

SL GREEN REALTY CORP
Form 8-K/A
September 14, 2006

**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549**

FORM 8-K/A

CURRENT REPORT

Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

Date of Report (Date of earliest event reported):

June 30, 2006

SL GREEN REALTY CORP.

(EXACT NAME OF REGISTRANT AS SPECIFIED IN ITS CHARTER)

MARYLAND

(STATE OF INCORPORATION)

1-13199

(COMMISSION FILE NUMBER)

13-3956775

(IRS EMPLOYER ID. NUMBER)

420 Lexington Avenue

New York, New York

(ADDRESS OF PRINCIPAL EXECUTIVE OFFICES)

10170

(ZIP CODE)

(212) 594-2700

(REGISTRANT'S TELEPHONE NUMBER, INCLUDING AREA CODE)

Check the appropriate box below if the Form 8-K filing is intended to simultaneously satisfy the filing obligation of the registrant under any of the following provisions:

- o Written communications pursuant to Rule 425 under the Securities Act (17 CFR 230.425)
- o Soliciting material pursuant to Rule 14a-12 under the Exchange Act (17 CFR 240.14a-12)
- o Pre-commencement communications pursuant to Rule 14d-2(b) under the Exchange Act (17 CFR 240.14d-2(b))
- o Pre-commencement communications pursuant to Rule 13e-4(c) under the Exchange Act (17 CFR 240.13e-4(c))

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant hereby amends the following items, financial statements, exhibits or other portions of its Current Report on Form 8-K, dated June 30, 2006 (filed with the Securities and Exchange Commission on July 7, 2006), as set forth in the pages attached hereto.

Item 9.01. Financial Statements And Exhibits

(a) and (b) Financial Statements Of Property Acquired And Pro Forma Financial Information

PRO FORMA CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

Pro Forma Condensed Consolidated Balance Sheet
(Unaudited) as of June 30, 2006

Pro Forma Condensed Consolidated Income Statement
(Unaudited) for the six months ended June 30, 2006. F-2

Pro Forma Condensed Consolidated Income Statement
(Unaudited) for the year ended December 31, 2005 F-3

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CONSOLIDATED FINANCIAL STATEMENTS

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Revenues and Certain Expenses of 521 Fifth Avenue
for the six months ended June 30, 2006 (Unaudited) and the year ended December 31, 2005. F-7

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Revenues and Certain Expenses of 609 Fifth Avenue
for the six months ended June 30, 2006 (unaudited) and the year ended December 31, 2005 F-11

Notes to Financial Statements F-12

(c) EXHIBITS

99.1. Consent of Berdon LLP

SIGNATURES

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

SL GREEN REALTY CORP.

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

Date: September 14, 2006

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SL GREEN REALTY CORP.

**PRO FORMA CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED)**

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

On June 30, 2006, we completed the investment in the previously announced transaction involving 609 Fifth Avenue a mixed-use property that includes New York City's American Girl Store and approximately 100,000 square feet of Class A office space in a transaction that valued the property at approximately \$182.0 million. We issued approximately 64 million preferred units in SL Green Operating Partnership, L.P., valued at \$1.00 per unit, to subsidiaries of 609 Partners, LLC, the partnership that indirectly holds the property, and acquired all of its common partnership interests. The property remains subject to a \$102.0 million mortgage loan held by Morgan Stanley Mortgage Capital, Inc. The mortgage has a fixed annual interest rate of 5.85% and will mature in October 2013.

The unaudited pro forma condensed consolidated balance sheet of SL Green Realty Corp. (the Company) as of June 30, 2006 has not been included in these financial statements as both 609 Fifth Avenue and 521 Fifth Avenue are included in the balance sheet of the Company at June 30, 2006. The unaudited pro forma condensed consolidated income statements for the year ended December 31, 2005 and the six months ended June 30, 2006 are presented as if the Company's acquisition of interests in the properties located at 609 Fifth Avenue and 521 Fifth Avenue occurred on January 1, 2005 and the effect was carried forward through the year and the six month period.

The pro forma condensed consolidated financial statements do not purport to represent what our financial position or results of operations would have been assuming the completion of these acquisitions had occurred on January 1, 2005 and for the period indicated, nor do they purport to project our financial position or results of operations at any future date or for any future period. These pro forma condensed consolidated financial statements should be read in conjunction with our 2005 Annual Report on Form 10-K and our Quarterly Report on Form 10-Q for the quarterly period ended June 30, 2006.

