

VORNADO REALTY TRUST
Form 10-Q
November 04, 2013

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

(Mark one)

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

For the quarterly period **September 30, 2013**
ended:

Or

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: **001-11954**

VORNADO REALTY TRUST

(Exact name of registrant as specified in its charter)

Maryland

22-1657560

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(State or other jurisdiction of incorporation or organization)

(I.R.S. Employer Identification Number)

888 Seventh Avenue, New York, New York
(Address of principal executive offices)

10019
(Zip Code)

(212) 894-7000

(Registrant's telephone number, including area code)

N/A

(Former name, former address and former fiscal year, if changed since last report)

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate website, 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 No

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 the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Large Accelerated Filer

Accelerated Filer

Non-Accelerated Filer (Do not check if smaller reporting company)

Smaller Reporting Company

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

As of September 30, 2013, 187,048,110 of the registrant's common shares of beneficial interest are outstanding.

| | | Page Number |
|----------------------|---|------------------------|
| PART I. | Financial Information: | |
| Item 1. | Financial Statements: | |
| | Consolidated Balance Sheets (Unaudited) as of September 30, 2013 and December 31, 2012 | 3 |
| | Consolidated Statements of Income (Unaudited) for the Three and Nine Months Ended September 30, 2013 and 2012 | 4 |
| | Consolidated Statements of Comprehensive Income (Unaudited) for the Three and Nine Months Ended September 30, 2013 and 2012 | 5 |
| | Consolidated Statements of Changes in Equity (Unaudited) for the Nine Months Ended September 30, 2013 and 2012 | 6 |
| | Consolidated Statements of Cash Flows (Unaudited) for the Nine Months Ended September 30, 2013 and 2012 | 8 |
| | Notes to Consolidated Financial Statements (Unaudited) | 10 |
| | Report of Independent Registered Public Accounting Firm | 40 |
| Item 2. | Management's Discussion and Analysis of Financial Condition and Results of Operations | 41 |
| Item 3. | Quantitative and Qualitative Disclosures About Market Risk | 84 |
| Item 4. | Controls and Procedures | 85 |
| PART II. | Other Information: | |
| Item 1. | Legal Proceedings | 86 |
| Item 1A. | Risk Factors | 86 |
| Item 2. | Unregistered Sales of Equity Securities and Use of Proceeds | 86 |
| Item 3. | Defaults Upon Senior Securities | 86 |
| Item 4. | Mine Safety Disclosures | 86 |
| Item 5. | Other Information | 86 |
| Item 6. | Exhibits | 86 |
| SIGNATURES | | 87 |
| EXHIBIT INDEX | | 88 |

PART I. FINANCIAL INFORMATION**Item 1. Financial Statements**

**VORNADO REALTY TRUST
CONSOLIDATED BALANCE SHEETS
(UNAUDITED)**

| (Amounts in thousands, except share and per share amounts) | September 30, 2013 | December 31, 2012 |
|--|-------------------------------|------------------------------|
| ASSETS | | |
| Real estate, at cost: | | |
| Land | \$ 4,170,656 | \$ 4,791,049 |
| Buildings and improvements | 12,387,153 | 12,445,970 |
| Development costs and construction in progress | 1,077,703 | 920,349 |
| Leasehold improvements and equipment | 129,425 | 130,030 |
| Total | 17,764,937 | 18,287,398 |
| Less accumulated depreciation and amortization | (3,334,920) | (3,078,667) |
| Real estate, net | 14,430,017 | 15,208,731 |
| Cash and cash equivalents | 872,323 | 960,319 |
| Restricted cash | 320,979 | 183,256 |
| Marketable securities | 210,554 | 398,188 |
| Tenant and other receivables, net of allowance for doubtful accounts of \$22,105 and \$37,674 | 131,479 | 195,718 |
| Investments in partially owned entities | 1,169,728 | 1,226,256 |
| Investment in Toys "R" Us | 378,615 | 478,041 |
| Real Estate Fund investments | 635,990 | 600,786 |
| Mortgage and mezzanine loans receivable | 176,388 | 225,359 |
| Receivable arising from the straight-lining of rents, net of allowance of \$5,106 and \$3,165 | 804,526 | 759,742 |
| Deferred leasing and financing costs, net of accumulated amortization of \$261,548 and \$223,670 | 400,970 | 407,126 |
| Identified intangible assets, net of accumulated amortization of \$297,391 and \$346,613 | 275,250 | 406,309 |
| Assets related to discontinued operations | 27,413 | 634,139 |
| Other assets | 441,089 | 381,079 |
| | \$ 20,275,321 | \$ 22,065,049 |
| LIABILITIES, REDEEMABLE NONCONTROLLING INTERESTS AND EQUITY | | |
| Mortgages payable | \$ 8,566,582 | \$ 8,644,200 |
| Senior unsecured notes | 1,350,769 | 1,358,008 |
| Revolving credit facility debt | 83,982 | 1,170,000 |
| Accounts payable and accrued expenses | 442,623 | 484,746 |
| Deferred revenue | 472,805 | 596,067 |
| Deferred compensation plan | 111,752 | 105,200 |
| Deferred tax liabilities | 15,420 | 15,305 |
| Liabilities related to discontinued operations | - | 442,293 |
| Other liabilities | 452,456 | 400,934 |

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| | | |
|---|---------------|---------------|
| Total liabilities | 11,496,389 | 13,216,753 |
| Commitments and contingencies | | |
| Redeemable noncontrolling interests: | | |
| Class A units - 11,302,612 and 11,215,682 units outstanding | 950,098 | 898,152 |
| Series D cumulative redeemable preferred units - 1 and 1,800,001 units outstanding | 1,000 | 46,000 |
| Total redeemable noncontrolling interests | 951,098 | 944,152 |
| Vornado shareholders' equity: | | |
| Preferred shares of beneficial interest: no par value per share; authorized 110,000,000 shares; issued and outstanding 52,682,807 and 51,184,609 shares | 1,277,455 | 1,240,278 |
| Common shares of beneficial interest: \$.04 par value per share; authorized 250,000,000 shares; issued and outstanding 187,048,110 and 186,734,711 shares | 7,440 | 7,440 |
| Additional capital | 7,183,660 | 7,195,438 |
| Earnings less than distributions | (1,527,663) | (1,573,275) |
| Accumulated other comprehensive income (loss) | 83,327 | (18,946) |
| Total Vornado shareholders' equity | 7,024,219 | 6,850,935 |
| Noncontrolling interests in consolidated subsidiaries | 803,615 | 1,053,209 |
| Total equity | 7,827,834 | 7,904,144 |
| | \$ 20,275,321 | \$ 22,065,049 |

See notes to consolidated financial statements (unaudited).

VORNADO REALTY TRUST
CONSOLIDATED STATEMENTS OF INCOME
(UNAUDITED)

| | For the Three | | For the Nine | |
|---|-----------------------------------|-------------|-----------------------------------|--------------|
| | Months Ended September 30, | | Months Ended September 30, | |
| (Amounts in thousands, except per share amounts) | 2013 | 2012 | 2013 | 2012 |
| REVENUES: | | | | |
| Property rentals | \$ 532,691 | \$ 511,561 | \$ 1,609,442 | \$ 1,536,216 |
| Tenant expense reimbursements | 84,638 | 79,215 | 236,580 | 220,679 |
| Cleveland Medical Mart development project | 4,893 | 72,651 | 34,026 | 184,014 |
| Fee and other income | 61,158 | 39,625 | 206,330 | 105,889 |
| Total revenues | 683,380 | 703,052 | 2,086,378 | 2,046,798 |
| EXPENSES: | | | | |
| Operating | 264,422 | 261,512 | 784,031 | 749,213 |
| Depreciation and amortization | 124,079 | 122,241 | 400,952 | 381,270 |
| General and administrative | 48,250 | 48,456 | 157,155 | 150,578 |
| Cleveland Medical Mart development project | 3,239 | 70,431 | 29,764 | 177,127 |
| Acquisition related costs | 2,818 | 1,070 | 6,769 | 4,314 |
| Total expenses | 442,808 | 503,710 | 1,378,671 | 1,462,502 |
| Operating income | 240,572 | 199,342 | 707,707 | 584,296 |
| (Loss) income applicable to Toys "R" Us | (34,209) | (8,585) | (69,311) | 88,696 |
| Income from partially owned entities | 1,453 | 21,268 | 23,691 | 53,491 |
| Income from Real Estate Fund | 22,913 | 5,509 | 73,947 | 37,572 |
| Interest and other investment (loss) income, net | (10,275) | 10,523 | (32,933) | (22,984) |
| Interest and debt expense | (119,870) | (119,330) | (363,128) | (373,257) |
| Net gain (loss) on disposition of wholly owned and partially owned assets | 15,138 | - | (20,581) | 4,856 |
| Income before income taxes | 115,722 | 108,727 | 319,392 | 372,670 |
| Income tax expense | (2,222) | (3,015) | (6,172) | (17,319) |
| Income from continuing operations | 113,500 | 105,712 | 313,220 | 355,351 |
| Income from discontinued operations | 18,751 | 158,444 | 290,279 | 247,297 |
| Net income | 132,251 | 264,156 | 603,499 | 602,648 |
| Less net income attributable to noncontrolling interests in: | | | | |
| Consolidated subsidiaries | (23,833) | (6,610) | (50,049) | (30,928) |
| Operating Partnership | (5,032) | (14,837) | (27,814) | (31,445) |
| Preferred unit distributions of the Operating Partnership | (12) | (1,403) | (1,146) | (9,150) |
| Net income attributable to Vornado | 103,374 | 241,306 | 524,490 | 531,125 |
| Preferred share dividends | (20,369) | (20,613) | (62,439) | (56,187) |
| Preferred unit and share redemptions | - | 11,700 | (1,130) | 11,700 |
| | \$ 83,005 | \$ 232,393 | \$ 460,921 | \$ 486,638 |

**NET INCOME attributable to
common shareholders****INCOME PER COMMON SHARE -
BASIC:**

| | | | | |
|--|---------|---------|---------|---------|
| Income from continuing operations, net | \$ 0.36 | \$ 0.45 | \$ 1.02 | \$ 1.36 |
| Income from discontinued operations, net | 0.08 | 0.80 | 1.45 | 1.26 |
| Net income per common share | \$ 0.44 | \$ 1.25 | \$ 2.47 | \$ 2.62 |
| Weighted average shares outstanding | 186,969 | 185,924 | 186,885 | 185,656 |

**INCOME PER COMMON SHARE -
DILUTED:**

| | | | | |
|--|---------|---------|---------|---------|
| Income from continuing operations, net | \$ 0.36 | \$ 0.44 | \$ 1.01 | \$ 1.36 |
| Income from discontinued operations, net | 0.08 | 0.80 | 1.45 | 1.25 |
| Net income per common share | \$ 0.44 | \$ 1.24 | \$ 2.46 | \$ 2.61 |
| Weighted average shares outstanding | 187,724 | 186,655 | 187,679 | 186,399 |

**DIVIDENDS PER COMMON
SHARE**

| | | | | |
|--|---------|---------|---------|---------|
| | \$ 0.73 | \$ 0.69 | \$ 2.19 | \$ 2.07 |
|--|---------|---------|---------|---------|

See notes to consolidated financial statements (unaudited).

VORNADO REALTY TRUST
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(UNAUDITED)

| | For the Three | | For the Nine | |
|--|-----------------------------------|-------------|-----------------------------------|-------------|
| | Months Ended September 30, | | Months Ended September 30, | |
| (Amounts in thousands) | 2013 | 2012 | 2013 | 2012 |
| Net income | \$ 132,251 | \$ 264,156 | \$ 603,499 | \$ 602,648 |
| Other comprehensive income: | | | | |
| Change in unrealized net (loss) gain on available-for-sale securities | (8,252) | 18,358 | 160,886 | (202,167) |
| Amounts reclassified from accumulated other comprehensive income related to sale of available-for-sale securities | (42,404) | - | (42,404) | - |
| Pro rata share of other comprehensive loss of nonconsolidated subsidiaries | (1,669) | (12,607) | (25,023) | (38,861) |
| Change in value of interest rate swap | (295) | (2,866) | 14,265 | (8,868) |
| Other | 1 | (30) | 531 | 343 |
| Comprehensive income | 79,632 | 267,011 | 711,754 | 353,095 |
| Less comprehensive income attributable to noncontrolling interests | (25,825) | (23,027) | (84,991) | (55,806) |
| Comprehensive income attributable to Vornado | \$ 53,807 | \$ 243,984 | \$ 626,763 | \$ 297,289 |

See notes to consolidated financial statements (unaudited).

VORNADO REALTY TRUST
CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY
(UNAUDITED)

| (Amounts in thousands) | Preferred Shares | | Common Shares | | Additional Capital | Earnings Less Than Comprehensive Income | Other | Non-controlling Interests in Consolidated Subsidiaries | Total Equity |
|--|------------------|--------------|---------------|----------|--------------------|---|-----------|--|--------------|
| | Shares | Amount | Shares | Amount | | | | | |
| Balance, December 31, 2011 | 42,187 | \$ 1,021,660 | 185,080 | \$ 7,373 | \$ 7,127,258 | \$ (1,401,704) | \$ 73,729 | \$ 680,131 | \$ 7,508,447 |
| Net income | - | - | - | - | - | 531,125 | - | 30,928 | 562,053 |
| Dividends on common shares | - | - | - | - | - | (384,353) | - | - | (384,353) |
| Dividends on preferred shares | - | - | - | - | - | (56,187) | - | - | (56,187) |
| Issuance of Series K preferred shares | 12,000 | 291,144 | - | - | - | - | - | - | 291,144 |
| Redemption of Series E preferred shares | (3,000) | (75,000) | - | - | - | - | - | - | (75,000) |
| Common shares issued: Upon redemption of Class A units, at redemption value | - | - | 624 | 25 | 51,191 | - | - | - | 51,216 |
| Under employees' share option plan | - | - | 414 | 16 | 8,915 | (16,389) | - | - | (7,458) |
| Under dividend reinvestment plan | - | - | 15 | 1 | 1,269 | - | - | - | 1,270 |
| Contributions: Real Estate Fund | - | - | - | - | - | - | - | 120,606 | 120,606 |

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| | | | | | | | | | |
|--------------------|--------|--------------|---------|----------|--------------|----------------|--------------|------------|--------------|
| Other | - | - | - | - | - | - | - | 140 | 140 |
| Distributions: | | | | | | | | | |
| Real Estate | | | | | | | | | |
| Fund | - | - | - | - | - | - | - | (44,910) | (44,910) |
| Other | - | - | - | - | - | - | - | (10) | (10) |
| Conversion | | | | | | | | | |
| of Series A | | | | | | | | | |
| preferred | | | | | | | | | |
| shares to | | | | | | | | | |
| common | | | | | | | | | |
| shares | (2) | (105) | 3 | - | 105 | - | - | - | - |
| Deferred | | | | | | | | | |
| compensation | | | | | | | | | |
| shares | | | | | | | | | |
| and options | - | - | 7 | - | 11,009 | (339) | - | - | 10,670 |
| Change in | | | | | | | | | |
| unrealized | | | | | | | | | |
| net loss | | | | | | | | | |
| on | | | | | | | | | |
| available-for-sale | | | | | | | | | |
| securities | - | - | - | - | - | - | (202,167) | - | (202,167) |
| Pro rata | | | | | | | | | |
| share of | | | | | | | | | |
| other | | | | | | | | | |
| comprehensive | | | | | | | | | |
| loss of | | | | | | | | | |
| nonconsolidated | | | | | | | | | |
| subsidiaries | - | - | - | - | - | - | (38,861) | - | (38,861) |
| Change in | | | | | | | | | |
| value of | | | | | | | | | |
| interest rate | | | | | | | | | |
| swap | - | - | - | - | - | - | (8,868) | - | (8,868) |
| Adjustments | | | | | | | | | |
| to carry | | | | | | | | | |
| redeemable | | | | | | | | | |
| Class A | | | | | | | | | |
| units at | | | | | | | | | |
| redemption | | | | | | | | | |
| value | - | - | - | - | (63,657) | - | - | - | (63,657) |
| Redeemable | | | | | | | | | |
| noncontrolling | | | | | | | | | |
| interests' | | | | | | | | | |
| share of | | | | | | | | | |
| above | | | | | | | | | |
| adjustments | - | - | - | - | - | - | 15,717 | - | 15,717 |
| Preferred | | | | | | | | | |
| unit and | | | | | | | | | |
| share | | | | | | | | | |
| redemptions | - | - | - | - | - | 11,700 | - | - | 11,700 |
| Other | - | - | - | - | - | (2,971) | 343 | (10) | (2,638) |
| | 51,185 | \$ 1,237,699 | 186,143 | \$ 7,415 | \$ 7,136,090 | \$ (1,319,118) | \$ (160,107) | \$ 786,875 | \$ 7,688,854 |

**Balance,
September
30, 2012**

See notes to consolidated financial statements (unaudited).

