	**165,000**	**71,073**	70,967	November 2016
Mortgage/Mezzanine Loan(1)	**1,109,000**	**75,602**	115,804	March 2017
Other Loan	**15,000**	**3,500**	3,500	September 2021
Mortgage(2)			218,068	
Total fixed rate	**$ 2,370,466**	**$ 340,959**	$ 583,565	
Mezzanine Loan(3)		**29,826**		December 2013
Junior Participation(4)(13)	**57,750**	**10,863**	10,869	February 2014
Junior Participation(5)	**78,200**	**23,057**		February 2014
Mortgage/Mezzanine Loan(6)	**330,000**	**131,470**	131,231	July 2014
Mezzanine Loan(7)	**62,500**	**37,359**	37,288	July 2014
Mezzanine Loan	**180,000**	**59,812**	59,739	August 2014
Mortgage		**14,817**	14,745	September 2014

Mortgage/Mezzanine Loan(8)				**51,227**		47,253	February 2015
Mezzanine Loan(9)		**92,711**		**27,734**		55,336	December 2015
Mezzanine Loan(10)		**775,000**		**72,358**			March 2016
Mezzanine Loan(11)		**160,000**		**22,503**		7,624	June 2016
Mezzanine Loan		**87,300**		**25,572**		34,761	July 2016
Mezzanine Loan(12)		**83,933**		**35,563**		34,444	October 2016
Total floating rate	**$**	**1,907,394**	**$**	**542,161**	$	433,290	
Total		**4,277,860**		**883,120**		1,016,855	
Loan loss reserve(13)				**(7,000)**		(7,000)	
	$	**4,277,860**	**$**	**876,120**	$	1,009,855	

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(1) Interest is added to the principal balance for this accrual only loan. In January 2013, we sold 50% of the mezzanine loan for $57.8 million and recognized additional income of $12.9 million, which is included in investment and preferred equity income on the

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consolidated statements of income. The unaccrued interest during the period in which the loan was on non-accrual status is being accreted as of January 2013.

(2) In November 2012, we acquired this non-performing loan with an original balance of $219.0 million, which accrued interest at its default rate. In connection with the repayment of the loan in May 2013, we recognized additional income of $6.4 million, which is included in investment and preferred equity income on our consolidated statements of income.

(3) In February 2013, we entered into a loan participation agreement in the amount of $30.0 million on a $100.0 million mortgage. The note has two one-year extension options.

(4) This loan matured in June 2013 and was extended to February 2014. The loan has an additional four-month extension option.

(5) As of June 30, 2013, we were committed to fund an additional $1.7 million in connection with this loan.

(6) As part of the restructuring and refinancing of the related senior mortgage in July 2012, our outstanding investment in the amount of $49.9 million was repaid in full at maturity and we also entered into a loan participation in the amount of $182.0 million on the $462.0 million outstanding senior mortgage which maturity was extended to July 2014. In September 2012, we sold $50.0 million of our interest in the senior mortgage to a third party.

(7) In November 2012, we entered into a loan participation agreement in the amount of $5.0 million on a $37.5 million mortgage. As a result of the transfer not meeting the conditions for sale accounting, the portion that was participated out has been recorded in other liabilities in the accompanying consolidated balance sheets.

(8) As of June 30, 2013, we were committed to fund an additional $7.1 million in connection with this loan.

(9) We funded $56.3 million at origination. In June 2013, we sold 50% of our interest in the $85 million mezzanine loan. As of June 30, 2013, we were committed to fund an additional $13.6 million in connection with our share of this loan.

(10) In March 2013, we originated a $150.0 million junior mezzanine loan and simultaneously sold one-half of our interest at par.

(11) In November 2011, we entered into a loan participation agreement in the amount of $7.4 million on a $15.0 million mortgage. As part of the refinancing of the related senior mortgage in June 2013, we originated a $30.0 million mezzanine loan and our outstanding investment in the amount of $15.0 million, including the participated interest, was repaid in full. Following the refinancing, we entered into a loan participation agreement in the amount of $7.4 million on this $30.0 million mezzanine loan. Due to our continued involvement with the loan, the portion that was participated out has been recorded in other assets and other liabilities in the accompanying consolidated balance sheets.

(12) As of June 30, 2013, we were committed to fund an additional $14.1 million in connection with this loan.

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

Preferred Equity Investments

As of June 30, 2013 and December 31, 2012, we held the following preferred equity investments, with an aggregate weighted average current yield of approximately 10.2% at June 30, 2013 (in thousands):

Type	June 30, 2013 Senior	June 30, 2013 Carrying Value, Net of	December 31, 2012 Carrying Value, Net of	Initial Mandatory Redemption

	Financing		Discounts and Deferred Origination Fees		Discounts and Deferred Origination Fees	
Preferred equity	$	**70,000**	$	**9,934**	$ 9,927	October 2014
Preferred equity(1)(2)		**525,000**		**105,360**	99,768	July 2015
Preferred equity(1)(3)		**55,986**		**22,213**	18,925	April 2016
Preferred equity(1)		**926,260**		**213,794**	209,959	July 2016
	$	**1,577,246**	$	**351,301**	$ 338,579	

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

(2) The reserve previously taken against this loan is being accreted up to the face amount through the maturity date. In June 2013, the redemption date was extended from July 2014 to July 2015.