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SL GREEN REALTY CORP.

PRO FORMA CONDENSED CONSOLIDATED INCOME STATEMENT
FOR THE SIX MONTH PERIOD ENDED JUNE 30, 2006
(UNAUDITED)
(IN THOUSANDS EXCEPT PER SHARE AMOUNTS)

| | SL GREEN REALTY CORP. HISTORICAL (A) | 521 AND 609 FIFTH AVENUE ACQUISITION (B) | SL GREEN PRO FORMA ADJUSTMENTS | | SL GREEN REALTY CORP. PRO FORMA |
|--|--|--|--------------------------------------|-----|--|
| REVENUES: | | | | | |
| Rental revenue, net | \$ 170,671 | \$ 10,451 | \$ 577 | (C) | \$ 181,699 |
| Escalation and reimbursement revenues | 31,281 | 1,322 | | | 32,603 |
| Preferred equity and investment income | 30,784 | | | | 30,784 |
| Other income | 21,375 | | | | 21,375 |
| Total revenues | 254,111 | 11,773 | 577 | | 266,461 |
| EXPENSES: | | | | | |
| Operating expenses including \$6,131 paid to affiliates | 58,738 | 2,183 | (180) | (D) | 60,741 |
| Real estate taxes | 37,513 | 1,852 | | | 39,365 |
| Ground rent | 9,842 | | | | 9,842 |
| Interest | 41,751 | 3,744 | 3,866 | (E) | 49,361 |
| Amortization of deferred financing costs | 1,956 | | | (F) | 1,956 |
| Depreciation and amortization | 34,204 | | 3,133 | (D) | 37,337 |
| Marketing, general and administrative | 26,243 | 163 | (163) | (D) | 26,243 |
| Total expenses | 210,247 | 7,942 | 6,655 | | 224,844 |
| Income (loss) from continuing operations before equity in net income of unconsolidated joint ventures, minority interest and discontinued operations | 43,864 | 3,831 | (6,078) |) | 41,617 |
| Equity in net income of unconsolidated joint ventures | 20,564 | | | | 20,564 |
| Income (loss) from continuing operations before minority interest and discontinued operations | 64,428 | 3,831 | (6,078) |) | 62,181 |
| Equity in net gain on sale of interest in unconsolidated joint venture | | | | | |
| Minority interest in other partnerships | (1,966) |) | | | (1,966) |
| Minority interest in operating partnership | (2,633) |) | 305 | (G) | (2,520) |
| Income (loss) from continuing operations | 59,829 | 3,639 | (5,773) |) | 57,695 |
| Income from discontinued operations, net of minority interest | 2,901 | | | | 2,901 |
| Net income (loss) | 62,730 | 3,639 | (5,773) |) | 60,596 |
| Preferred stock dividends | (9,938) |) | | | (9,938) |
| Net income (loss) available to common shareholders | \$ 52,792 | \$ 3,639 | \$ (5,773) |) | \$ 50,658 |
| BASIC EARNINGS PER SHARE:(H) | | | | | |
| Net income from continuing operations | \$ 1.16 | | | | \$ 1.11 |
| Income from discontinued operations | 0.07 | | | | 0.07 |
| Net income | \$ 1.23 | | | | \$ 1.18 |
| DILUTED EARNINGS PER SHARE:(H) | | | | | |
| Net income from continuing operations | \$ 1.12 | | | | \$ 1.07 |
| Income from discontinued operations | 0.07 | | | | 0.07 |

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| | | |
|---|---------|---------|
| Net income | \$ 1.19 | \$ 1.14 |
| Dividends per common share | \$ 1.20 | \$ 1.20 |
| Basic weighted average common shares outstanding | 43,026 | 43,026 |
| Diluted weighted average common shares and common share equivalents outstanding | 46,775 | 46,775 |

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

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SL GREEN REALTY CORP.**PRO FORMA CONDENSED CONSOLIDATED INCOME STATEMENT**

FOR THE YEAR ENDED DECEMBER 31, 2005

(UNAUDITED)