VORNADO REALTY TRUST
CONSOLIDATED STATEMENT OF CHANGES IN EQUITY - CONTINUED
(UNAUDITED)

| (Amounts in thousands) | Preferred Shares | | Common Shares | | Additional Capital | Earnings Less Than Comprehensive Income Distributions | Other Comprehensive Income (Loss) | Non- | Interests in Consolidated Subsidiaries | Total Equity |
|---|------------------|--------------|---------------|----------|--------------------|---|-----------------------------------|-------------------------|--|--------------|
| | Shares | Amount | Shares | Amount | | | | Accumulated Controlling | | |
| Balance, December 31, 2012 | 51,185 | \$ 1,240,278 | 186,735 | \$ 7,440 | \$ 7,195,438 | \$ (1,573,275) | \$ (18,946) | \$ 1,053,209 | \$ 7,904,144 | |
| Net income | - | - | - | - | - | 524,490 | - | 50,049 | 574,539 | |
| Dividends on common shares | - | - | - | - | - | (409,332) | - | - | (409,332) | |
| Dividends on preferred shares | - | - | - | - | - | (62,439) | - | - | (62,439) | |
| Issuance of Series L preferred shares | 12,000 | 290,536 | - | - | - | - | - | - | 290,536 | |
| Redemption of Series F and Series H preferred shares | (10,500) | (253,269) | - | - | - | - | - | - | (253,269) | |
| Common shares issued: | | | | | | | | | | |
| Upon redemption of Class A units, at redemption value | - | - | 234 | 9 | 19,618 | - | - | - | 19,627 | |
| Under employees' share option plan | - | - | 66 | 3 | 3,678 | - | - | - | 3,681 | |
| Under dividend reinvestment plan | - | - | 16 | - | 1,376 | - | - | - | 1,376 | |
| Contributions: | | | | | | | | | | |

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| | | | | | | | | | |
|--|-----|------|-----|------|----------|-------|----------|-----------|-----------|
| Real Estate Fund | - | - | - | - | - | - | - | 24,328 | 24,328 |
| Other | - | - | - | - | - | - | - | 15,687 | 15,687 |
| Distributions: | | | | | | | | | |
| Real Estate Fund | - | - | - | - | - | - | - | (47,268) | (47,268) |
| Other | - | - | - | - | - | - | - | (126,799) | (126,799) |
| Conversion of Series A preferred shares to common shares | (2) | (90) | 3 | - | 90 | - | - | - | - |
| Deferred compensation shares and options | - | - | (6) | (12) | 7,194 | (305) | - | - | 6,877 |
| Change in unrealized net gain on available-for-sale securities | - | - | - | - | - | - | 160,886 | - | 160,886 |
| Amounts reclassified related to sale of available-for-sale securities | - | - | - | - | - | - | (42,404) | - | (42,404) |
| Pro rata share of other comprehensive loss of nonconsolidated subsidiaries | - | - | - | - | - | - | (25,023) | - | (25,023) |
| Change in value of interest rate swap | - | - | - | - | - | - | 14,265 | - | 14,265 |
| Adjustments to carry redeemable Class A units at redemption value | - | - | - | - | (43,709) | - | - | - | (43,709) |
| Redeemable noncontrolling interests' | - | - | - | - | - | - | (5,982) | - | (5,982) |

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| | | | | | | | | | |
|---|--------|--------------|---------|----------|--------------|----------------|-----------|------------|--------------|
| share of above adjustments Preferred unit and share redemptions | - | - | - | - | - | (1,130) | - | - | (1,130) |
| Deconsolidation of partially owned entity | - | - | - | - | - | - | - | (165,427) | (165,427) |
| Other | - | - | - | - | (25) | (5,672) | 531 | (164) | (5,330) |
| Balance, September 30, 2013 | 52,683 | \$ 1,277,455 | 187,048 | \$ 7,440 | \$ 7,183,660 | \$ (1,527,663) | \$ 83,327 | \$ 803,615 | \$ 7,827,834 |

See notes to consolidated financial statements (unaudited).

VORNADO REALTY TRUST
CONSOLIDATED STATEMENTS OF CASH FLOWS
(UNAUDITED)

| | For the Nine Months Ended September 30, | |
|--|--|------------|
| | 2013 | 2012 |
| (Amounts in thousands) | | |
| Cash Flows from Operating Activities: | | |
| Net income | \$ 603,499 | \$ 602,648 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | |
| Depreciation and amortization (including amortization of deferred financing costs) | 419,249 | 419,007 |
| Net gains on sale of real estate | (286,990) | (203,801) |
| Other non-cash adjustments | 60,957 | 39,360 |
| Net unrealized gain on Real Estate Fund investments | (59,476) | (33,537) |
| Return of capital from Real Estate Fund investments | 56,664 | 61,052 |
| Straight-lining of rental income | (48,561) | (55,553) |
| Equity in net loss (income) of partially owned entities, including Toys "R" Us | 45,620 | (142,187) |
| Amortization of below-market leases, net | (40,341) | (39,693) |
| Non-cash impairment loss on J.C. Penney common shares | 39,487 | - |
| Distributions of income from partially owned entities | 34,350 | 59,322 |
| Loss from the mark-to-market of J.C. Penney derivative position | 33,487 | 53,343 |
| Net loss (gain) on disposition of wholly owned and partially owned assets | 20,581 | (4,856) |
| Impairment losses | 4,727 | 13,511 |
| Gain on sale of Canadian Trade Shows | - | (31,105) |
| Changes in operating assets and liabilities: | | |
| Real Estate Fund investments | (32,392) | (163,307) |
| Accounts receivable, net | 63,280 | (9,444) |
| Prepaid assets | (60,388) | (52,895) |
| Other assets | (25,854) | (43,103) |
| Accounts payable and accrued expenses | (38,904) | 34,546 |
| Other liabilities | 597 | 7,338 |
| Net cash provided by operating activities | 789,592 | 510,646 |
| Cash Flows from Investing Activities: | | |
| Proceeds from sales of real estate and related investments | 734,427 | 408,856 |
| Proceeds from sales of marketable securities | 378,676 | 58,460 |
| Distributions of capital from partially owned entities | 287,944 | 26,665 |
| Proceeds from the sale of LNR | 240,474 | - |
| Investments in partially owned entities | (212,624) | (116,264) |
| Funding of J.C. Penney derivative collateral; and settlement of derivative in 2013 | (186,079) | (121,117) |

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| | | |
|---|-----------|-----------|
| Additions to real estate | (170,424) | (138,060) |
| Development costs and construction in progress | (149,010) | (106,502) |
| Return of J.C. Penney derivative collateral | 101,150 | 89,850 |
| Acquisitions of real estate and other | (75,079) | (73,069) |
| Proceeds from repayments of mortgage and mezzanine loans receivable and other | 49,452 | 2,379 |
| Restricted cash | 21,883 | (62,813) |
| Investment in mortgage and mezzanine loans receivable | (390) | - |
| Proceeds from the sale of Canadian Trade Shows | - | 52,504 |
| Proceeds from the repayment of loan to officer | - | 13,123 |
| Net cash provided by investing activities | 1,020,400 | 34,012 |
| See notes to consolidated financial statements (unaudited). | | |

VORNADO REALTY TRUST
CONSOLIDATED STATEMENTS OF CASH FLOWS - CONTINUED
(UNAUDITED)

| | For the Nine Months Ended | |
|---|----------------------------------|----------------|
| | September 30, | |
| | 2013 | 2012 |
| <i>(Amounts in thousands)</i> | | |
| Cash Flows from Financing Activities: | | |
| Repayments of borrowings | \$ (2,851,420) | \$ (2,070,295) |
| Proceeds from borrowings | 1,600,357 | 1,773,000 |
| Dividends paid on common shares | (409,332) | (384,353) |
| Purchases of outstanding preferred units and shares | (299,400) | (243,300) |
| Proceeds from the issuance of preferred shares | 290,536 | 291,144 |
| Distributions to noncontrolling interests | (200,667) | (80,994) |
| Dividends paid on preferred shares | (62,820) | (54,034) |
| Contributions from noncontrolling interests | 40,015 | 120,746 |
| Debt issuance and other costs | (9,982) | (17,417) |
| Proceeds received from exercise of employee share options | 5,057 | 10,210 |
| Repurchase of shares related to stock compensation agreements and/or related tax withholdings | (332) | (30,034) |
| Net cash used in financing activities | (1,897,988) | (685,327) |
| Net decrease in cash and cash equivalents | (87,996) | (140,669) |
| Cash and cash equivalents at beginning of period | 960,319 | 606,553 |
| Cash and cash equivalents at end of period | \$ 872,323 | \$ 465,884 |
| Supplemental Disclosure of Cash Flow Information: | | |
| Cash payments for interest, excluding capitalized interest of \$28,024 and \$7,884 | \$ 350,899 | \$ 368,018 |
| Cash payments for income taxes | \$ 7,529 | \$ 19,222 |
| Non-Cash Investing and Financing Activities: | | |
| Decrease in assets and liabilities resulting from the deconsolidation of Independence Plaza: | | |
| Real estate, net | \$ (852,166) | \$ - |
| Notes and mortgages payable | (322,903) | - |
| Financing provided to purchaser of L.A. Mart | - | 35,000 |
| Marriott Marquis Times Square - retail and signage capital lease: | | |
| Asset (included in development costs and construction in progress) | - | 240,000 |
| Liability (included in other liabilities) | - | (240,000) |
| Like-kind exchange of real estate | (155,805) | (230,913) |
| See notes to consolidated financial statements (unaudited). | | |

VORNADO REALTY TRUST

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(UNAUDITED)

1. Organization

Vornado Realty Trust (“Vornado”) is a fully integrated real estate investment trust (“REIT”) and conducts its business through, and substantially all of its interests in properties are held by, Vornado Realty L.P., a Delaware limited partnership (the “Operating Partnership”). Vornado is the sole general partner of, and owned approximately 94.0% of the common limited partnership interest in the Operating Partnership at September 30, 2013. All references to “we,” “us,” “our,” the “Company” and “Vornado” refer to Vornado Realty Trust and its consolidated subsidiaries, including the Operating Partnership.

2. Basis of Presentation

The accompanying consolidated financial statements are unaudited and include the accounts of Vornado and its consolidated subsidiaries, including the Operating Partnership. All intercompany amounts have been eliminated. In our opinion, all adjustments (which include only normal recurring adjustments) necessary to present fairly the financial position, results of operations and changes in cash flows have been made. Certain information and footnote disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States of America (“GAAP”) have been condensed or omitted. These condensed consolidated financial statements have been prepared in accordance with the instructions to Form 10-Q of the Securities and Exchange Commission (the “SEC”) and should be read in conjunction with the consolidated financial statements and notes thereto included in our Annual Report on Form 10-K, for the year ended December 31, 2012, as filed with the SEC.

We have made estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting periods. Actual results could differ from those estimates. The results of operations for the three and nine months ended September 30, 2013 are not necessarily indicative of the operating results for the full year. Certain prior year balances have been reclassified in order to conform to current year presentation.

3. Recently Issued Accounting Literature

In February 2013, the Financial Accounting Standards Board (“FASB”) issued an update (“ASU 2013-02”) to Accounting Standards Codification (“ASC”) Topic 220, *Comprehensive Income* (“Topic 220”). ASU 2013-02 requires additional disclosures regarding significant reclassifications out of each component of accumulated other comprehensive income, including the effect on the respective line items of net income for amounts that are required to be reclassified into net income in their entirety and cross-references to other disclosures providing additional information for amounts that are not required to be reclassified into net income in their entirety. The adoption of this update as of January 1, 2013, did not have a material impact on our consolidated financial statements, but resulted in additional disclosures (see Note 13 - *Accumulated Other Comprehensive Income*).

In June 2013, the FASB issued an update (“ASU 2013-08”) to ASC Topic 946, *Financial Services - Investment Companies* (“Topic 946”). ASU 2013-08 amends the guidance in Topic 946 for determining whether an entity qualifies as an investment company and requires certain additional disclosures. ASU 2013-08 is effective for interim and annual reporting periods in fiscal years that begin after December 15, 2013. We are currently evaluating the impact, if any, of ASU 2013-08 on our real estate fund and our consolidated financial statements.

VORNADO REALTY TRUST**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)****(UNAUDITED)****4. Vornado Capital Partners Real Estate Fund (the “Fund”)**

We are the general partner and investment manager of our \$800,000,000 Fund, to which we committed \$200,000,000. The Fund has an eight-year term and a three-year investment period which ended in July 2013. During the investment period, the Fund was our exclusive investment vehicle for all investments that fit within its investment parameters, as defined. The Fund is accounted for under the AICPA Investment Company Guide and its investments are reported on its balance sheet at fair value, with changes in value each period recognized in earnings. We consolidate the accounts of the Fund into our consolidated financial statements, retaining the fair value basis of accounting.

At September 30, 2013, the Fund had nine investments with an aggregate fair value of \$635,990,000, or \$127,118,000 in excess of cost, and had remaining unfunded commitments of \$239,186,000, of which our share was \$59,796,000. Below is a summary of income from the Fund for the three and nine months ended September 30, 2013 and 2012.

| | For the Three Months Ended September 30, | | For the Nine Months Ended September 30, | |
|------------------------------|---|-------------|--|-------------|
| (Amounts in thousands) | 2013 | 2012 | 2013 | 2012 |
| Net investment income (loss) | \$ 2,362 | \$ (49) | \$ 6,287 | \$ 4,035 |
| Net realized gain | 8,184 | - | 8,184 | - |
| Net unrealized gains | 12,367 | 5,558 | 59,476 | 33,537 |
| Income from Real Estate | 22,913 | 5,509 | 73,947 | 37,572 |

Fund
 Less
 (income)
 attributable
 to
 noncontrolling
 interest (15,422) (4,787) (39,321) (25,026)
 Income
 from
 Real
 Estate
 Fund
 attributable
 to
 Vornado
 (1) \$ 7,491 \$ 722 \$ 34,626 \$ 12,546

(1) Excludes management, leasing and development fees of \$770 and \$954 for the three months ended September 30, 2013 and 2012, respectively, and \$2,446 and \$2,374 for the nine months ended September 30, 2013 and 2012, respectively, which are included as a component of "fee and other income" on our consolidated statements of income.

5. Mortgage and Mezzanine Loans Receivable

As of September 30, 2013 and December 31, 2012, the carrying amount of mortgage and mezzanine loans receivable was \$176,388,000 and \$225,359,000, respectively. These loans have a weighted average interest rate of 10.8% and 10.3% at September 30, 2013 and December 31, 2012, respectively, and have maturities ranging from August 2014 to May 2016.

On March 27, 2013, we transferred, at par, a 25% participation in a mortgage loan on 701 Seventh Avenue to a third party for \$59,375,000 in cash. We acquired this participation in October 2012, together with a 25% interest in a mezzanine loan on the property. The transfer did not qualify for sale accounting given our continuing interest in the mezzanine loan. Accordingly, we continue to include the 25% participation in the mortgage loan in "Mortgage and Mezzanine Loans Receivable" and have recorded a \$59,375,000 liability in "Other Liabilities" on our consolidated balance sheet.

On April 17, 2013, a \$50,091,000 mezzanine loan that was scheduled to mature in August 2015, was repaid. In connection therewith, we received net proceeds of \$55,358,000, including prepayment penalties, which resulted in income of \$5,267,000, included in “interest and other investment (loss) income” on our consolidated statement of income.

VORNADO REALTY TRUST

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(UNAUDITED)

6. Marketable Securities and Derivative Instruments

Investment in Lexington Realty Trust (“Lexington”) (NYSE: LXP)

From the inception of our investment in Lexington in 2008, until the first quarter of 2013, we accounted for our investment under the equity method because of our ability to exercise significant influence over Lexington’s operating and financial policies. As a result of Lexington’s common share issuances, our ownership interest has been reduced over time from approximately 17.2% to 8.8% at March 31, 2013. In the first quarter of 2013, we concluded that we no longer have the ability to exercise significant influence over Lexington’s operating and financial policies, and began accounting for this investment as a marketable equity security – available for sale, in accordance with ASC Topic 320, *Investments – Debt and Equity Securities*.

Investment in J.C. Penney Company, Inc. (“J.C. Penney”) (NYSE: JCP)

At December 31, 2012, we owned 23,400,000 J.C. Penney common shares comprised of (i) 18,584,010 common shares at a GAAP cost of \$19.71 per share, or \$366,291,000 in the aggregate, and (ii) 4,815,990 common shares through a forward contract at a weighted average strike price of \$29.34 per share, or \$141,309,000 in the aggregate.

On March 4, 2013, we sold 10,000,000 J.C. Penney common shares at a price of \$16.03 per share, or \$160,300,000 in the aggregate, resulting in a net loss of \$36,800,000, which is included in “net gain (loss) on disposition of wholly owned and partially owned assets” on our consolidated statements of income. In addition, in the first quarter of 2013, we wrote down the remaining 8,584,010 J.C. Penney common shares we owned to fair value, based on J.C. Penney’s March 31, 2013 closing share price of \$15.11 per share, and recorded a \$39,487,000 impairment loss, which is included in “interest and other investment (loss) income, net” on our consolidated statements of income.

On September 19, 2013, we settled the forward contract and received 4,815,990 J.C. Penney common shares. In connection therewith, we recognized a \$20,012,000 loss from the mark-to-market of the derivative position through its settlement date, which is included in “interest and other investment (loss) income, net” on our consolidated statements of income.

On September 19, 2013, we also sold the remaining 13,400,000 J.C. Penney common shares in a block trade at a price of \$13.00 per share, or \$174,200,000 in the aggregate and recognized an \$18,114,000 net loss, which is included in “net gain (loss) on disposition of wholly owned and partially owned assets” on our consolidated statements of income.

The aggregate economic net loss on our investment in J.C. Penney, from inception through disposition, was \$256,156,000.