(3) As of June 30, 2013, we were committed to fund an additional $3.6 million on this loan.

The following table is a rollforward of our total loan loss reserves at June 30, 2013 and December 31, 2012 (in thousands):

	June 30, 2013	December 31, 2012
Balance at beginning of year	**$ 7,000**	$ 50,175
Expensed		3,000
Recoveries		(2,436)
Charge-offs and reclassifications		(43,739)
Balance at end of period	**$ 7,000**	**$** 7,000

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At June 30, 2013 and December 31, 2012, all debt and preferred equity investments, other than as noted above, were performing in accordance with the terms of the loan agreements.

We have determined that we have one portfolio segment of financing receivables at June 30, 2013 and December 31, 2012 comprising commercial real estate, which is primarily recorded in debt and preferred equity investments. Included in other assets is an additional amount of financing receivables totaling approximately $141.7 million at June 30, 2013 and $121.3 million at December 31, 2012. No financing receivables were 90 days past due or on non-accrual status at June 30, 2013.

The following table presents impaired loans, which may include non-accrual loans, as of June 30, 2013 and December 31, 2012, respectively (in thousands):

	June 30, 2013			**December 31, 2012**		
	Unpaid Principal Balance	**Recorded Investment**	**Allowance Allocated**	**Unpaid Principal Balance**	**Recorded Investment**	**Allowance Allocated**
With no related allowance recorded:						
Commercial real estate	**$**	**$**	**$**	$	$	$
With an allowance recorded:						
Commercial real estate	**10,750**	**10,750**	**7,000**	10,750	10,750	7,000
Total	**$ 10,750**	**$ 10,750**	**$ 7,000**	$ 10,750	$ 10,750	$ 7,000

The following table presents the average recorded investment in impaired loans, which may include non-accrual loans and the related investment and preferred equity income recognized during the three and six months ended June 30, 2013 and 2012, respectively (in thousands):

	Three Months Ended June 30,		**Six Months Ended June 30,**	
	2013	**2012**	**2013**	**2012**
Average recorded investment in impaired loans	$ 10,876	$ 69,932	$ 10,870	$ 74,935
Investment and preferred equity income recognized	261	2,333	487	3,895

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

6. Investments in Unconsolidated Joint Ventures

We have investments in several real estate joint ventures with various partners, including SITQ Immobilier, a subsidiary of Caisse de depot et placement du Quebec, or SITQ, Canada Pension Plan Investment Board, or CPPIB, Prudential Real Estate Investors, or Prudential, Onyx Equities, or Onyx, The Witkoff Group, or Witkoff, Credit Suisse Securities (USA) LLC, or Credit Suisse, Jeff Sutton, or Sutton, Harel Insurance and Finance, or Harel, Louis Cappelli, or Cappelli, The Moinian Group, or Moinian, Vornado Realty Trust (NYSE: VNO), or Vornado, Blackstone Real Estate Partners VII, or Blackstone, Square Mile Capital Management LLC, or Square Mile, Plaza Global Real Estate Partners LP or Plaza, Angelo Gordon Real Estate Inc., or AG, as well as private investors. All the investments below are voting interest entities, except for 33 Beekman, 3 Columbus Circle and 180/182 Broadway which are VIEs in which we are not the primary beneficiary. Our net equity investment in these three VIEs was $133.4 million and $117.7 million at June 30, 2013 and December 31, 2012, respectively. As we do not control the joint ventures listed below, we account for them under the equity method of accounting.

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The table below provides general information on each of our joint ventures as of June 30, 2013 (amounts in thousands):

Property	Partner	Ownership Interest	Economic Interest	Square Feet	Acquired	Acquisition Price($)(1)
100 Park Avenue	Prudential	49.90%	49.90%	834	02/00	95,800
21 West 34th Street	Sutton	50.00%	50.00%	30	07/05	22,400
1604-1610 Broadway(14)	Onyx	70.00%	70.00%	30	11/05	4,400
27-29 West 34th Street	Sutton	50.00%	50.00%	41	01/06	30,000
717 Fifth Avenue(2)	Sutton/Private Investor	10.92%	10.92%	120	09/06	251,900
800 Third Avenue	Private Investors	42.95%	42.95%	526	12/06	285,000
1745 Broadway	Witkoff/SITQ/Lehman Bros.	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
The Meadows(3)	Onyx	50.00%	50.00%	582	09/07	111,500
388 and 390 Greenwich Street(4)	SITQ	50.60%	50.60%	2,600	12/07	1,575,000
180/182 Broadway(5)	Harel/Sutton	25.50%	25.50%	71	02/08	43,600
600 Lexington Avenue	CPPIB	55.00%	55.00%	304		