(IN THOUSANDS EXCEPT PER SHARE AMOUNTS)

| | SL GREEN REALTY CORP. HISTORICAL (A) | 521 AND 609 FIFTH AVENUE ACQUISITIONS (B) | SL GREEN PRO FORMA ADJUSTMENTS | SL GREEN REALTY CORP. PRO FORMA |
|--|--|---|--------------------------------------|--|
| REVENUES: | | | | |
| Rental revenue | \$ 285,317 | \$ 30,514 | \$ 2,033 | (C) \$ 317,864 |
| Escalation and reimbursement revenues | 55,740 | 4,562 | | 60,302 |
| Preferred equity and investment income | 44,989 | | | 44,989 |
| Other income | 38,143 | 2 | | 38,145 |
| Total revenues | 424,189 | 35,078 | 2,033 | 461,300 |
| EXPENSES: | | | | |
| Operating expenses including \$10,119 paid to affiliates | 99,465 | 7,557 | (694) | (D) 106,328 |
| Real estate taxes | 58,036 | 5,966 | | 64,002 |
| Ground rent | 19,250 | | | 19,250 |
| Interest | 77,353 | 7,595 | 11,564 | (E) 96,512 |
| Amortization of deferred financing costs | 4,461 | | | 4,461 |
| Depreciation and amortization | 58,649 | 388 | 8,890 | (F) 67,927 |
| Marketing, general and administrative | 44,215 | 505 | (505) | (D) 44,215 |
| Total expenses | 361,429 | 22,011 | 19,255 | 402,695 |
| Income (loss) from continuing operations before equity in net income from unconsolidated joint ventures, gain on sale, minority interest and discontinued operations | 62,760 | 13,067 | (17,222) |) 58,605 |
| Equity in net income of unconsolidated joint ventures | 49,349 | | | 49,349 |
| Equity in net gain on sale of interest in unconsolidated joint venture | 11,550 | | | 11,550 |
| Income (loss) from continuing operations before minority interest and discontinued operations | 123,659 | 13,067 | (17,222) |) 119,504 |
| Minority interest in other partnerships | (809) |) | | (809) |
| Minority interest in operating partnership | (5,811) |) (737) |) 973 | (G) (5,575) |
| Income (loss) from continuing operations | 117,039 | 12,330 | (16,249) |) 113,120 |
| Income from discontinued operations, net of minority interest | 6,505 | | | 6,505 |
| Gain on sale of discontinued operations, net of minority interest | 33,875 | | | 33,875 |
| Net (loss) income | 157,419 | 12,330 | (16,249) |) 153,500 |
| Preferred stock dividends | (19,875) |) | | (19,875) |
| Net income (loss) available to common shareholders | \$ 137,544 | \$ 12,330 | \$ (16,249) |) \$ 133,625 |
| BASIC EARNINGS PER SHARE:(H) | | | | |
| Net income from continuing operations | \$ 2.04 | | | \$ 1.95 |
| Income from discontinued operations | 0.16 | | | 0.16 |
| Gain on sale of discontinued operations | 0.81 | | | 0.81 |
| Gain on sale of joint venture property | 0.28 | | | 0.28 |
| Net income | 3.29 | | | \$ 3.20 |

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DILUTED EARNINGS PER SHARE

(H)

| | | | |
|---|------|----|------|
| Net income from continuing operations | 2.01 | \$ | 1.92 |
| Income from discontinued operations | 0.15 | | 0.15 |
| Gain on sale of discontinued operations | 0.79 | | 0.79 |
| Gain on sale of joint venture property | 0.25 | | 0.25 |
| Net income | 3.20 | \$ | 3.11 |

| | | | |
|----------------------------|------|----|------|
| Dividends per common share | 2.22 | \$ | 2.22 |
|----------------------------|------|----|------|

| | | | |
|--|--------|--|--------|
| Basic weighted average common shares outstanding | 41,793 | | 41,793 |
|--|--------|--|--------|

| | | | |
|---|--------|--|--------|
| Diluted weighted average common shares and common share equivalents outstanding | 45,504 | | 45,504 |
|---|--------|--|--------|

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

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**NOTES TO PRO FORMA CONDENSED CONSOLIDATED INCOME STATEMENT
SIX MONTHS ENDED JUNE 30, 2006
(UNAUDITED AND IN THOUSANDS)**