Other Investments

In the third quarter of 2013, we sold a marketable security for \$44,176,000, resulting in a net gain of \$31,741,000, which is included in “net gain (loss) on disposition of wholly owned and partially owned assets.”

Below is a summary of our marketable securities portfolio as of September 30, 2013 and December 31, 2012.

| (Amounts in thousands) | As of September 30, 2013 | | | As of December 31, 2012 | | |
|------------------------|--------------------------|-----------|-----------------|-------------------------|------------|-----------------|
| | Fair Value | GAAP Cost | Unrealized Gain | Fair Value | GAAP Cost | Unrealized Gain |
| Equity securities: | | | | | | |
| Lexington | \$ 207,407 | \$ 72,549 | \$ 134,858 | \$ - | \$ - | \$ - |
| J.C. Penney | - | - | - | 366,291 | 366,291 | - |
| Other | 3,147 | 91 | 3,056 | 31,897 | 12,465 | 19,432 |
| | \$ 210,554 | \$ 72,640 | \$ 137,914 | \$ 398,188 | \$ 378,756 | \$ 19,432 |

VORNADO REALTY TRUST

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(UNAUDITED)

7. Investments in Partially Owned Entities

Toys "R" Us ("Toys")

As of September 30, 2013, we own 32.6% of Toys. We account for our investment in Toys under the equity method and record our share of Toys' net income or loss on a one-quarter lag basis because Toys' fiscal year ends on the Saturday nearest January 31, and our fiscal year ends on December 31. The business of Toys is highly seasonal. Historically, Toys' fourth quarter net income accounts for more than 80% of its fiscal year net income.

In the fourth quarter of 2012, we recorded a \$40,000,000 non-cash impairment loss on our investment in Toys and disclosed, that if current facts don't change, our share of Toys' undistributed income, which in accordance with the equity method of accounting, would increase the carrying amount of our investment above fair value, would require an offsetting impairment loss.

In the first quarter of 2013, we recognized our share of Toys' fourth quarter net income of \$78,542,000 and a corresponding non-cash impairment loss of the same amount.

As of September 30, 2013, the carrying amount of our investment in Toys is less than our share of Toys' equity by approximately \$145,809,000. This basis difference resulted primarily from the non-cash impairment losses we recognized in 2012 and 2013 aggregating \$118,542,000. We have allocated the basis difference to Toys' intangible assets (primarily trade names and trademarks). The basis difference is not being amortized and will be recognized upon disposition of our investment.

Below is a summary of Toys' latest available financial information on a purchase accounting basis:

2. Basis of Presentation

(Amounts in thousands)

| | | | Balance as of | |
|--|-----------------------------------|----------------------|----------------------------------|-------------------------|
| | | | August 3, 2013 | October 27, 2012 |
| Balance Sheet: | | | | |
| Assets | | | \$ 11,274,000 | \$ 12,953,000 |
| Liabilities | | | 9,562,000 | 11,190,000 |
| Noncontrolling interests | | | 72,000 | 44,000 |
| Toys "R" Us, Inc. equity | | | 1,640,000 | 1,719,000 |
| | For the Three Months Ended | | For the Nine Months Ended | |
| Income Statement: | August 3, 2013 | July 28, 2012 | August 3, 2013 | July 28, 2012 |
| Total revenues | \$ 2,377,000 | \$ 2,552,000 | \$ 10,555,000 | \$ 11,089,000 |
| Net (loss) income attributable to Toys | (111,000) | (34,000) | 11,000 | 249,000 |

VORNADO REALTY TRUST

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(UNAUDITED)

7. Investments in Partially Owned Entities – continued

Alexander's, Inc. ("Alexander's") (NYSE: ALX)

As of September 30, 2013, we own 1,654,068 Alexander's common shares, or approximately 32.4% of Alexander's common equity. We manage, lease and develop Alexander's properties pursuant to agreements which expire in March of each year and are automatically renewable. As of September 30, 2013, we have a \$44,032,000 receivable from Alexander's for fees under these agreements.

As of September 30, 2013, the market value ("fair value" pursuant to ASC 820) of our investment in Alexander's, based on Alexander's September 30, 2013 closing share price of \$286.12, was \$473,262,000, or \$305,644,000 in excess of the carrying amount on our consolidated balance sheet. As of September 30, 2013, the carrying amount of our investment in Alexander's, excluding amounts owed to us, exceeds our share of the equity in the net assets of Alexander's by approximately \$42,224,000. The majority of this basis difference resulted from the excess of our purchase price for the Alexander's common stock acquired over the book value of Alexander's net assets. Substantially all of this basis difference was allocated, based on our estimates of the fair values of Alexander's assets and liabilities, to real estate (land and buildings). We are amortizing the basis difference related to the buildings into earnings as additional depreciation expense over their estimated useful lives. This depreciation is not material to our share of equity in Alexander's net income. The basis difference related to the land will be recognized upon disposition of our investment.

Below is a summary of Alexander's latest available financial information:

(Amounts in thousands)

| Balance Sheet: | Balance as of | |
|----------------|-----------------------|----------------------|
| | September 30, 2013 | December 31, 2012 |
| Assets | \$ 1,471,000 | \$ 1,482,000 |

| | | | | |
|---|-----------------------------------|----------------------|----------------------------------|----------------------|
| Liabilities | | | 1,141,000 | 1,150,000 |
| Stockholders' equity | | | 330,000 | 332,000 |
| | For the Three Months Ended | | For the Nine Months Ended | |
| | September 30, | September 30, | September 30, | September 30, |
| Income Statement: | 2013 | 2012 | 2013 | 2012 |
| Total revenues | \$ 50,000 | \$ 49,000 | \$ 146,000 | \$ 143,000 |
| Net income attributable to Alexander's | 14,000 | 19,000 | 41,000 | 57,000 |

LNR Property LLC ("LNR")

In the first quarter of 2013, we recognized our 26.2% share of LNR's fourth quarter net income of \$18,731,000, which increased the carrying amount of our investment to approximately \$241,000,000. On April 22, 2013, LNR was sold for \$1.053 billion, and we received net proceeds of \$241,000,000 for our interest. Pursuant to the sale agreement, we ceased receiving income as of January 1, 2013.

VORNADO REALTY TRUST

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(UNAUDITED)

7. Investments in Partially Owned Entities – continued*Independence Plaza*

On December 21, 2012, we acquired a 58.75% economic interest in Independence Plaza, a three-building 1,328 unit residential complex in the Tribeca submarket of Manhattan (the “Property”). We determined, at that time, that we were the primary beneficiary of the variable interest entity (“VIE”) that owned the Property. Accordingly, we consolidated the operations of the Property from the date of acquisition. Upon consolidation, our preliminary purchase price allocation was primarily to land (\$309,848,000) and building (\$527,578,000). Based on a third party appraisal and additional information about facts and circumstances that existed at the acquisition date, which was obtained subsequent to the acquisition date, we finalized the purchase price allocation in the first quarter of 2013, and retroactively adjusted our December 31, 2012 consolidated balance sheet as follows:

| | | |
|---|----|----------|
| (Amounts in thousands) | | |
| Land | \$ | 602,662 |
| Building and improvements | | 252,844 |
| Acquired above-market leases (included in identified intangible assets) | | 13,115 |
| Acquired in-place leases (included in identified intangible assets) | | 67,879 |
| Other assets | | 7,374 |
| Acquired below-market leases (included in deferred revenue) | | (99,074) |
| Purchase price | \$ | 844,800 |

On June 7, 2013, the existing \$323,000,000 mortgage loan was refinanced with a \$550,000,000 five-year, fixed-rate interest only mortgage loan bearing interest at 3.48%. The net proceeds of \$219,000,000, after repaying the existing loan and closing costs, were distributed to the partners, of which our share was \$137,000,000. Simultaneously with the refinancing, we sold an 8.65% economic interest in the Property to our partner for \$41,000,000 in cash, which reduced our economic interest to 50.1%. As a result of this transaction, we determined that we were no longer the primary beneficiary of the VIE. Accordingly, we deconsolidated the operations of the Property on June 7, 2013 and began accounting for our investment under the equity method.

650 Madison Avenue

On September 30, 2013, a joint venture, in which we have a 20.1% interest, acquired 650 Madison Avenue, a 27-story, 594,000 square foot Class A office and retail tower located on the full western blockfront of Madison Avenue between 59th and 60th Street, for \$1.295 billion. The property contains 523,000 square feet of office space and 71,000 square feet of retail space. The purchase price was funded with cash and a new \$800,000,000 seven-year 4.39% interest-only loan. We account for our investment in the joint venture under the equity method.

VORNADO REALTY TRUST

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(UNAUDITED)

7. Investments in Partially Owned Entities – continued

Below is a schedule of our investments in partially owned entities as of September 30, 2013 and December 31, 2012.

| (Amounts in thousands) | Percentage Ownership at | Balance as of | |
|--|----------------------------|-----------------------|----------------------|
| | September 30, 2013 | September 30, 2013 | December 31, 2012 |
| Investments: | | | |
| Toys | 32.6% | \$ 378,615 | \$ 478,041 |
| Alexander's | 32.4% | \$ 167,618 | \$ 171,013 |
| Lexington ⁽¹⁾ | n/a | - | 75,542 |
| LNR ⁽²⁾ | n/a | - | 224,724 |
| India real estate ventures | 4.0%-36.5% | 90,200 | 95,516 |
| Partially owned office buildings: | | | |
| 280 Park Avenue | 49.5% | 229,152 | 197,516 |
| 650 Madison Avenue (see page 15 for details) | 20.1% | 121,775 | - |
| Rosslyn Plaza | 43.7%-50.4% | 59,416 | 62,627 |
| West 57th Street properties | 50.0% | 56,743 | 57,033 |
| One Park Avenue | 30.3% | 56,064 | 50,509 |
| 666 Fifth Avenue Office Condominium | 49.5% | 40,047 | 35,527 |
| 330 Madison Avenue | 25.0% | 33,991 | 30,277 |
| Warner Building | 55.0% | 13,387 | 8,775 |
| Fairfax Square | 20.0% | 5,191 | 5,368 |
| Other partially owned office buildings | Various | 9,338 | 9,315 |
| Other investments: | | | |
| Independence Plaza (includes \$26,266 attributable to non-controlling interests) ⁽³⁾ | 50.1% | 164,488 | - |
| Monmouth Mall | 50.0% | 6,876 | 7,205 |
| Downtown Crossing, Boston ⁽⁴⁾ | n/a | - | 48,122 |
| Other investments ⁽⁵⁾ | Various | 115,442 | 147,187 |
| | | \$ 1,169,728 | \$ 1,226,256 |

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- (1) In the first quarter of 2013, we began accounting for our investment in Lexington as a marketable equity security - available for sale (see page 12 for details).
- (2) On April 22, 2013, LNR was sold (see page 14 for details).
- (3) On June 7, 2013, we sold an 8.65% economic interest in the property (see page 15 for details).
- (4) On April 24, 2013, the joint venture sold the site in Downtown Crossing, Boston (see note 3 on page 17 for details).
- (5) Includes interests in 85 10th Avenue, Fashion Centre Mall, 50-70 West 93rd Street and others.

VORNADO REALTY TRUST

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(UNAUDITED)

7. Investments in Partially Owned Entities - continued

Below is a schedule of income recognized from investments in partially owned entities for the three and nine months ended September 30, 2013 and 2012.

| (Amounts in thousands) | Percentage Ownership September 30, 2013 | For the Three Months Ended September 30, | | For the Nine Months Ended September 30, | |
|--|--|---|-------------|--|-------------|
| Our Share of Net Income (Loss): | 30, 2013 | 2013 | 2012 | 2013 | 2012 |
| Toys: | | | | | |
| Equity in net (loss) income before income taxes | 32.6% | \$ (58,746) | \$ (22,074) | \$ 14,737 | \$ 99,649 |
| Income tax benefit (expense) | | 22,690 | 11,118 | (10,959) | (17,982) |
| Equity in net (loss) income | | (36,056) | (10,956) | 3,778 | 81,667 |
| Non-cash impairment loss (see page 13 for details) | | - | - | (78,542) | - |
| Management fees | | 1,847 | 2,371 | 5,453 | 7,029 |
| | | \$ (34,209) | \$ (8,585) | \$ (69,311) | \$ 88,696 |
| Alexander's: | | | | | |
| Equity in net income | 32.4% | \$ 4,299 | \$ 7,137 | \$ 12,785 | \$ 19,210 |
| Management, leasing and development fees | | 1,676 | 1,821 | 5,017 | 5,617 |
| | | 5,975 | 8,958 | 17,802 | 24,827 |
| Lexington ⁽¹⁾ | n/a | - | (323) | (979) | 371 |
| LNR ⁽²⁾ | n/a | - | 16,600 | 18,731 | 39,319 |
| India real estate ventures | 4.0%-36.5% | (1,449) | 82 | (2,630) | (4,526) |
| Partially owned office buildings: | | | | | |
| Warner Building | 55.0% | (2,004) | (2,839) | (6,346) | (7,438) |
| 280 Park Avenue | 49.5% | (1,890) | (1,717) | (6,480) | (9,267) |
| 666 Fifth Avenue Office Condominium | 49.5% | 1,858 | 1,744 | 5,776 | 5,244 |
| 330 Madison Avenue | 25.0% | 1,225 | 1,224 | 3,714 | 2,036 |
| Rosslyn Plaza | 43.7%-50.4% | (707) | (204) | (2,158) | 99 |
| One Park Avenue | 30.3% | 680 | 256 | 1,054 | 890 |
| 1101 17th Street | 55.0% | 376 | 591 | 996 | 1,920 |
| West 57th Street properties | 50.0% | 47 | 167 | 415 | 732 |
| Fairfax Square | 20.0% | (24) | (33) | (87) | (85) |

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| | | | | | |
|--|---------|--------------------|--------------------|--------------------|--------------------|
| Other partially owned office buildings | Various | 477 38 | 505 (306) | 1,530 (1,586) | 1,587 (4,282) |
| Other investments: | | | | | |
| Independence Plaza (see page 15 for details) | 50.1% | (2,081) | 1,828 | (3,199) | 5,243 |
| Monmouth Mall | 50.0% | 165 | 347 | 1,450 | 1,007 |
| Downtown Crossing, Boston ⁽³⁾ | n/a | - | (38) | (2,358) | (872) |
| Other investments ⁽⁴⁾ | Various | (1,195) (3,111) | (5,880) (3,743) | (3,540) (7,647) | (7,596) (2,218) |
| | | \$ 1,453 | \$ 21,268 | \$ 23,691 | \$ 53,491 |

- (1) In the first quarter of 2013, we began accounting for our investment in Lexington as a marketable equity security - available for sale (see page 12 for details).
- (2) On April 22, 2013, LNR was sold (see page 14 for details).
- (3) On April 24, 2013, the joint venture sold the site in Downtown Crossing, Boston, and we received approximately \$45,000 for our 50% interest. In connection therewith, we recognized a \$2,335 impairment loss in the first quarter.
- (4) Includes interests in 85 10th Avenue, Fashion Centre Mall, 50-70 West 93rd Street and others.

VORNADO REALTY TRUST

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(UNAUDITED)

7. Investments in Partially Owned Entities – continued

Below is a summary of the debt of our partially owned entities as of September 30, 2013 and December 31, 2012, none of which is recourse to us.

| (Amounts in thousands) | Percentage Ownership at September 30, 2013 | Maturity | Interest Rate at September 30, 2013 | 100% of | |
|--|---|-----------|---|--|----------------------|
| | | | | Partially Owned Entities' Debt at September 30, 2013 | December 31, 2012 |
| Toys: | | | | | |
| Notes, loans and mortgages payable | 32.6% | 2014-2021 | 7.69% | \$ 5,253,323 | \$ 5,683,733 |
| Alexander's: | | | | | |
| Mortgages payable | 32.4% | 2014-2018 | 3.84% | \$ 1,054,046 | \$ 1,065,916 |
| Lexington ⁽¹⁾ : | | | | | |
| Mortgages payable | n/a | n/a | n/a | \$ - | \$ 1,994,179 |
| LNR ⁽²⁾ : | | | | | |
| Mortgages payable | n/a | n/a | n/a | \$ - | \$ 309,787 |
| Liabilities of consolidated CMBS and CDO trusts | | n/a | n/a | - | 97,211,734 |
| | | | | \$ - | \$ 97,521,521 |
| Partially owned office buildings: | | | | | |
| 666 Fifth Avenue Office Condominium mortgage payable | 49.5% | 02/19 | 6.76% | \$ 1,155,038 | \$ 1,109,700 |
| 650 Madison Avenue mortgage payable | 20.1% | 10/20 | 4.39% | 800,000 | - |
| 280 Park Avenue mortgage payable | 49.5% | 06/16 | 6.64% | 738,582 | 738,228 |
| Warner Building mortgage payable | 55.0% | 05/16 | 6.26% | 292,700 | 292,700 |
| One Park Avenue mortgage payable | 30.3% | 03/16 | 5.00% | 250,000 | 250,000 |
| 330 Madison Avenue mortgage payable | 25.0% | 06/15 | 1.68% | 150,000 | 150,000 |
| Fairfax Square mortgage payable | 20.0% | 12/14 | 7.00% | 69,452 | 70,127 |
| | 55.0% | 01/15 | 1.43% | 31,000 | 31,000 |

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| | | | | | | |
|---|-------------|-----------|--------|--------------|----|-----------|
| 1101 17th Street mortgage payable | | | | | | |
| Rosslyn Plaza mortgage payable | 43.7%-50.4% | 03/16 | 2.68% | 23,785 | | - |
| West 57th Street properties mortgages payable | 50.0% | 07/23 | 3.50% | 20,000 | | 20,434 |
| Other | Various | Various | 6.36% | 69,280 | | 69,704 |
| | | | | \$ 3,599,837 | \$ | 2,731,893 |
| India Real Estate Ventures: | | | | | | |
| TCG Urban Infrastructure Holdings mortgages payable | 25.0% | 2013-2022 | 13.63% | \$ 213,963 | \$ | 236,579 |
| Other: | | | | | | |
| Independence Plaza (see page 15 for details) | 50.1% | 06/18 | 3.48% | 550,000 | | - |
| Monmouth Mall mortgage payable | 50.0% | 09/15 | 5.44% | 158,296 | | 159,896 |
| Other ⁽³⁾ | Various | Various | 5.01% | 972,135 | | 990,647 |
| | | | | \$ 1,680,431 | \$ | 1,150,543 |

- (1) In the first quarter of 2013, we began accounting for our investment in Lexington as a marketable equity security - available for sale (see page 12 for details).
- (2) On April 22, 2013, LNR was sold (see page 14 for details).
- (3) Includes interests in Fashion Centre Mall, 50-70 West 93rd Street and others.