- (A) To reflect the consolidated statement of income of SL Green Realty Corp. for the six month period ended June 30, 2006 as reported on the Company's Quarterly Report on Form 10-Q.
- (B) To reflect the historical operations of 521 Fifth Avenue for the three month period ended March 31, 2006 and 609 Fifth Avenue for the six month period ended June 30, 2006.
- (C) Rental income for 521 Fifth Avenue and 609 Fifth Avenue adjusted to reflect straight-line adjustments as of January 1, 2005.
- (D) To eliminate revenues and expenses not being assumed.
- (E) To record interest expense for borrowings under the unsecured revolving credit facility (\$60,000 at the weighted average interest rate of 6.30%) and mortgage financing (\$140,000 at the weighted average interest rate of 5.92%) in connection with 521 Fifth Avenue and the assumed first mortgage (\$102,000 at the fixed rate of 5.85%) in connection with 609 Fifth Avenue.
- (F) To reflect straight-line depreciation for 521 Fifth Avenue and 609 Fifth Avenue based on an estimated useful life of 40 years.
- (G) To reflect the minority shareholders interest of 5.01% in the operating partnership.
- (H) Basic income per common share is calculated based on 43,026 weighted average common shares outstanding and diluted income per common share is calculated based on 46,775 weighted average common shares and common share equivalents outstanding.

**NOTES TO PRO FORMA CONDENSED CONSOLIDATED INCOME STATEMENT
YEAR ENDED DECEMBER 31, 2005
(UNAUDITED AND IN THOUSANDS)**

- (A) To reflect the consolidated statement of income of SL Green Realty Corp. for the year ended December 31, 2005 as reported on the Company's Annual Report on Form 10-K, as amended under for 8-k dated September ____, 2006 to adjust for assets held for sale.
- (B) To reflect the historical operations of 521 Fifth Avenue and 609 Fifth Avenue for the year ended December 31, 2005.
- (C) Rental income for 521 Fifth Avenue and 609 Fifth Avenue adjusted to reflect straight-line adjustments as of January 1, 2005.
- (D) To eliminate revenues and expenses not being assumed.
- (E) To record interest expense for borrowings under the unsecured revolving credit facility (\$60,000 at the weighted average interest rate of 6.30%) and mortgage financing (\$140,000 at the weighted average interest rate of 4.46%) in connection with 521 Fifth Avenue and the assumed first mortgage (\$102,000 at the fixed rate of 5.85%) in connection with 609 Fifth Avenue.
- (F) To reflect straight-line depreciation for 521 Fifth Avenue and 609 Fifth Avenue based on an estimated useful life of 40 years.
- (G) To reflect the minority shareholders interest of 5.64% in the operating partnership.
- (H) Basic income per common share is calculated based on 41,793 weighted average common shares outstanding and diluted income per common share is calculated based on 45,504 weighted average common shares and common share equivalents outstanding.

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

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

We have audited the accompanying statement of revenues and certain expenses of 521 Fifth Avenue (the Property) for the year ended December 31, 2005. The financial statement is the responsibility of the Property s management. Our responsibility is to express an opinion on this financial statement based on our audit.

We conducted our audit in accordance with the Standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the statement of revenues and certain expenses is free from material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the statement of revenues and certain expenses. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

The accompanying statement of revenues and certain expenses was prepared for the purpose of complying with Rule 3-14 of Regulation S-X of the Securities and Exchange Commission for inclusion in Form 8-K of SL Green Realty Corp. and is not intended to be a complete presentation of the Property s revenues and expenses.

In our opinion, the financial statement referred to above presents fairly, in all material respects, the revenues and certain expenses of the Property as described in Note 1, for the year ended December 31, 2005, in conformity with U.S. generally accepted accounting principles.

/s/ Berdon LLP
Certified Public Accountants

New York, New York
August 8, 2006

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521 FIFTH AVENUE

STATEMENT OF REVENUES AND CERTAIN EXPENSES
FOR THE YEAR ENDED DECEMBER 31, 2005

| | Three Months Ended March 31, 2006 | Year Ended December 31, 2005 |
|---|---|------------------------------------|
| | (Unaudited) | |
| REVENUES: | | |
| Base rents | \$ 4,467,387 | \$ 16,701,119 |
| Tenant reimbursements | 715,789 | 3,167,578 |
| TOTAL REVENUES | 5,183,176 | 19,868,697 |
| CERTAIN EXPENSES: | | |
| Operating expenses | 1,202,626 | 4,518,629 |
| Real estate taxes | 1,071,820 | 4,024,139 |
| General and administrative | 53,732 | 259,367 |
| Management fees | 124,359 | 596,082 |
| TOTAL CERTAIN EXPENSES | 2,452,537 | 9,398,217 |
| REVENUES IN EXCESS OF CERTAIN EXPENSES | \$ 2,730,639 | \$ 10,470,480 |

See notes to statements of revenues and certain expenses.