Based on our ownership interest in the partially owned entities above, our pro rata share of the debt of these partially owned entities was \$4,032,534,000 and \$29,443,128,000 at September 30, 2013 and December 31, 2012, respectively. Excluding our pro rata share of LNR's liabilities related to consolidated CMBS and CDO trusts, which were non-recourse to LNR and its equity holders, including us, our pro rata share of partially owned entities debt was \$3,998,929,000 at December 31, 2012.

VORNADO REALTY TRUST

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(UNAUDITED)

8. Discontinued Operations

On January 24, 2013, we sold the Green Acres Mall located in Valley Stream, New York, for \$500,000,000. The sale resulted in net proceeds of \$185,000,000, after repaying the existing loan and closing costs, and a net gain of \$202,275,000.

On April 15, 2013, we sold The Plant, a power strip shopping center in San Jose, California, for \$203,000,000. The sale resulted in net proceeds of \$98,000,000, after repaying the existing loan and closing costs, and a net gain of \$32,169,000.

On April 15, 2013, we sold a retail property in Philadelphia, which is a part of the Gallery at Market Street, for \$60,000,000. The sale resulted in net proceeds of \$58,000,000, and a net gain of \$33,058,000.

On September 23, 2013, we sold a retail property in Tampa, Florida for \$45,000,000, of which our 75% share was \$33,750,000. Our share of the net proceeds after repaying the existing loan and closing costs were \$20,810,000, and our share of the net gain was \$8,728,000.

In addition to the above, during 2013, we sold 12 other non-core properties, in separate transactions, for an aggregate of \$82,300,000, in cash, which resulted in a net gain aggregating \$7,851,000.

We have reclassified the revenues and expenses of all of the properties discussed above, as well as certain other retail properties that are currently held for sale to “income from discontinued operations” and the related assets and liabilities to “assets related to discontinued operations” and “liabilities related to discontinued operations” for all of the periods presented in the accompanying financial statements. The tables below set forth the assets and liabilities related to discontinued operations at September 30, 2013 and December 31, 2012 and their combined results of operations for the three and nine months ended September 30, 2013 and 2012.

| (Amounts in thousands) | Assets Related to | | Liabilities Related to | |
|--|--------------------------------------|--------------------------------------|--------------------------------------|--------------------------------------|
| | Discontinued Operations as of | Discontinued Operations as of | Discontinued Operations as of | Discontinued Operations as of |
| | September 30, | December 31, | September 30, | December 31, |
| | 2013 | 2012 | 2013 | 2012 |
| Retail properties | \$ 20,428 | \$ 600,640 | \$ - | \$ 442,293 |
| Other properties | 6,985 | 33,499 | - | - |
| Total | \$ 27,413 | \$ 634,139 | \$ - | \$ 442,293 |
| | For the Three Months | | For the Nine Months | |
| (Amounts in thousands) | Ended September 30, | | Ended September 30, | |
| | 2013 | 2012 | 2013 | 2012 |
| Total revenues | \$ 2,963 | \$ 35,576 | \$ 35,193 | \$ 144,274 |
| Total expenses | 2,488 | 27,877 | 27,177 | 106,924 |
| | 475 | 7,699 | 8,016 | 37,350 |
| Net gains on sale of real estate (2013 includes \$2,909 attributable to noncontrolling interests) | 18,996 | 131,088 | 286,990 | 203,801 |
| Gain on sale of Canadian Trade Shows, net of \$11,448 of income taxes | - | 19,657 | - | 19,657 |
| Impairment losses | (720) | - | (4,727) | (13,511) |
| Income from discontinued operations | \$ 18,751 | \$ 158,444 | \$ 290,279 | \$ 247,297 |

VORNADO REALTY TRUST

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(UNAUDITED)

9. Identified Intangible Assets and Liabilities

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

| (Amounts in thousands) | Balance as of | |
|--|-------------------------------|------------------------------|
| | September 30, 2013 | December 31, 2012 |
| Identified intangible assets: | | |
| Gross amount | \$ 572,641 | \$ 752,922 |
| Accumulated amortization | (297,391) | (346,613) |
| Net | \$ 275,250 | \$ 406,309 |
| Identified intangible liabilities (included in deferred revenue): | | |
| Gross amount | \$ 811,917 | \$ 902,525 |
| Accumulated amortization | (372,329) | (341,536) |
| Net | \$ 439,588 | \$ 560,989 |

Amortization of acquired below-market leases, net of acquired above-market leases, resulted in an increase to rental income of \$11,820,000 and \$13,256,000 for the three months ended September 30, 2013 and 2012, respectively, and \$40,326,000 and \$39,569,000 for the nine months ended September 30, 2013 and 2012, respectively. Estimated annual amortization of acquired below-market leases, net of acquired above-market leases, for each of the five succeeding years commencing January 1, 2014 is as follows:

| (Amounts in thousands) | |
|------------------------|-----------|
| 2014 | \$ 41,069 |
| 2015 | 38,263 |
| 2016 | 36,321 |
| 2017 | 30,936 |
| 2018 | 29,171 |

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Amortization of all other identified intangible assets (a component of depreciation and amortization expense) was \$11,257,000 and \$11,415,000 for the three months ended September 30, 2013 and 2012, respectively, and \$53,339,000 and \$35,519,000 for the nine months ended September 30, 2013 and 2012, respectively. Estimated annual amortization of all other identified intangible assets including acquired in-place leases, customer relationships, and third party contracts for each of the five succeeding years commencing January 1, 2014 is as follows:

| (Amounts in thousands) | | |
|------------------------|----|--------|
| 2014 | \$ | 26,708 |
| 2015 | | 21,543 |
| 2016 | | 18,363 |
| 2017 | | 15,203 |
| 2018 | | 11,005 |

We are a tenant under ground leases for certain properties. Amortization of these acquired below-market leases, net of above-market leases resulted in an increase to rent expense of \$981,000 and \$312,000 for the three months ended September 30, 2013 and 2012, respectively, and \$3,704,000 and \$894,000 for the nine months ended September 30, 2013 and 2012, respectively. Estimated annual amortization of these below-market leases, net of above-market leases for each of the five succeeding years commencing January 1, 2014 is as follows:

| (Amounts in thousands) | | |
|------------------------|----|-------|
| 2014 | \$ | 3,921 |
| 2015 | | 3,921 |
| 2016 | | 3,921 |
| 2017 | | 3,921 |
| 2018 | | 3,921 |

VORNADO REALTY TRUST

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(UNAUDITED)

10. Debt

The following is a summary of our debt:

| (Amounts in thousands) | Maturity | Interest Rate at September 30, 2013 | Balance at September 30, 2013 | December 31, 2012 |
|---|----------|---|-------------------------------------|----------------------|
| | (1) | | | |
| Mortgages payable: | | | | |
| Fixed rate: | | | | |
| New York: | | | | |
| 1290 Avenue of the Americas (70% owned) | 11/22 | 3.34% | \$ 950,000 | \$ 950,000 |
| Two Penn Plaza | 03/18 | 5.13% | 425,000 | 425,000 |
| 666 Fifth Avenue Retail Condominium ⁽²⁾ | 03/23 | 3.61% | 390,000 | - |
| 770 Broadway | 03/16 | 5.65% | 353,000 | 353,000 |
| 888 Seventh Avenue | 01/16 | 5.71% | 318,554 | 318,554 |
| 350 Park Avenue | 01/17 | 3.75% | 300,000 | 300,000 |
| 909 Third Avenue | 04/15 | 5.64% | 196,013 | 199,198 |
| 828-850 Madison Avenue Retail Condominium | 06/18 | 5.29% | 80,000 | 80,000 |
| 510 Fifth Avenue | 01/16 | 5.60% | 30,872 | 31,253 |
| Washington, DC: | | | | |
| Skyline Properties ⁽³⁾ | 02/17 | 5.74% | 736,259 | 704,957 |
| River House Apartments | 04/15 | 5.43% | 195,546 | 195,546 |
| 2101 L Street | 08/24 | 3.97% | 150,000 | 150,000 |
| 2121 Crystal Drive | 03/23 | 5.51% | 149,005 | 150,000 |
| Bowen Building | 06/16 | 6.14% | 115,022 | 115,022 |
| 1215 Clark Street, 200 12th Street and 251 18th Street | 01/25 | 7.09% | 103,794 | 105,724 |
| West End 25 | 06/21 | 4.88% | 101,671 | 101,671 |
| Universal Buildings | 04/14 | 6.56% | 89,321 | 93,226 |
| 2011 Crystal Drive | 08/17 | 7.30% | 78,875 | 79,624 |
| 220 20th Street | 02/18 | 4.61% | 73,003 | 73,939 |
| 1550 and 1750 Crystal Drive | 11/14 | 7.08% | 71,841 | 74,053 |

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| | | | | |
|--|-------------|-------------|--------------|--------------|
| 2231 Crystal Drive | n/a | n/a | - | 41,298 |
| 1225 Clark Street | n/a | n/a | - | 24,834 |
| Retail Properties: | | | | |
| Cross-collateralized mortgages | | | | |
| on 40 strip shopping centers | 09/20 | 4.25% | 563,692 | 573,180 |
| Bergen Town Center ⁽⁴⁾ | 04/23 | 3.56% | 300,000 | - |
| Montehiedra Town Center ⁽⁵⁾ | 07/16 | 6.04% | 120,000 | 120,000 |
| North Bergen (Tonnelles Avenue) | 01/18 | 4.59% | 75,000 | 75,000 |
| Las Catalinas Mall | 11/13 | 6.97% | 52,822 | 54,101 |
| Broadway Mall | n/a | n/a | - | 85,180 |
| Other | 06/14-11/34 | 5.12%-7.30% | 68,659 | 86,641 |
| Other: | | | | |
| 555 California Street (70% owned) | 09/21 | 5.10% | 600,000 | 600,000 |
| Merchandise Mart | 12/16 | 5.57% | 550,000 | 550,000 |
| Borgata Land | 02/21 | 5.14% | 59,518 | 60,000 |
| Total fixed rate mortgages payable | | 4.91% | \$ 7,297,467 | \$ 6,771,001 |

See notes on page 23.

VORNADO REALTY TRUST

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(UNAUDITED)

10. Debt - continued

| (Amounts in thousands) | | | Interest | Balance at | |
|--|----------|----------------------|-----------|-------------|--------------|
| | Maturity | Spread | Rate at | September | December 31, |
| | (1) | over | September | 30, | 2012 |
| | | LIBOR | 30, | 2013 | |
| | | | 2013 | 2013 | |
| Mortgages payable: | | | | | |
| Variable rate: | | | | | |
| New York: | | | | | |
| Eleven Penn Plaza | 01/19 | L+235 | 2.53% | \$ 330,000 | \$ 330,000 |
| 100 West 33rd Street - office | | | | | |
| and retail | 03/17 | L+250 | 2.68% | 325,000 | 325,000 |
| 4 Union Square South - retail | 11/19 | L+215 | 2.33% | 120,000 | 120,000 |
| 435 Seventh Avenue - retail | 08/19 | L+225 | 2.43% | 98,000 | 98,000 |
| 866 UN Plaza | 05/16 | L+125 | 1.43% | 44,978 | 44,978 |
| Independence Plaza (see | | | | | |
| page 15 for details) | n/a | n/a | n/a | - | 334,225 |
| Washington, DC: | | | | | |
| River House Apartments | 04/18 | n/a ⁽⁶⁾ | 1.58% | 64,000 | 64,000 |
| 2200 / 2300 Clarendon | | | | | |
| Boulevard | 01/15 | L+75 | 0.93% | 42,806 | 47,353 |
| 1730 M and 1150 17th Street | 06/14 | L+140 | 1.58% | 43,581 | 43,581 |
| Retail: | | | | | |
| Cross-collateralized | | | | | |
| mortgages on 40 strip | | | | | |
| shopping centers ⁽⁷⁾ | 09/20 | L+136 ⁽⁷⁾ | 2.36% | 60,000 | 60,000 |
| Bergen Town Center ⁽⁴⁾ | n/a | n/a | n/a | - | 282,312 |
| Other | 07/18 | L+130 | 1.48% | 17,000 | - |
| Other: | | | | | |
| 220 Central Park South | 10/13 | L+275 | 2.93% | 123,750 | 123,750 |
| Total variable rate mortgages payable | | | 2.39% | 1,269,115 | 1,873,199 |
| Total mortgages payable | | | 4.54% | \$8,566,582 | \$8,644,200 |
| Senior unsecured notes: | | | | | |
| Senior unsecured notes due 2015 | 04/15 | | 4.25% | \$ 499,752 | \$ 499,627 |
| Senior unsecured notes due 2039 ⁽⁸⁾ | 10/39 | | 7.88% | 452,500 | 460,000 |
| Senior unsecured notes due 2022 | 01/22 | | 5.00% | 398,517 | 398,381 |
| Total senior unsecured notes | | | 5.69% | \$1,350,769 | \$1,358,008 |
| Unsecured revolving credit facilities: | | | | | |

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| | | | | | | |
|---|-------|-------|-------|----|--------|-------------|
| \$1.25 billion unsecured revolving credit facility | 11/16 | L+125 | - | \$ | - | \$1,150,000 |
| \$1.25 billion unsecured revolving credit facility | | | | | | |
| (\$33,068 and \$22,807 reserved for outstanding letters of credit) ⁽⁹⁾ | 06/18 | L+115 | 1.33% | | 83,982 | 20,000 |
| Total unsecured revolving credit facilities | | | 1.33% | \$ | 83,982 | \$1,170,000 |

See notes on the following page.

VORNADO REALTY TRUST

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(UNAUDITED)

10. Debt - continued

Notes to preceding tabular information (amounts in thousands):

- (1) Represents the extended maturity for certain loans in which we have the unilateral right, ability and intent to extend.
- (2) On February 20, 2013, we completed a \$390,000 financing of this property. The 10-year fixed-rate interest only loan bears interest at 3.61%. This property was previously unencumbered.
- (3) On October 31, 2013, we completed the restructuring of the \$678,000 (face amount) 5.74% Skyline properties mortgage loan. The loan has been separated into two tranches; a senior \$350,000 position and a junior \$328,000 position. The maturity date has been extended from February 2017 to February 2022, with a one-year extension option. The effective interest rate is 2.965%. Capital we invest to re-lease the property will be senior to the \$328,000 junior position.
- (4) On March 25, 2013, we completed a \$300,000 financing of this property. The 10-year fixed-rate interest only loan bears interest at 3.56%. The property was previously encumbered by a \$282,312 floating-rate loan.
- (5) On May 13, 2013, we notified the lender that due to tenants vacating, the property's operating cash flow will be insufficient to pay the debt service; accordingly, at our request, the mortgage loan was transferred to the special servicer. We are in discussions with the special servicer to restructure the terms of the loan; there can be no assurance as to the timing and ultimate resolution of these discussions.
- (6) Interest at the Freddie Mac Reference Note Rate plus 1.53%.
- (7) LIBOR floor of 1.00%.
- (8) May be redeemed at our option in whole or in part beginning on October 1, 2014, at a price equal to the principal amount plus accrued interest.
- (9) On March 28, 2013, we extended this revolving credit facility from June 2015 to June 2017, with two six-month extension options. The interest on the extended facility was reduced from LIBOR plus 135 basis points to LIBOR plus 115 basis points. In addition, the facility fee was reduced from 30 basis points to 20 basis points.

VORNADO REALTY TRUST

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(UNAUDITED)

11. Redeemable Noncontrolling Interests

Redeemable noncontrolling interests on our consolidated balance sheets are primarily comprised of Class A Operating Partnership units held by third parties. Redeemable noncontrolling interests on our consolidated balance sheets are recorded at the greater of their carrying amount or redemption value at the end of each reporting period. Changes in the value from period to period are charged to “additional capital” in our consolidated statements of changes in equity. Below is a table summarizing the activity of redeemable noncontrolling interests.

| | |
|--|--------------|
| (Amounts in thousands) | |
| Balance at December 31, 2011 | \$ 1,160,677 |
| Net income | 40,595 |
| Other comprehensive loss | (15,717) |
| Distributions | (34,138) |
| Redemption of Class A units for common shares, at redemption value | (51,216) |
| Adjustments to carry redeemable Class A units at redemption value | 63,657 |
| Redemption of Series D-10 and D-14 redeemable units | (168,300) |
| Other, net | (59) |
| Balance at September 30, 2012 | \$ 995,499 |
| Balance at December 31, 2012 | \$ 944,152 |
| Net income | 28,960 |
| Other comprehensive income | 5,982 |
| Distributions | (25,827) |
| Redemption of Class A units for common shares, at redemption value | (19,627) |
| Adjustments to carry redeemable Class A units at redemption value | 43,709 |
| Redemption of Series D-15 redeemable units | (36,900) |
| Other, net | 10,649 |
| Balance at September 30, 2013 | \$ 951,098 |

As of September 30, 2013 and December 31, 2012, the aggregate redemption value of redeemable Class A units was \$950,098,000 and \$898,152,000, respectively.

Redeemable noncontrolling interests exclude our Series G-1 through G-4 convertible preferred units and Series D-13 cumulative redeemable preferred units, as they are accounted for as liabilities in accordance with ASC 480, *Distinguishing Liabilities and Equity*, because of their possible settlement by issuing a variable number of Vornado common shares. Accordingly, the fair value of these units is included as a component of “other liabilities” on our consolidated balance sheets and aggregated \$55,097,000 and \$55,011,000 as of September 30, 2013 and December 31, 2012, respectively.

On May 9, 2013, we redeemed all of the outstanding 6.875% Series D-15 Cumulative Redeemable Preferred Units with an aggregate face amount of \$45,000,000 for \$36,900,000 in cash, plus accrued and unpaid distributions through the date of redemption.

12. Shareholders' Equity

On January 25, 2013, we sold 12,000,000 5.40% Series L Cumulative Redeemable Preferred Shares at a price of \$25.00 per share in an underwritten public offering pursuant to an effective registration statement. We retained aggregate net proceeds of \$290,536,000, after underwriters' discounts and issuance costs, and contributed the net proceeds to the Operating Partnership in exchange for 12,000,000 Series L Preferred Units (with economic terms that mirror those of the Series L Preferred Shares). Dividends on the Series L Preferred Shares are cumulative and payable quarterly in arrears. The Series L Preferred Shares are not convertible into, or exchangeable for, any of our properties or securities. On or after five years from the date of issuance (or sooner under limited circumstances), we may redeem the Series L Preferred Shares at a redemption price of \$25.00 per share, plus accrued and unpaid dividends through the date of redemption. The Series L Preferred Shares have no maturity date and will remain outstanding indefinitely unless redeemed by us.

On February 19, 2013, we redeemed all of the outstanding 6.75% Series F Cumulative Redeemable Preferred Shares and 6.75% Series H Cumulative Redeemable Preferred Shares at par, for an aggregate of \$262,500,000 in cash, plus accrued and unpaid dividends through the date of redemption.

VORNADO REALTY TRUST

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(UNAUDITED)

13. Accumulated Other Comprehensive Income

The following tables set forth the changes in accumulated other comprehensive income (loss) by component.

| (Amounts in thousands) | Total | For the Three Months Ended September 30, 2013 | | | |
|----------------------------------|---|---|---|--------------------|------------|
| | | Securities available-for-sale | Pro rata share of nonconsolidated subsidiaries' OCI | Interest rate swap | Other |
| Balance as of June 30, 2013 | \$ 132,894 | \$ 188,570 | \$ (12,041) | \$ (35,505) | \$ (8,130) |
| OCI before reclassifications | (7,163) | (8,252) | (1,669) | (295) | 3,053 |
| Amounts reclassified from AOCI | (42,404) | (42,404) ⁽¹⁾ | - | - | - |
| Net current period OCI | (49,567) | (50,656) | (1,669) | (295) | 3,053 |
| Balance as of September 30, 2013 | \$ 83,327 | \$ 137,914 | \$ (13,710) | \$ (35,800) | \$ (5,077) |
| (1) | Reclassified to "net gain (loss) on disposition of wholly owned and partially owned assets" on our consolidated statements of income. | | | | |

| (Amounts in thousands) | Total | For the Nine Months Ended September 30, 2013 | | | |
|----------------------------------|-------------|--|---|--------------------|------------|
| | | Securities available-for-sale | Pro rata share of nonconsolidated subsidiaries' OCI | Interest rate swap | Other |
| Balance as of December 31, 2012 | \$ (18,946) | \$ 19,432 | \$ 11,313 | \$ (50,065) | \$ 374 |
| OCI before reclassifications | 144,677 | 160,886 | (25,023) | 14,265 | (5,451) |
| Amounts reclassified from AOCI | (42,404) | (42,404) ⁽¹⁾ | - | - | - |
| Net current period OCI | 102,273 | 118,482 | (25,023) | 14,265 | (5,451) |
| Balance as of September 30, 2013 | \$ 83,327 | \$ 137,914 | \$ (13,710) | \$ (35,800) | \$ (5,077) |
| (1) | | | | | |

Reclassified to "net gain (loss) on disposition of wholly owned and partially owned assets" on our consolidated statements of income.

14. Variable Interest Entities (“VIEs”)

Consolidated VIEs

The entity that owns Independence Plaza was a consolidated VIE at December 31, 2012. On June 7, 2013, we sold a portion of our economic interest in this entity and determined that we are no longer its primary beneficiary. Accordingly, we deconsolidated this VIE (see Note 7 – *Investments in Partially Owned Entities*). The table below summarizes the assets and liabilities of the VIE at December 31, 2012. The liabilities were secured only by the assets of the VIE, and were non-recourse to us.

| (Amounts in thousands) | As of September 30, 2013 | As of December 31, 2012 |
|-------------------------|---|------------------------------------|
| Total assets | \$ - | \$ 957,730 |
| Total liabilities | \$ - | \$ 443,894 |
| Noncontrolling interest | \$ - | \$ 193,933 |

Unconsolidated VIEs

At September 30, 2013, we have unconsolidated VIEs comprised of our investments in the entities that own the Warner Building and Independence Plaza. We do not consolidate these entities because we are not the primary beneficiary and the nature of our involvement in the activities of these entities does not give us power over decisions that significantly affect these entities’ economic performance. We account for our investment in these entities under the equity method (see Note 7 – *Investments in Partially Owned Entities*). As of September 30, 2013, the net carrying amount of our investment in these entities was \$151,609,000, and at December 31, 2012, the carrying amount of our investment in the Warner Building was \$8,775,000. Our maximum exposure to loss in these entities, is limited to our investment.

VORNADO REALTY TRUST

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(UNAUDITED)

15. Fair Value Measurements

ASC 820, *Fair Value Measurement and Disclosures* defines fair value and establishes a framework for measuring fair value. The objective of fair value is to determine the price that would be received upon the sale of an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date (the exit price). ASC 820 establishes a fair value hierarchy that prioritizes observable and unobservable inputs used to measure fair value into three levels: Level 1 – quoted prices (unadjusted) in active markets that are accessible at the measurement date for assets or liabilities; Level 2 – observable prices that are based on inputs not quoted in active markets, but corroborated by market data; and Level 3 – unobservable inputs that are used when little or no market data is available. The fair value hierarchy gives the highest priority to Level 1 inputs and the lowest priority to Level 3 inputs. In determining fair value, we utilize valuation techniques that maximize the use of observable inputs and minimize the use of unobservable inputs to the extent possible, as well as consider counterparty credit risk in our assessment of fair value. Considerable judgment is necessary to interpret Level 2 and 3 inputs in determining the fair value of our financial and non-financial assets and liabilities. Accordingly, our fair value estimates, which are made at the end of each reporting period, may be different than the amounts that may ultimately be realized upon sale or disposition of these assets.

Financial Assets and Liabilities Measured at Fair Value on a Recurring Basis

Financial assets and liabilities that are measured at fair value in our consolidated financial statements consist of (i) marketable securities, (ii) Real Estate Fund investments, (iii) the assets in our deferred compensation plan (for which there is a corresponding liability on our consolidated balance sheet), (iv) interest rate swaps and (v) mandatorily redeemable instruments (Series G-1 through G-4 convertible preferred units and Series D-13 cumulative redeemable preferred units). The tables below aggregate the fair values of these financial assets and liabilities by their levels in the fair value hierarchy at September 30, 2013 and December 31, 2012, respectively.

| (Amounts in thousands) | Total | As of September 30, 2013 | | |
|---|------------|--------------------------|---------|---------|
| | | Level 1 | Level 2 | Level 3 |
| Marketable securities | \$ 210,554 | \$ 210,554 | \$ - | \$ - |
| Real Estate Fund investments (75% of which is attributable to noncontrolling interests) | 635,990 | - | - | 635,990 |
| Deferred compensation plan assets (included in other assets) | 111,752 | 45,227 | - | 66,525 |

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| | | | | |
|---|--------------|--------------------------------|----------------|----------------|
| Total assets | \$ 958,296 | \$ 255,781 | \$ - | \$ 702,515 |
| Mandatorily redeemable instruments (included in other liabilities) | \$ 55,097 | \$ 55,097 | \$ - | \$ - |
| Interest rate swap (included in other liabilities) | 35,800 | - | 35,800 | - |
| Total liabilities | \$ 90,897 | \$ 55,097 | \$ 35,800 | \$ - |
| | | As of December 31, 2012 | | |
| (Amounts in thousands) | Total | Level 1 | Level 2 | Level 3 |
| Marketable securities | \$ 398,188 | \$ 398,188 | \$ - | \$ - |
| Real Estate Fund investments (75% of which is attributable to noncontrolling interests) | 600,786 | - | - | 600,786 |
| Deferred compensation plan assets (included in other assets) | 105,200 | 42,569 | - | 62,631 |
| J.C. Penney derivative position (included in other assets) ⁽¹⁾ | 11,165 | - | 11,165 | - |
| Total assets | \$ 1,115,339 | \$ 440,757 | \$ 11,165 | \$ 663,417 |
| Mandatorily redeemable instruments (included in other liabilities) | \$ 55,011 | \$ 55,011 | \$ - | \$ - |
| Interest rate swap (included in other liabilities) | 50,065 | - | 50,065 | - |
| Total liabilities | \$ 105,076 | \$ 55,011 | \$ 50,065 | \$ - |

(1) Represents the cash deposited with the counterparty in excess of the mark-to-market loss on the derivative position.

VORNADO REALTY TRUST

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(UNAUDITED)

15. Fair Value Measurements – continued

Financial Assets and Liabilities Measured at Fair Value on a Recurring Basis - continued

Real Estate Fund Investments

At September 30, 2013, our Real Estate Fund had nine investments with an aggregate fair value of \$635,990,000, or \$127,118,000 in excess of cost. These investments are classified as Level 3. We use a discounted cash flow valuation technique to estimate the fair value of each of these investments, which is updated quarterly by personnel responsible for the management of each investment and reviewed by senior management at each reporting period. The discounted cash flow valuation technique requires us to estimate cash flows for each investment over the anticipated holding period, which currently ranges from 0.8 to 6.7 years. Cash flows are derived from property rental revenue (base rents plus reimbursements) less operating expenses, real estate taxes and capital and other costs, plus projected sales proceeds in the year of exit. Property rental revenue is based on leases currently in place and our estimates for future leasing activity, which are based on current market rents for similar space plus a projected growth factor. Similarly, estimated operating expenses and real estate taxes are based on amounts incurred in the current period plus a projected growth factor for future periods. Anticipated sales proceeds at the end of an investment's expected holding period are determined based on the net cash flow of the investment in the year of exit, divided by a terminal capitalization rate, less estimated selling costs.

The fair value of each property is calculated by discounting the future cash flows (including the projected sales proceeds), using an appropriate discount rate and then reduced by the property's outstanding debt, if any, to determine the fair value of the equity in each investment. Significant unobservable quantitative inputs used in determining the fair value of each investment include capitalization rates and discount rates. These rates are based on the location, type and nature of each property, and current and anticipated market conditions, which are derived from original underwriting assumptions, industry publications and from the experience of our Acquisitions and Capital Markets departments. Significant unobservable quantitative inputs in the table below were utilized in determining the fair value of these Fund investments at September 30, 2013.

| Unobservable Quantitative Input | Range | Weighted Average (based on fair value of investments) |
|--|----------------|--|
| Discount rates | 12.0% to 17.5% | 13.9% |
| Terminal capitalization rates | 5.3% to 6.0% | 5.7% |

The above inputs are subject to change based on changes in economic and market conditions and/or changes in use or timing of exit. Changes in discount rates and terminal capitalization rates result in increases or decreases in the fair values of these investments. The discount rates encompass, among other things, uncertainties in the valuation models with respect to terminal capitalization rates and the amount and timing of cash flows. Therefore, a change in the fair value of these investments resulting from a change in the terminal capitalization rate, may be partially offset by a change in the discount rate. It is not possible for us to predict the effect of future economic or market conditions on our estimated fair values.

The table below summarizes the changes in the fair value of Fund investments that are classified as Level 3, for the three and nine months ended September 30, 2013 and 2012.

| (Amounts in thousands) | Real Estate Fund Investments For the Three Months Ended September 30, | | Real Estate Fund Investments For the Nine Months Ended September 30, | |
|------------------------|--|-------------|---|-------------|
| | 2013 | 2012 | 2013 | 2012 |
| Beginning balance | \$ 622,124 | \$ 388,455 | \$ 600,786 | \$ 346,650 |
| Purchases | 7,406 | 88,429 | 38,299 | 163,021 |
| Sales>Returns | (14,184) | - | (70,848) | (61,052) |
| Net realized gain | 8,184 | - | 8,184 | - |
| Net unrealized gains | 12,367 | 5,558 | 59,476 | 33,537 |
| Other, net | 93 | - | 93 | 286 |
| Ending balance | \$ 635,990 | \$ 482,442 | \$ 635,990 | \$ 482,442 |

VORNADO REALTY TRUST

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(UNAUDITED)

15. Fair Value Measurements – continued

*Financial Assets and Liabilities Measured at Fair Value on a Recurring Basis - continued*Deferred Compensation Plan Assets

Deferred compensation plan assets that are classified as Level 3 consist of investments in limited partnerships and investment funds, which are managed by third parties. We receive quarterly financial reports from a third-party administrator, which are compiled from the quarterly reports provided to them from each limited partnership and investment fund. The quarterly reports provide net asset values on a fair value basis which are audited by independent public accounting firms on an annual basis. The third-party administrator does not adjust these values in determining our share of the net assets and we do not adjust these values when reported in our consolidated financial statements.

The table below summarizes the changes in the fair value of Deferred Compensation Plan Assets that are classified as Level 3, for the three and nine months ended September 30, 2013 and 2012.

| (Amounts in thousands) | Deferred Compensation Plan Assets For the Three Months Ended September 30, | | Deferred Compensation Plan Assets For the Nine Months Ended September 30, | |
|--|--|-----------|---|-----------|
| | 2013 | 2012 | 2013 | 2012 |
| Beginning balance | \$ 66,502 | \$ 58,313 | \$ 62,631 | \$ 56,221 |
| Purchases | 880 | 1,650 | 4,027 | 5,416 |
| Sales | (873) | (276) | (5,318) | (4,287) |
| Realized and unrealized (loss) gain | (42) | 1,080 | 4,094 | 3,349 |
| Other, net | 58 | - | 1,091 | 68 |
| Ending balance | \$ 66,525 | \$ 60,767 | \$ 66,525 | \$ 60,767 |

Fair Value Measurements on a Nonrecurring Basis

Assets measured at fair value on a nonrecurring basis on our consolidated balance sheets consist primarily of our investment in Toys “R” Us and real estate assets that were written-down to estimated fair value at December 31, 2012. The fair values of these assets were determined using widely accepted valuation techniques, including (i) discounted cash flow analysis, which considers, among other things, leasing assumptions, growth rates, discount rates and terminal capitalization rates, (ii) income capitalization approach, which considers prevailing market capitalization rates, and (iii) comparable sales activity. Generally, we consider multiple valuation techniques when measuring fair values but in certain circumstances, a single valuation technique may be appropriate. The tables below aggregate the fair values of these assets by their levels in the fair value hierarchy.

| (Amounts in thousands) | Total | As of December 31, 2012 | | |
|--|--------------|--------------------------------|----------------|----------------|
| | | Level 1 | Level 2 | Level 3 |
| Investment in Toys "R" Us | \$ 478,041 | \$ - | \$ - | \$ 478,041 |
| Real estate assets | 189,529 | - | - | 189,529 |
| Condominium units (included in other assets) | 52,142 | - | - | 52,142 |
| Total assets | \$ 719,712 | \$ - | \$ - | \$ 719,712 |

VORNADO REALTY TRUST

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(UNAUDITED)

15. Fair Value Measurements – continued

Financial Assets and Liabilities not Measured at Fair Value

Financial assets and liabilities that are not measured at fair value on our consolidated balance sheets include cash equivalents (primarily money market funds, which invest in obligations of the United States government), mortgage and mezzanine loans receivable and our secured and unsecured debt. Estimates of the fair value of these instruments are determined by the standard practice of modeling the contractual cash flows required under the instrument and discounting them back to their present value at the appropriate current risk adjusted interest rate, which is provided by a third-party specialist. For floating rate debt, we use forward rates derived from observable market yield curves to project the expected cash flows we would be required to make under the instrument. The fair value of cash equivalents and borrowings under our revolving credit facility is classified as Level 1, and the fair value of our mortgage and mezzanine loans receivable is classified as Level 3. The fair value of our secured and unsecured debt are classified as Level 2. The table below summarizes the carrying amounts and fair value of these financial instruments as of September 30, 2013 and December 31, 2012.

| (Amounts in thousands) | As of September 30, 2013 | | As of December 31, 2012 | |
|--|--------------------------|---------------|-------------------------|---------------|
| | Carrying Amount | Fair Value | Carrying Amount | Fair Value |
| Cash equivalents | \$ 380,248 | \$ 380,248 | \$ 543,000 | \$ 543,000 |
| Mortgage and mezzanine loans receivable | 176,388 | 176,098 | 225,359 | 221,446 |
| | \$ 556,636 | \$ 556,346 | \$ 768,359 | \$ 764,446 |
| Debt: | | | | |
| Mortgages payable | \$ 8,566,582 | \$ 8,638,000 | \$ 8,644,200 | \$ 8,672,000 |
| Senior unsecured notes | 1,350,769 | 1,413,000 | 1,358,008 | 1,468,000 |
| Revolving credit facility debt | 83,982 | 83,982 | 1,170,000 | 1,170,000 |
| | \$ 10,001,333 | \$ 10,134,982 | \$ 11,172,208 | \$ 11,310,000 |

16. Incentive Compensation

Our 2010 Omnibus Share Plan (the “Plan”) provides for grants of incentive and non-qualified stock options, restricted stock, restricted Operating Partnership units and out-performance plan rewards to certain of our employees and officers. We account for all stock-based compensation in accordance ASC 718, *Compensation – Stock Compensation*. Stock-based compensation expense was \$9,201,000 and \$7,774,000 in the three months ended September 30, 2013 and 2012, respectively and \$25,796,000 and \$22,821,000 in the nine months ended September 30, 2013 and 2012, respectively.