NOTE 1 - SUMMARY OF ACCOUNTING POLICIES

(a) Basis of Presentation

Presented herein is the statement of revenues and certain expenses related to the operation of an office building located at 521 Fifth Avenue (the Property) in Manhattan, New York. In March 2006, SL Green Realty Corp. (the Company) entered into a long-term operating net leasehold interest in the Property.

The accompanying financial statement has been prepared in accordance with the applicable rules and regulations of the Securities and Exchange Commission for the acquisition of real estate properties. Accordingly, the financial statement excludes interest income and certain expenses that may not be comparable to those expected to be incurred by the Company in the proposed future operations of the aforementioned property. Items excluded consist of interest, depreciation and amortization, and general and administrative expenses not directly related to the future operations.

(b) Use of Estimates

The preparation of the statement of revenues and certain expenses in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the statement of revenues and certain expenses. Actual results could differ from those estimates.

(c) Revenue Recognition

The Property is being leased to tenants under operating leases. Minimum rental income is generally recognized on a straight-line basis over the term of the lease. The excess of amounts so recognized over amounts due pursuant to the underlying leases amounted to \$59,472 (unaudited) for the three months ended March 31, 2006 and \$512,054 for the year ended December 31, 2005.

NOTE 2 - FUTURE MINIMUM RENTS SCHEDULE

Future minimum lease payments to be received by as of December 31, 2005 under noncancelable operating leases are approximately as follows:

| | |
|------------|---------------|
| 2006 | \$ 13,983,000 |
| 2007 | 12,954,000 |
| 2008 | 13,036,000 |
| 2009 | 12,460,000 |
| 2010 | 9,751,000 |
| Thereafter | 26,062,000 |
| | \$ 88,246,000 |

The lease agreements generally contain provisions for reimbursement of real estate taxes and operating expenses over base year amounts, as well as fixed increases in rent.

NOTE 4 - MANAGEMENT FEE

The Property was managed pursuant to a management agreement, which provided for fees based primarily upon gross receipts, as defined.

NOTE 5 - SIGNIFICANT TENANTS

One tenant, an operator of public schools, occupied approximately 14% of the building's square footage and accounted for approximately 18% of the rental revenue.

NOTE 6 - INTERIM UNAUDITED FINANCIAL INFORMATION

The statement of revenues and certain expenses for the three months ended March 31, 2006 is unaudited; however, in the opinion of management, all adjustments (consisting solely of normal recurring adjustments) necessary for a fair presentation of the statement of revenues and certain expenses for the interim period has been included. The results of interim periods are not necessarily indicative of the results to be obtained for a full fiscal year.

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

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

We have audited the accompanying statement of revenues and certain expenses of 609 Fifth Avenue (the Property) for the year ended December 31, 2005. The financial statement is the responsibility of the Property s management. Our responsibility is to express an opinion on this financial statement based on our audit.

We conducted our audit in accordance with the Standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the statement of revenue and certain expenses is free from material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the statement of revenues and certain expenses. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

The accompanying statement of revenues and certain expenses was prepared for the purpose of complying with Rule 3-14 of Regulation S-X of the Securities and Exchange Commission for inclusion in Form 8-K of SL Green Realty Corp. and is not intended to be a complete presentation of the Property s revenues and expenses.

In our opinion, the financial statement referred to above presents fairly, in all material respects, the revenues and certain expenses of the Property as described in Note 1, for the year ended December 31, 2005, in conformity with U.S. generally accepted accounting principles.

/s/ Berdon LLP
Certified Public Accountants

New York, New York
August 11, 2006

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609 FIFTH AVENUE

STATEMENT OF REVENUES AND CERTAIN EXPENSES
FOR THE YEAR ENDED DECEMBER 31, 2005

| | Six Months Ended June 30, 2006 (Unaudited) | Year Ended December 31, 2005 |
|---|---|---------------------------------|
| REVENUES: | | |
| Base rents | \$ 5,983,459 | \$ 11,920,054 |
| Tenant reimbursements | 605,785 | 1,093,453 |
| TOTAL REVENUES | 6,589,244 | 13,013,507 |
| CERTAIN EXPENSES: | | |
| Operating expenses | 800,425 | 1,660,621 |
| Real estate taxes | 779,551 | 1,535,508 |
| General and administrative | 108,822 | 245,964 |
| Management fees | 55,708 | 98,184 |
| Interest expense | 3,743,531 | 7,595,271 |
| TOTAL CERTAIN EXPENSES | 5,488,037 | 11,135,548 |
| REVENUES IN EXCESS OF CERTAIN EXPENSES | \$ 1,101,207 | \$ 1,877,959 |

See notes to statements of revenues and certain expenses.

NOTE 1 - SUMMARY OF ACCOUNTING POLICIES

(a) Basis of Presentation

Presented herein is the statement of revenues and certain expenses related to the operation of an office building located at 609 Fifth Avenue (the Property) in Manhattan, New York. In June 2006, SL Green Realty Corp. (the Company) purchased a controlling interest in the entity, which owns the Property (the LLC).

The accompanying financial statement has been prepared in accordance with the applicable rules and regulations of the Securities and Exchange Commission for the acquisition of real estate properties. Accordingly, the financial statement excludes interest income and certain expenses that may not be comparable to those expected to be incurred by the Company in the proposed future operations of the aforementioned property. Items excluded consist of depreciation and amortization, and general and administrative expenses not directly related to the future operations.

(b) Use of Estimates

The preparation of the statement of revenues and certain expenses in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the statement of revenues and certain expenses and accompanying notes. Actual results could differ from those estimates.

(c) Revenue Recognition

The Property is being leased to tenants under operating leases. Minimum rental income is generally recognized on a straight-line basis over the term of the lease. The excess of amounts so recognized over amounts due pursuant to the underlying leases amounted to \$312,615 (unaudited) for the six months ended June 30, 2006 and \$940,674 for the year ended December 31, 2005.

NOTE 2 - FUTURE MINIMUM RENTS SCHEDULE

Future minimum lease payments to be received by as of December 31, 2005 under noncancelable operating leases are approximately as follows:

| | |
|------------|----------------|
| 2006 | \$ 11,615,000 |
| 2007 | 11,905,000 |
| 2008 | 12,063,000 |
| 2009 | 12,061,000 |
| 2010 | 11,484,000 |
| Thereafter | 76,676,000 |
| | \$ 135,804,000 |

The lease agreements generally contain provisions for reimbursement of real estate taxes and operating expenses over base year amounts, as well as fixed increases in rent.

NOTE 3 - LONG-TERM DEBT

Senior mortgage payable, due Morgan Stanley Capital Inc., consists of three promissory notes totaling \$102 million. Terms of the mortgage provide for monthly interest-only payments at 5.85% per annum through October 2006, and thereafter monthly principal and interest payments of \$601,740 until maturity on October 7, 2013, when the final payment of principal become due. The Notes are secured by the real property, building, structures, fixtures, additions and improvements, equipment, rights and title to condominium units, all current and future leases, and is further personally guaranteed by the members of the LLC.

(b) Promissory note payable, due SL Green Realty Corp. is a 10-year, 10.75% per annum fixed rate note, and is subordinated in all terms to the senior financing from Morgan Stanley Capital Inc., and matures on October 7, 2013.

Interest expense incurred on the mortgage and promissory note for the year ended December 31, 2005 amounted to \$7,595,271.

Annual principal payments on the mortgage and note are due as follows:

| Year Ending December 31, | Amount |
|-----------------------------|----------------|
| 2006 | \$ 814,413 |
| 2007 | 1,974,889 |
| 2008 | 2,126,261 |
| 2009 | 2,298,843 |
| 2010 | 2,482,627 |
| Thereafter | 106,230,286 |
| | \$ 115,927,319 |

NOTE 4 - MANAGEMENT FEE

The Property was managed pursuant to a management agreement, which provided for fees based primarily upon gross receipts, as defined.

NOTE 5 - SIGNIFICANT TENANTS

One tenant, a retail store, occupied approximately 31% of the building's square footage and accounted for approximately 54% of the rental revenue.

NOTE 6 - INTERIM UNAUDITED FINANCIAL INFORMATION

The statement of revenues and certain expenses for the six months ended June 30, 2006 is unaudited; however, in the opinion of management, all adjustments (consisting solely of normal recurring adjustments) necessary for a fair presentation of the statement of revenues and certain expenses for the interim period has been included. The results of interim periods are not necessarily indicative of the results to be obtained for a full fiscal year.