On March 15, 2013, our Compensation Committee (the “Committee”) approved the 2013 Outperformance Plan, a performance-based equity compensation plan and related form of award agreement (the “2013 OPP”). Under the 2013 OPP, participants have the opportunity to earn compensation payable in the form of operating partnership units in the second and/or third year during a three-year performance measurement period, if and only if, we outperform a predetermined total shareholder return (“TSR”) and/or outperform the market with respect to relative total TSR. Awards under our 2013 OPP may be earned if (i) we achieve a TSR greater than 14% over the two-year performance measurement period, or 21% over the three-year performance measurement period (the “Absolute Component”), and/or (ii) we achieve a TSR above that of the SNL US REIT Index (the “Index”) over a two-year or three-year performance measurement period (the “Relative Component”). To the extent awards would be earned under the Absolute Component but we underperform the Index, such awards earned would be reduced (and potentially fully negated) based on the degree to which we underperform the Index. In certain circumstances, in the event we outperform the Index but awards would not otherwise be fully earned under the Absolute Component, awards may be increased under the Relative Component. To the extent awards would otherwise be earned under the Relative Component but we fail to achieve at least a 6% per annum absolute TSR, such awards earned under the Relative Component would be reduced based on our absolute TSR performance, with no awards being earned in the event our TSR during the applicable measurement period is 0% or negative, irrespective of the degree to which we may outperform the Index. If the designated performance objectives are achieved, OPP Units are also subject to time-based vesting requirements. Awards earned under the 2013 OPP vest 33% in year three, 33% in year four and 34% in year five. Dividends on awards earned accrue during the performance measurement period. In addition, our executive officers (for the purposes of Section 16 of the Exchange Act) are required to hold earned OPP awards for one year following vesting.

VORNADO REALTY TRUST

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(UNAUDITED)

17. Fee and Other Income

The following table sets forth the details of fee and other income:

| (Amounts in thousands) | For the Three Months Ended September 30, | | For the Nine Months Ended September 30, | |
|---------------------------------------|---|-----------|--|------------|
| | 2013 | 2012 | 2013 | 2012 |
| BMS cleaning fees | \$ 15,898 | \$ 16,945 | \$ 49,071 | \$ 49,437 |
| Signage revenue | 8,738 | 4,783 | 23,566 | 14,252 |
| Management and leasing fees | 7,982 | 7,234 | 19,675 | 16,534 |
| Lease termination fees ⁽¹⁾ | 20,432 | 282 | 87,587 | 1,172 |
| Other income | 8,108 | 10,381 | 26,431 | 24,494 |
| | \$ 61,158 | \$ 39,625 | \$ 206,330 | \$ 105,889 |

- (1) The three months ended September 30, 2013 includes a \$19,500 termination fee from a tenant at 1290 Avenue of the Americas, of which our 70% share, net of a \$1,529 write-off of the straight lining of rents, was \$12,121, and the nine months ended September 30, 2013 also includes \$59,599 of income pursuant to a settlement agreement with Stop & Shop, which terminates our right to receive \$6,000 of additional annual rent under a 1992 agreement, for a period potentially through 2031.

Management and leasing fees include management fees from Interstate Properties, a related party, of \$134,000 and \$198,000 for the three months ended September 30, 2013 and 2012, respectively, and \$467,000 and \$588,000 for the nine months ended September 30, 2013 and 2012, respectively. The above table excludes fee income from partially owned entities, which is typically included in "income from partially owned entities" (see Note 7 – *Investments in Partially Owned Entities*).

18. Interest and Other Investment (Loss) Income, Net

The following table sets forth the details of interest and other investment (loss) income:

| (Amounts in thousands) | For the Three Months Ended September 30, | | For the Nine Months Ended September 30, | |
|---|---|------------------|--|--------------------|
| | 2013 | 2012 | 2013 | 2012 |
| (Loss) income from the mark-to-market of J.C. Penney derivative position | \$ (20,012) | \$ 4,344 | \$ (33,487) | \$ (53,343) |
| Interest on mezzanine loans receivable | 4,766 | 2,852 | 14,783 | 8,867 |
| Dividends and interest on marketable securities | 2,804 | - | 8,344 | 11,093 |
| Mark-to-market of investments in our deferred compensation plan ⁽¹⁾ | 269 | 1,116 | 6,207 | 5,267 |
| Non-cash impairment loss on J.C. Penney common shares | - | - | (39,487) | - |
| Income from prepayment penalties in connection with the repayment of a mezzanine loan | - | - | 5,267 | - |
| Other, net | 1,898 | 2,211 | 5,440 | 5,132 |
| | \$ (10,275) | \$ 10,523 | \$ (32,933) | \$ (22,984) |

(1) This income is entirely offset by the expense resulting from the mark-to-market of the deferred compensation plan liability, which is included in "general and administrative" expense.

19. Interest and Debt Expense

The following table sets forth the details of interest and debt expense:

| (Amounts in thousands) | For the Three Months Ended September 30, | | For the Nine Months Ended September 30, | |
|--|---|-------------------|--|-------------------|
| | 2013 | 2012 | 2013 | 2012 |
| Interest expense | \$ 125,422 | \$ 121,230 | \$ 375,963 | \$ 364,223 |
| Amortization of deferred financing costs | 4,980 | 5,623 | 15,189 | 16,918 |
| Capitalized interest | (10,532) | (7,523) | (28,024) | (7,884) |
| | \$ 119,870 | \$ 119,330 | \$ 363,128 | \$ 373,257 |

30

VORNADO REALTY TRUST

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(UNAUDITED)

20. Income Per Share

The following table provides a reconciliation of both net income and the number of common shares used in the computation of (i) basic income per common share - which includes the weighted average number of common shares outstanding without regard to dilutive potential common shares, and (ii) diluted income per common share - which includes the weighted average common shares and dilutive share equivalents. Dilutive share equivalents may include our Series A convertible preferred shares, employee stock options and restricted stock.

| (Amounts in thousands, except per share amounts) | For the Three Months | | For the Nine Months | |
|---|--------------------------|------------|--------------------------|------------|
| | Ended September 30, 2013 | 2012 | Ended September 30, 2013 | 2012 |
| Numerator: | | | | |
| Income from continuing operations, net of income attributable to noncontrolling interests | \$ 88,486 | \$ 92,208 | \$ 253,567 | \$ 297,290 |
| Income from discontinued operations, net of income attributable to noncontrolling interests | 14,888 | 149,098 | 270,923 | 233,835 |
| Net income attributable to Vornado | 103,374 | 241,306 | 524,490 | 531,125 |
| Preferred share dividends | (20,369) | (20,613) | (62,439) | (56,187) |
| Preferred unit and share redemptions | - | 11,700 | (1,130) | 11,700 |
| Net income attributable to common shareholders | 83,005 | 232,393 | 460,921 | 486,638 |
| Earnings allocated to unvested participating securities | (24) | (71) | (97) | (149) |
| Numerator for basic income per share | 82,981 | 232,322 | 460,824 | 486,489 |
| Impact of assumed conversions: | | | | |
| Convertible preferred share dividends | - | 28 | 54 | 85 |
| Numerator for diluted income per share | \$ 82,981 | \$ 232,350 | \$ 460,878 | \$ 486,574 |
| Denominator: | | | | |
| | 186,969 | 185,924 | 186,885 | 185,656 |

| | | | | |
|--|---------|---------|---------|---------|
| Denominator for basic income per share – weighted average shares | | | | |
| Effect of dilutive securities ⁽¹⁾ : | | | | |
| Employee stock options and restricted share awards | 755 | 681 | 746 | 693 |
| Convertible preferred shares | - | 50 | 48 | 50 |
| Denominator for diluted income per share – weighted average shares and assumed conversions | 187,724 | 186,655 | 187,679 | 186,399 |
| INCOME PER COMMON SHARE – BASIC: | | | | |
| Income from continuing operations, net | \$ 0.36 | \$ 0.45 | \$ 1.02 | \$ 1.36 |
| Income from discontinued operations, net | 0.08 | 0.80 | 1.45 | 1.26 |
| Net income per common share | \$ 0.44 | \$ 1.25 | \$ 2.47 | \$ 2.62 |
| INCOME PER COMMON SHARE – DILUTED: | | | | |
| Income from continuing operations, net | \$ 0.36 | \$ 0.44 | \$ 1.01 | \$ 1.36 |
| Income from discontinued operations, net | 0.08 | 0.80 | 1.45 | 1.25 |
| Net income per common share | \$ 0.44 | \$ 1.24 | \$ 2.46 | \$ 2.61 |

(1) The effect of dilutive securities in the three months ended September 30, 2013 and 2012 excludes an aggregate of 12,002 and 12,652 weighted average common share equivalents, respectively, and 11,890 and 15,048 weighted average common share equivalents in the nine months ended September 30, 2013 and 2012, respectively, as their effect was anti-dilutive.

VORNADO REALTY TRUST

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(UNAUDITED)

21. Commitments and Contingencies

Insurance

We maintain general liability insurance with limits of \$300,000,000 per occurrence and all risk property and rental value insurance with limits of \$2.0 billion per occurrence, including coverage for terrorist acts, with sub-limits for certain perils such as floods. Our California properties have earthquake insurance with coverage of \$180,000,000 per occurrence, subject to a deductible in the amount of 5% of the value of the affected property, up to a \$180,000,000 annual aggregate.

Penn Plaza Insurance Company, LLC (“PPIC”), our wholly owned consolidated subsidiary, acts as a re-insurer with respect to a portion of all risk property and rental value insurance and a portion of our earthquake insurance coverage, and as a direct insurer for coverage for acts of terrorism, including nuclear, biological, chemical and radiological (“NBCR”) acts, as defined by the Terrorism Risk Insurance Program Reauthorization Act. Coverage for acts of terrorism (excluding NBCR acts) is fully reinsured by third party insurance companies and the Federal government with no exposure to PPIC. Coverage for NBCR losses is up to \$2.0 billion per occurrence, for which PPIC is responsible for a deductible of \$3,200,000 and 15% of the balance of a covered loss and the Federal government is responsible for the remaining 85% of a covered loss. We are ultimately responsible for any losses incurred by PPIC.

We continue to monitor the state of the insurance market and the scope and costs of coverage for acts of terrorism. However, we cannot anticipate what coverage will be available on commercially reasonable terms in future policy years.

Our debt instruments, consisting of mortgage loans secured by our properties which are non-recourse to us, senior unsecured notes and revolving credit agreements contain customary covenants requiring us to maintain insurance. Although we believe that we have adequate insurance coverage for purposes of these agreements, we may not be able to obtain an equivalent amount of coverage at reasonable costs in the future. Further, if lenders insist on greater coverage than we are able to obtain it could adversely affect our ability to finance our properties and expand our

portfolio.

Other Commitments and Contingencies

We are from time to time involved in legal actions arising in the ordinary course of business. In our opinion, after consultation with legal counsel, the outcome of such matters is not expected to have a material adverse effect on our financial position, results of operations or cash flows.

Each of our properties has been subjected to varying degrees of environmental assessment at various times. The environmental assessments did not reveal any material environmental contamination. However, there can be no assurance that the identification of new areas of contamination, changes in the extent or known scope of contamination, the discovery of additional sites, or changes in cleanup requirements would not result in significant costs to us.

Our mortgage loans are non-recourse to us. However, in certain cases we have provided guarantees or master leased tenant space. These guarantees and master leases terminate either upon the satisfaction of specified circumstances or repayment of the underlying loans. As of September 30, 2013, the aggregate dollar amount of these guarantees and master leases is approximately \$367,000,000.

At September 30, 2013, \$33,068,000 of letters of credit were outstanding under one of our revolving credit facilities. Our credit facilities contain financial covenants that require us to maintain minimum interest coverage and maximum debt to market capitalization ratios, and provide for higher interest rates in the event of a decline in our ratings below Baa3/BBB. Our credit facilities also contain customary conditions precedent to borrowing, including representations and warranties, and also contain customary events of default that could give rise to accelerated repayment, including such items as failure to pay interest or principal.

Two of our wholly owned subsidiaries that are contracted to develop and operate the Cleveland Medical Mart and Convention Center, in Cleveland, Ohio, are required to fund \$11,500,000, primarily for tenant improvements, and they are responsible for operating expenses and are entitled to the net operating income, if any, upon the completion of development and the commencement of operations. As of September 30, 2013, our subsidiaries have funded approximately \$3,598,000 of the commitment.

As of September 30, 2013, we expect to fund additional capital to certain of our partially owned entities aggregating approximately \$155,000,000.

VORNADO REALTY TRUST

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(UNAUDITED)

22. Subsequent Events

On October 1, 2013, we sold a parcel of land known as Harlem Park located at 1800 Park Avenue (at 125th Street) in New York City for \$66,000,000. The sale resulted in net proceeds of approximately \$63,000,000 and a net gain of approximately \$23,000,000.

On October 4, 2013, we acquired a 92.5% interest in 655 Fifth Avenue, a 57,500 square foot retail and office property located at the northeast corner of Fifth Avenue and 52nd Street in Manhattan with 50 feet of frontage on Fifth Avenue, for \$277,500,000 in cash. We consolidate the accounts of the property into our consolidated financial statements.

On October 15, 2013, we acquired, for \$194,000,000, land and air rights for 137,000 zoning square feet thereby completing the assemblage for our 220 Central Park South site in Manhattan.

VORNADO REALTY TRUST

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(UNAUDITED)

23. Segment Information

As a result of certain organizational changes and asset sales in 2012, the Merchandise Mart segment no longer meets the criteria to be a separate reportable segment; accordingly, effective January 1, 2013, the remaining assets have been reclassified to "Other." We have also reclassified the prior period segment financial results to conform to the current year presentation. Below is a summary of net income and a reconciliation of net income to EBITDA⁽¹⁾ by segment for the three and nine months ended September 30, 2013 and 2012.

(Amounts in thousands)

For the Three Months Ended September 30, 2013

| | Retail | | | | | |
|---|------------|------------|-------------------|------------|------|-----------|
| | Total | New York | Washington, DC | Properties | Toys | Other |
| Property rentals | \$ 505,062 | \$ 277,855 | \$ 113,737 | \$ 63,361 | \$ - | \$ 50,109 |
| Straight-line rent adjustments | 15,809 | 9,430 | 234 | 1,491 | - | 4,654 |
| Amortization of acquired below-market leases, net | 11,820 | 7,151 | 521 | 2,894 | - | 1,254 |
| Total rentals | 532,691 | 294,436 | 114,492 | 67,746 | - | 56,017 |
| Tenant expense reimbursements | 84,638 | 47,142 | 10,462 | 21,670 | - | 5,364 |
| Cleveland Medical Mart development project | 4,893 | - | - | - | - | 4,893 |
| Fee and other income: | | | | | | |
| BMS cleaning fees | 15,898 | 21,191 | - | - | - | (5,293) |
| Signage revenue | 8,738 | 8,738 | - | - | - | - |
| Management and leasing fees | 7,982 | 2,615 | 5,263 | 371 | - | (267) |
| Lease termination fees | 20,432 | 19,496 | 867 | - | - | 69 |
| Other income | 8,108 | 581 | 6,520 | 656 | - | 351 |
| Total revenues | 683,380 | 394,199 | 137,604 | 90,443 | - | 61,134 |
| Operating expenses | 264,422 | 160,465 | 49,646 | 31,628 | - | 22,683 |
| Depreciation and amortization | 124,079 | 58,058 | 31,109 | 16,455 | - | 18,457 |
| General and administrative | 48,250 | 7,849 | 6,857 | 4,240 | - | 29,304 |
| | 3,239 | - | - | - | - | 3,239 |

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| | | | | | | |
|---|------------|---------------------------|--------------------------|--------------------------|-----------|--------------------------|
| Cleveland Medical Mart development project | | | | | | |
| Acquisition related costs | 2,818 | - | - | - | - | 2,818 |
| Total expenses | 442,808 | 226,372 | 87,612 | 52,323 | - | 76,501 |
| Operating income (loss) | 240,572 | 167,827 | 49,992 | 38,120 | - | (15,367) |
| (Loss) applicable to Toys | (34,209) | - | - | - | (34,209) | - |
| Income (loss) from partially owned entities | 1,453 | 4,189 | (2,003) | 188 | - | (921) |
| Income from Real Estate Fund | 22,913 | - | - | - | - | 22,913 |
| Interest and other investment | | | | | | |
| (loss) income, net | (10,275) | 1,468 | 17 | 1 | - | (11,761) |
| Interest and debt expense | (119,870) | (42,538) | (27,246) | (10,839) | - | (39,247) |
| Net gain on disposition of wholly owned and partially owned assets | 15,138 | - | - | 1,377 | - | 13,761 |
| Income (loss) before income taxes | 115,722 | 130,946 | 20,760 | 28,847 | (34,209) | (30,622) |
| Income tax expense | (2,222) | (65) | (766) | (731) | - | (660) |
| Income (loss) from continuing operations | 113,500 | 130,881 | 19,994 | 28,116 | (34,209) | (31,282) |
| Income (loss) from discontinued operations | 18,751 | - | - | 19,012 | - | (261) |
| Net income (loss) | 132,251 | 130,881 | 19,994 | 47,128 | (34,209) | (31,543) |
| Less net income attributable to noncontrolling interests in: | | | | | | |
| Consolidated subsidiaries | (23,833) | (6,556) | - | (2,970) | - | (14,307) |
| Operating Partnership Preferred unit distributions of the Operating Partnership | (5,032) | - | - | - | - | (5,032) |
| | (12) | - | - | - | - | (12) |
| Net income (loss) attributable to Vornado | 103,374 | 124,325 | 19,994 | 44,158 | (34,209) | (50,894) |
| Interest and debt expense ⁽²⁾ | 183,116 | 59,344 | 30,717 | 12,119 | 38,435 | 42,501 |
| Depreciation and amortization ⁽²⁾ | 172,756 | 67,294 | 35,403 | 17,573 | 32,176 | 20,310 |
| Income tax (benefit) expense ⁽²⁾ | (20,292) | 67 | 828 | 731 | (22,690) | 772 |
| EBITDA ⁽¹⁾ | \$ 438,954 | \$ 251,030 ⁽³⁾ | \$ 86,942 ⁽⁴⁾ | \$ 74,581 ⁽⁵⁾ | \$ 13,712 | \$ 12,689 ⁽⁶⁾ |

See notes on page 38.

VORNADO REALTY TRUST

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(UNAUDITED)

23. Segment Information – continued

| (Amounts in thousands) | For the Three Months Ended September 30, 2012 | | | | | |
|---|---|------------|-------------------|----------------------|---------|-----------|
| | Total | New York | Washington, DC | Retail Properties | Toys | Other |
| Property rentals | \$ 486,914 | \$ 255,703 | \$ 115,641 | \$ 63,408 | \$ - | \$ 52,162 |
| Straight-line rent adjustments | 11,391 | 8,140 | 1,267 | 1,873 | - | 111 |
| Amortization of acquired below-market leases, net | 13,256 | 8,458 | 506 | 2,882 | - | 1,410 |
| Total rentals | 511,561 | 272,301 | 117,414 | 68,163 | - | 53,683 |
| Tenant expense reimbursements | 79,215 | 45,164 | 9,601 | 19,787 | - | 4,663 |
| Cleveland Medical Mart development project | 72,651 | - | - | - | - | 72,651 |
| Fee and other income: | | | | | | |
| BMS cleaning fees | 16,945 | 23,918 | - | - | - | (6,973) |
| Signage revenue | 4,783 | 4,783 | - | - | - | - |
| Management and leasing fees | 7,234 | 1,816 | 4,615 | 736 | - | 67 |
| Lease termination fees | 282 | 78 | 128 | 73 | - | 3 |
| Other income | 10,381 | 1,116 | 8,288 | 569 | - | 408 |
| Total revenues | 703,052 | 349,176 | 140,046 | 89,328 | - | 124,502 |
| Operating expenses | 261,512 | 159,048 | 50,305 | 30,726 | - | 21,433 |
| Depreciation and amortization | 122,241 | 57,967 | 29,825 | 16,359 | - | 18,090 |
| General and administrative | 48,456 | 6,739 | 6,668 | 6,103 | - | 28,946 |
| Cleveland Medical Mart development project | 70,431 | - | - | - | - | 70,431 |
| Acquisition related costs | 1,070 | - | - | - | - | 1,070 |
| Total expenses | 503,710 | 223,754 | 86,798 | 53,188 | - | 139,970 |
| Operating income (loss) | 199,342 | 125,422 | 53,248 | 36,140 | - | (15,468) |
| (Loss) applicable to Toys | (8,585) | - | - | - | (8,585) | - |

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| | | | | | | |
|---|------------|---------------------------|---------------------------|--------------------------|-----------|--------------------------|
| Income (loss) from partially owned entities | 21,268 | 9,309 | (2,182) | 342 | - | 13,799 |
| Income from Real Estate Fund | 5,509 | - | - | - | - | 5,509 |
| Interest and other investment income, net | 10,523 | 1,057 | 24 | 4 | - | 9,438 |
| Interest and debt expense | (119,330) | (36,817) | (28,311) | (13,292) | - | (40,910) |
| Income (loss) before income taxes | 108,727 | 98,971 | 22,779 | 23,194 | (8,585) | (27,632) |
| Income tax (expense) benefit | (3,015) | (815) | 25 | - | - | (2,225) |
| Income (loss) from continuing operations | 105,712 | 98,156 | 22,804 | 23,194 | (8,585) | (29,857) |
| Income from discontinued operations | 158,444 | - | 126,437 | 11,370 | - | 20,637 |
| Net income (loss) | 264,156 | 98,156 | 149,241 | 34,564 | (8,585) | (9,220) |
| Less net (income) loss attributable to noncontrolling interests in: | | | | | | |
| Consolidated subsidiaries | (6,610) | (2,092) | - | 97 | - | (4,615) |
| Operating Partnership | (14,837) | - | - | - | - | (14,837) |
| Preferred unit distributions of the Operating Partnership | (1,403) | - | - | - | - | (1,403) |
| Net income (loss) attributable to Vornado | 241,306 | 96,064 | 149,241 | 34,661 | (8,585) | (30,075) |
| Interest and debt expense ⁽²⁾ | 183,241 | 46,823 | 33,280 | 17,499 | 34,526 | 51,113 |
| Depreciation and amortization ⁽²⁾ | 177,593 | 62,905 | 35,071 | 21,345 | 33,160 | 25,112 |
| Income tax expense (benefit) ⁽²⁾ | 3,850 | 871 | (25) | - | (11,118) | 14,122 |
| EBITDA ⁽¹⁾ | \$ 605,990 | \$ 206,663 ⁽³⁾ | \$ 217,567 ⁽⁴⁾ | \$ 73,505 ⁽⁵⁾ | \$ 47,983 | \$ 60,272 ⁽⁶⁾ |

See notes on page 38.

VORNADO REALTY TRUST

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(UNAUDITED)

23. Segment Information – continued

(Amounts in thousands)

For the Nine Months Ended September 30, 2013

| | | | Washington, DC | Retail Properties | Toys | Other |
|---|--------------|------------|-------------------|----------------------|------|------------|
| | Total | New York | | | | |
| Property rentals | \$ 1,521,127 | \$ 839,349 | \$ 338,742 | \$ 189,964 | \$ - | \$ 153,072 |
| Straight-line rent adjustments | 47,989 | 27,289 | 4,242 | 3,741 | - | 12,717 |
| Amortization of acquired below-market leases, net | 40,326 | 26,184 | 1,543 | 8,669 | - | 3,930 |
| Total rentals | 1,609,442 | 892,822 | 344,527 | 202,374 | - | 169,719 |
| Tenant expense reimbursements | 236,580 | 128,598 | 31,264 | 63,601 | - | 13,117 |
| Cleveland Medical Mart development project | 34,026 | - | - | - | - | 34,026 |
| Fee and other income: | | | | | | |
| BMS cleaning fees | 49,071 | 63,192 | - | - | - | (14,121) |
| Signage revenue | 23,566 | 23,566 | - | - | - | - |
| Management and leasing fees | 19,675 | 7,533 | 11,529 | 1,170 | - | (557) |
| Lease termination fees | 87,587 | 24,986 | 1,417 | 59,797 | - | 1,387 |
| Other income | 26,431 | 4,550 | 17,915 | 1,448 | - | 2,518 |
| Total revenues | 2,086,378 | 1,145,247 | 406,652 | 328,390 | - | 206,089 |
| Operating expenses | 784,031 | 478,318 | 145,258 | 98,374 | - | 62,081 |
| Depreciation and amortization | 400,952 | 203,679 | 92,678 | 47,935 | - | 56,660 |
| General and administrative | 157,155 | 25,552 | 20,655 | 14,824 | - | 96,124 |
| Cleveland Medical Mart development project | 29,764 | - | - | - | - | 29,764 |
| Acquisition related costs | 6,769 | - | - | - | - | 6,769 |
| Total expenses | 1,378,671 | 707,549 | 258,591 | 161,133 | - | 251,398 |
| | 707,707 | 437,698 | 148,061 | 167,257 | - | (45,309) |

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| | | | | | | |
|---|--------------|---------------------------|---------------------------|---------------------------|------------|-----------------------|
| Operating income (loss) | | | | | | |
| (Loss) applicable to Toys | (69,311) | - | - | - | (69,311) | - |
| Income (loss) from partially owned entities | 23,691 | 14,020 | (6,545) | 1,512 | - | 14,704 |
| Income from Real Estate Fund | 73,947 | - | - | - | - | 73,947 |
| Interest and other investment (loss) income, net | (32,933) | 4,076 | 99 | 5 | - | (37,113) |
| Interest and debt expense | (363,128) | (125,991) | (83,350) | (34,523) | - | (119,264) |
| Net (loss) gain on disposition of wholly owned and partially owned assets | (20,581) | - | - | 1,377 | - | (21,958) |
| Income (loss) before income taxes | 319,392 | 329,803 | 58,265 | 135,628 | (69,311) | (134,993) |
| Income tax expense | (6,172) | (1,298) | (1,949) | (1,480) | - | (1,445) |
| Income (loss) from continuing operations | 313,220 | 328,505 | 56,316 | 134,148 | (69,311) | (136,438) |
| Income from discontinued operations | 290,279 | - | - | 290,267 | - | 12 |
| Net income (loss) | 603,499 | 328,505 | 56,316 | 424,415 | (69,311) | (136,426) |
| Less net income attributable to noncontrolling interests in: | | | | | | |
| Consolidated subsidiaries | (50,049) | (9,518) | - | (3,079) | - | (37,452) |
| Operating Partnership | (27,814) | - | - | - | - | (27,814) |
| Preferred unit distributions of the Operating Partnership | (1,146) | - | - | - | - | (1,146) |
| Net income (loss) attributable to Vornado | 524,490 | 318,987 | 56,316 | 421,336 | (69,311) | (202,838) |
| Interest and debt expense ⁽²⁾ | 551,357 | 163,579 | 93,715 | 40,057 | 119,347 | 134,659 |
| Depreciation and amortization ⁽²⁾ | 549,072 | 220,280 | 105,799 | 52,440 | 103,732 | 66,821 |
| Income tax expense ⁽²⁾ | 18,101 | 1,444 | 2,134 | 1,480 | 10,959 | 2,084 |
| EBITDA ⁽¹⁾ | \$ 1,643,020 | \$ 704,290 ⁽³⁾ | \$ 257,964 ⁽⁴⁾ | \$ 515,313 ⁽⁵⁾ | \$ 164,727 | \$ 726 ⁽⁶⁾ |

See notes on page 38.

VORNADO REALTY TRUST

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(UNAUDITED)

23. Segment Information – continued

(Amounts in thousands)

For the Nine Months Ended September 30, 2012
Retail

| | Total | New York | Washington, DC | Properties | Toys | Other |
|---|--------------|------------|-------------------|------------|------|------------|
| Property rentals | \$ 1,443,478 | \$ 735,587 | \$ 356,459 | \$ 190,671 | \$ - | \$ 160,761 |
| Straight-line rent adjustments | 53,169 | 42,334 | 4,382 | 5,265 | - | 1,188 |
| Amortization of acquired below-market leases, net | 39,569 | 23,776 | 1,537 | 9,989 | - | 4,267 |
| Total rentals | 1,536,216 | 801,697 | 362,378 | 205,925 | - | 166,216 |
| Tenant expense reimbursements | 220,679 | 118,861 | 30,471 | 61,307 | - | 10,040 |
| Cleveland Medical Mart development project | 184,014 | - | - | - | - | 184,014 |
| Fee and other income: | | | | | | |
| BMS cleaning fees | 49,437 | 70,476 | - | - | - | (21,039) |
| Signage revenue | 14,252 | 14,252 | - | - | - | - |
| Management and leasing fees | 16,534 | 4,037 | 9,782 | 2,640 | - | 75 |
| Lease termination fees | 1,172 | 334 | 256 | 74 | - | 508 |
| Other income | 24,494 | 3,449 | 18,846 | 1,232 | - | 967 |
| Total revenues | 2,046,798 | 1,013,106 | 421,733 | 271,178 | - | 340,781 |
| Operating expenses | 749,213 | 447,910 | 143,923 | 97,154 | - | 60,226 |
| Depreciation and amortization | 381,270 | 168,391 | 107,395 | 51,877 | - | 53,607 |
| General and administrative | 150,578 | 21,980 | 19,849 | 18,803 | - | 89,946 |
| Cleveland Medical Mart development project | 177,127 | - | - | - | - | 177,127 |
| Acquisition related costs | 4,314 | - | - | - | - | 4,314 |
| Total expenses | 1,462,502 | 638,281 | 271,167 | 167,834 | - | 385,220 |

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| | | | | | | |
|---|--------------|------------|----------------|----------------|----------------|----------------|
| Operating income (loss) | 584,296 | 374,825 | 150,566 | 103,344 | - | (44,439) |
| Income applicable to Toys | 88,696 | - | - | - | 88,696 | - |
| Income (loss) from partially owned entities | 53,491 | 20,345 | (4,571) | 1,040 | - | 36,677 |
| Income from Real Estate Fund | 37,572 | - | - | - | - | 37,572 |
| Interest and other investment (loss) income, net | (22,984) | 3,166 | 97 | 24 | - | (26,271) |
| Interest and debt expense | (373,257) | (109,365) | (85,408) | (45,362) | - | (133,122) |
| Net gain on disposition of wholly owned and partially owned assets | 4,856 | - | - | - | - | 4,856 |
| Income (loss) before income taxes | 372,670 | 288,971 | 60,684 | 59,046 | 88,696 | (124,727) |
| Income tax expense | (17,319) | (2,480) | (1,277) | - | - | (13,562) |
| Income (loss) from continuing operations | 355,351 | 286,491 | 59,407 | 59,046 | 88,696 | (138,289) |
| Income (loss) from discontinued operations | 247,297 | (640) | 130,979 | 37,456 | - | 79,502 |
| Net income (loss) | 602,648 | 285,851 | 190,386 | 96,502 | 88,696 | (58,787) |
| Less net (income) loss attributable to noncontrolling interests in: | | | | | | |
| Consolidated subsidiaries | (30,928) | (7,266) | - | 308 | - | (23,970) |
| Operating Partnership | (31,445) | - | - | - | - | (31,445) |
| Preferred unit distributions of the Operating Partnership | (9,150) | - | - | - | - | (9,150) |
| Net income (loss) attributable to Vornado | 531,125 | 278,585 | 190,386 | 96,810 | 88,696 | (123,352) |
| Interest and debt expense ⁽²⁾ | 567,265 | 140,294 | 99,486 | 58,039 | 103,388 | 166,058 |
| Depreciation and amortization ⁽²⁾ | 552,794 | 188,480 | 122,987 | 65,751 | 100,371 | 75,205 |
| Income tax expense ⁽²⁾ | 50,076 | 2,677 | 1,532 | - | 17,982 | 27,885 |
| EBITDA ⁽¹⁾ | \$ 1,701,260 | \$ 610,036 | (3) \$ 414,391 | (4) \$ 220,600 | (5) \$ 310,437 | (6) \$ 145,796 |
| See notes on the following page. | | | | | | |

VORNADO REALTY TRUST

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(UNAUDITED)

23. Segment Information – continued

Notes to preceding tabular information:

- (1) EBITDA represents "Earnings Before Interest, Taxes, Depreciation and Amortization." We consider EBITDA a supplemental measure for making decisions and assessing the unlevered performance of our segments as it relates to the total return on assets as opposed to the levered return on equity. As properties are bought and sold based on a multiple of EBITDA, we utilize this measure to make investment decisions as well as to compare the performance of our assets to that of our peers. EBITDA should not be considered a substitute for net income. EBITDA may not be comparable to similarly titled measures employed by other companies.
- (2) Interest and debt expense, depreciation and amortization and income tax (benefit) expense in the reconciliation of net income (loss) to EBITDA includes our share of these items from partially owned entities.
- (3) The elements of "New York" EBITDA are summarized below.

| (Amounts in thousands) | For the Three Months Ended September 30, | | For the Nine Months Ended September 30, | |
|---|---|------------|--|------------|
| | 2013 | 2012 | 2013 | 2012 |
| Office | \$ 172,367 | \$ 139,894 | \$ 476,849 | \$ 418,414 |
| Retail | 59,782 | 46,165 | 177,394 | 135,399 |
| Alexander's (decrease due to sale of Kings Plaza in November 2012) | 10,387 | 13,080 | 31,141 | 39,477 |
| Hotel Pennsylvania | 8,494 | 7,524 | 18,906 | 16,746 |
| Total New York | \$ 251,030 | \$ 206,663 | \$ 704,290 | \$ 610,036 |

- (4) The elements of "Washington, DC" EBITDA are summarized below.

| (Amounts in thousands) | For the Three Months Ended September 30, | | For the Nine Months Ended September 30, | |
|---|---|------------|--|------------|
| | 2013 | 2012 | 2013 | 2012 |
| Office, excluding the Skyline Properties (a) | \$ 69,220 | \$ 197,009 | \$ 202,463 | \$ 350,296 |
| Skyline properties | 6,841 | 9,936 | 22,546 | 32,127 |
| Total Office | 76,061 | 206,945 | 225,009 | 382,423 |
| Residential | 10,881 | 10,622 | 32,955 | 31,968 |
| Total Washington, DC | \$ 86,942 | \$ 217,567 | \$ 257,964 | \$ 414,391 |

- (a) The three and nine months ended September 30, 2012, includes a \$126,621 net gain on sale of real estate.

- (5) The elements of "Retail Properties" EBITDA are summarized below.

| (Amounts in thousands) | For the Three Months Ended September 30, | | For the Nine Months Ended September 30, | |
|---------------------------------------|---|-----------|--|------------|
| | 2013 | 2012 | 2013 | 2012 |
| Strip shopping centers ^(a) | \$ 59,175 | \$ 49,378 | \$ 264,065 | \$ 148,554 |
| Regional malls ^(b) | 15,406 | 24,127 | 251,248 | 72,046 |
| Total Retail properties | \$ 74,581 | \$ 73,505 | \$ 515,313 | \$ 220,600 |

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- (a) The three and nine months ended September 30, 2013, includes \$16,087 and \$81,806, respectively, of net gains on sale of real estate and the nine months ended also includes \$59,599 of income pursuant to a settlement agreement with Stop & Shop.
- (b) The nine months ended September 30, 2013, includes a \$202,275 net gain on sale of the Green Acres Mall.

VORNADO REALTY TRUST

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(UNAUDITED)

23. Segment Information – continued

Notes to preceding tabular information - continued:

(6) The elements of "other" EBITDA are summarized below.

| (Amounts in thousands) | For the Three Months Ended September 30, | | For the Nine Months Ended September 30, | |
|--|---|-------------|--|-------------|
| | 2013 | 2012 | 2013 | 2012 |
| Our share of Real Estate Fund: | | | | |
| Income before net | | | | |
| realized/unrealized gains | \$ 1,997 | \$ 1,874 | \$ 1,746 | \$ 4,162 |
| Net unrealized gains | 3,092 | 1,389 | 14,869 | 8,384 |
| Net realized gain | 2,046 | - | 2,046 | - |
| Carried interest | 356 | (2,541) | 15,965 | - |
| Total | 7,491 | 722 | 34,626 | 12,546 |
| Merchandise Mart Building, 7 West 34th | | | | |
| Street and trade shows | 15,006 | 13,869 | 52,167 | 46,518 |
| 555 California Street | 10,720 | 10,714 | 32,371 | 31,406 |
| India real estate ventures | 695 | 1,841 | 4,708 | 1,718 |
| LNR ^(a) | - | 18,773 | 20,443 | 46,006 |
| Lexington ^(b) | - | 7,859 | 6,931 | 24,780 |
| Other investments | 5,330 | 9,280 | 14,207 | 30,226 |
| | 39,242 | 63,058 | 165,453 | 193,200 |
| Corporate general and administrative | | | | |
| expenses ^(c) | (23,467) | (22,811) | (71,054) | (66,940) |
| Investment income and other, net ^(c) | 11,108 | 6,854 | 39,153 | 30,900 |
| Net gain on sale of marketable securities | 31,741 | - | 31,741 | 3,582 |
| (Loss) income from the mark-to-market of | | | | |
| J.C. Penney | | | | |
| derivative position | (20,012) | 4,344 | (33,487) | (53,343) |
| Loss on sale of J.C. Penney common shares | (18,114) | - | (54,914) | - |
| Non-cash impairment loss on J.C. Penney | | | | |
| common shares | - | - | (39,487) | - |
| Acquisition related costs | (2,818) | (1,070) | (6,769) | (4,314) |
| Net gain on sale of residential condominiums | 134 | - | 1,139 | 1,274 |
| Merchandise Mart discontinued operations | | | | |
| (including | | | | |
| net gains on sale of assets) | (81) | 32,087 | 2,065 | 88,488 |
| Verde Realty impairment loss | - | (4,936) | - | (4,936) |
| Severance costs (primarily reduction in force at | | | | |
| the Merchandise Mart) | - | (1,014) | (4,154) | (1,520) |

Net income attributable to noncontrolling interests
in

| | | | | |
|---|-----------|-----------|----------|------------|
| the Operating Partnership | (5,032) | (14,837) | (27,814) | (31,445) |
| Preferred unit distributions of the Operating Partnership | (12) | (1,403) | (1,146) | (9,150) |
| | \$ 12,689 | \$ 60,272 | \$ 726 | \$ 145,796 |

- (a) On April 22, 2013, LNR was sold (see page 14 for details).
- (b) In the first quarter of 2013, we began accounting for our investment in Lexington as a marketable equity security - available for sale (see page 12 for details).
- (c) The amounts in these captions (for this table only) exclude income(expense) from the mark-to-market of our deferred compensation plan.

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

Shareholders and Board of Trustees

Vornado Realty Trust

New York, New York

We have reviewed the accompanying consolidated balance sheet of Vornado Realty Trust (the “Company”) as of September 30, 2013, and the related consolidated statements of income and comprehensive income for the three-month and nine-month periods ended September 30, 2013 and 2012, and changes in equity and cash flows for the nine-month periods ended September 30, 2013 and 2012. These interim financial statements are the responsibility of the Company’s management.

We conducted our reviews in accordance with the standards of the Public Company Accounting Oversight Board (United States). A review of interim financial information consists principally of applying analytical procedures and making inquiries of persons responsible for financial and accounting matters. It is substantially less in scope than an audit conducted in accordance with the standards of the Public Company Accounting Oversight Board (United States), the objective of which is the expression of an opinion regarding the financial statements taken as a whole. Accordingly, we do not express such an opinion.

Based on our reviews, we are not aware of any material modifications that should be made to such consolidated interim financial statements for them to be in conformity with accounting principles generally accepted in the United States of America.

We have previously audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheet of Vornado Realty Trust as of December 31, 2012, and the related consolidated statements of income, comprehensive income, changes in equity, and cash flows for the year then ended (not presented herein); and in our report dated February 26, 2013, we expressed an unqualified opinion on those consolidated financial statements. In our opinion, the information set forth in the accompanying consolidated balance sheet as of December 31, 2012 is fairly stated, in all material respects, in relation to the consolidated balance sheet from which it has been derived.

/s/ DELOITTE & TOUCHE LLP

Alexander’s, Inc. (“Alexander’s”) (NYSE: ALX)

Parsippany, New Jersey

November 4, 2013

40

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

Certain statements contained in this Quarterly Report constitute forward looking statements as such term is defined in Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. Forward-looking statements are not guarantees of performance. They represent our intentions, plans, expectations and beliefs and are subject to numerous assumptions, risks and uncertainties. Our future results, financial condition and business may differ materially from those expressed in these forward-looking statements. You can find many of these statements by looking for words such as "approximates," "believes," "expects," "anticipates," "estimates," "intends," "plans," "would," "may" or other similar expressions in this Quarterly Report on Form 10-Q. Many of the factors that will determine the outcome of these and our other forward-looking statements are beyond our ability to control or predict. For further discussion of factors that could materially affect the outcome of our forward-looking statements, see "Item 1A. Risk Factors" in our Annual Report on Form 10-K for the year ended December 31, 2012. For these statements, we claim the protection of the safe harbor for forward-looking statements contained in the Private Securities Litigation Reform Act of 1995. You are cautioned not to place undue reliance on our forward-looking statements, which speak only as of the date of this Quarterly Report on Form 10-Q or the date of any document incorporated by reference. All subsequent written and oral forward-looking statements attributable to us or any person acting on our behalf are expressly qualified in their entirety by the cautionary statements contained or referred to in this section. We do not undertake any obligation to release publicly any revisions to our forward-looking statements to reflect events or circumstances occurring after the date of this Quarterly Report on Form 10-Q.

Management's Discussion and Analysis of Financial Condition and Results of Operations includes a discussion of our consolidated financial statements for the three and nine months ended September 30, 2013. The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires us to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting periods. Actual results could differ from those estimates. The results of operations for the three and nine months ended September 30, 2013 are not necessarily indicative of the operating results for the full year. Certain prior year balances have been reclassified in order to conform to current year presentation.

Overview

Business Objective and Operating Strategy

Our business objective is to maximize shareholder value, which we measure by the total return provided to our shareholders. Below is a table comparing our performance to the FTSE NAREIT Office REIT Index (“Office REIT”) and the Morgan Stanley REIT Index (“RMS”) for the following periods ended September 30, 2013.

| | Vornado | Total Return⁽¹⁾ Office REIT | RMS |
|-------------|----------------|---|------------|
| Three-month | 2.3% | (1.7%) | (3.0%) |
| Nine-month | 7.7% | 4.9% | 3.2% |
| One-year | 8.8% | 5.0% | 5.8% |
| Three-year | 10.0% | 23.3% | 41.8% |
| Five-year | 15.2% | 14.5% | 33.0% |
| Ten-year | 170.1% | 102.7% | 147.1% |

(1) Past performance is not necessarily indicative of future performance.

We intend to achieve our business objective by continuing to pursue our investment philosophy and executing our operating strategies through:

- Maintaining a superior team of operating and investment professionals and an entrepreneurial spirit;
- Investing in properties in select markets, such as New York City and Washington, DC, where we believe there is a high likelihood of capital appreciation;
- Acquiring quality properties at a discount to replacement cost and where there is a significant potential for higher rents;
- Investing in retail properties in select under-stored locations such as the New York City metropolitan area;
- Developing and redeveloping existing properties to increase returns and maximize value; and
- Investing in operating companies that have a significant real estate component.

We expect to finance our growth, acquisitions and investments using internally generated funds, proceeds from asset sales and by accessing the public and private capital markets. We may also offer Vornado common or preferred shares or Operating Partnership units in exchange for property and may repurchase or otherwise reacquire these securities in the future.

We compete with a large number of real estate property owners and developers, some of which may be willing to accept lower returns on their investments. Principal factors of competition are rents charged, attractiveness of location, the quality of the property and the breadth and the quality of services provided. Our success depends upon, among other factors, trends of the national, regional and local economies, the financial condition and operating results of current and prospective tenants and customers, availability and cost of capital, construction and renovation costs, taxes, governmental regulations, legislation and population trends. See “Item 1A. Risk Factors” in our Annual Report on Form 10-K, for additional information regarding these factors.

Overview – continuedQuarter Ended September 30, 2013 Financial Results Summary

Net income attributable to common shareholders for the quarter ended September 30, 2013 was \$83,005,000, or \$0.44 per diluted share, compared to \$232,393,000, or \$1.24 per diluted share for the quarter ended September 30, 2012. Net income for the quarters ended September 30, 2013 and 2012 include \$16,087,000 and \$132,244,000, respectively, of net gains on sale of real estate, and \$2,546,000 of real estate impairment losses in the quarter ended September 30, 2013. In addition, the quarters ended September 30, 2013 and 2012 include certain other items that affect comparability, which are listed in the table below. The aggregate of net gains on sale of real estate, real estate impairment losses and the items in the table below, net of amounts attributable to noncontrolling interests, decreased net income attributable to common shareholders for the quarter ended September 30, 2013 by \$24,585,000, or \$0.13 per diluted share and increased net income attributable to common shareholders for the quarter ended September 30, 2012 by \$163,257,000 or \$0.87 per diluted share.

Funds From Operations attributable to common shareholders plus assumed conversions (“FFO”) for the quarter ended September 30, 2013 was \$210,627,000, or \$1.12 per diluted share, compared to \$251,019,000, or \$1.34 per diluted share for the prior year’s quarter. FFO for the quarters ended September 30, 2013 and 2012 include certain items that affect comparability, which are listed in the table below. The aggregate of these items, net of amounts attributable to noncontrolling interests, decreased FFO for the quarter ended September 30, 2013 by \$27,622,000, or \$0.15 per diluted share, and increased FFO for the quarter ended September 30, 2012 by \$58,779,000, or 0.31 per diluted share.

| (Amounts in thousands) | For the Three Months Ended September 30, | |
|--|---|-------------|
| | 2013 | 2012 |
| Items that affect comparability income (expense): | | |
| Net gain on sale of marketable securities | \$ 31,741 | \$ - |
| FFO from discontinued operations, including LNR and discontinued operations of | | |
| Alexander's | 699 | 32,454 |
| Toys "R" Us FFO | (22,343) | 2,403 |
| (Loss) income from the mark-to-market of J.C. Penney derivative position | (20,012) | 4,344 |
| Loss on sale of J.C. Penney common shares | (18,114) | - |
| Acquisition related costs | (2,818) | (1,070) |
| After-tax net gain on sale of Canadian Trade Shows | - | 19,657 |
| Other, net | 1,511 | 5,013 |
| | (29,336) | 62,801 |

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| | | |
|--|-------------|-----------|
| Noncontrolling interests' share of above adjustments | 1,714 | (4,022) |
| Items that affect comparability, net | \$ (27,622) | \$ 58,779 |

The percentage increase (decrease) in GAAP basis and Cash basis same store Earnings Before Interest, Taxes, Depreciation and Amortization (“EBITDA”) of our operating segments for the quarter ended September 30, 2013 over the quarter ended September 30, 2012 and the trailing quarter ended June 30, 2013 are summarized below.

| Same Store EBITDA: | New York | Washington, DC | Retail Properties |
|--|--|---------------------------|------------------------------|
| September 30, 2013 vs. September 30, 2012 | | | |
| GAAP basis | 7.0% | (1.8%) | 2.5% |
| Cash basis | 8.6% | (2.1%) | 3.7% |
| September 30, 2013 vs. June 30, 2013 | | | |
| GAAP basis | (0.9%) (1) | 0.5% | (0.7%) |
| Cash basis | 0.3% (1) | 1.7% | (0.2%) |
| (1) | Excluding the Hotel Pennsylvania, same store EBITDA decreased by 0.3% on a GAAP basis and increased by 1.2% on a cash basis. | | |

Overview – continued*Nine Months Ended September 30, 2013 Financial Results Summary*

Net income attributable to common shareholders for the nine months ended September 30, 2013 was \$460,921,000, or \$2.46 per diluted share, compared to \$486,638,000, or \$2.61 per diluted share for the nine months ended September 30, 2012. Net income for the nine months ended September 30, 2013 and 2012 include \$284,546,000 and \$205,852,000, respectively, of net gains on sale of real estate, and \$10,823,000 and \$23,754,000, respectively, of real estate impairment losses. In addition, the nine months ended September 30, 2013 and 2012 include certain items that affect comparability, which are listed in the table below. The aggregate of net gains on sale of real estate, real estate impairment losses and the items in the table below, net of amounts attributable to noncontrolling interests, increased net income attributable to common shareholders for the nine months ended September 30, 2013 by \$172,832,000, or \$0.92 per diluted share, and \$300,868,000, or \$1.61 per diluted share for the nine months ended September 30, 2012.

FFO for the nine months ended September 30, 2013 was \$647,767,000, or \$3.45 per diluted share, compared to \$767,347,000, or \$4.07 per diluted share for the nine months ended September 30, 2012. FFO for the nine months ended September 30, 2013 and 2012 include certain items that affect comparability, which are listed in the table below. The aggregate of these items, net of amounts attributable to noncontrolling interests, decreased FFO for the nine months ended September 30, 2013 by \$48,077,000, or \$0.26 per diluted share, and increased FFO for the nine months ended September 30, 2012 by \$188,576,000, or \$1.00 per diluted share.

| (Amounts in thousands) | For the Nine Months Ended September 30, | |
|--|--|-------------|
| | 2013 | 2012 |
| Items that affect comparability income (expense): | | |
| Stop & Shop litigation settlement income | \$ 59,599 | \$ - |
| Net gain on sale of marketable securities | 31,741 | 3,582 |
| FFO from discontinued operations, including LNR and discontinued operations of Alexander's | 28,903 | 103,921 |
| After-tax net gain on sale of Canadian Trade Shows | - | 19,657 |
| Loss on sale of J.C. Penney common shares | (54,914) | - |
| Non-cash impairment loss on J.C. Penney common shares | (39,487) | - |
| Loss from the mark-to-market of J.C. Penney derivative position | (33,487) | (53,343) |
| Toys "R" Us FFO (after a \$78,542 impairment loss in 2013) | (30,747) | 127,031 |
| Acquisition related costs | (6,769) | (4,314) |
| Preferred unit and share redemptions | (1,130) | 11,700 |

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| | | |
|--|-------------|------------|
| Other, net | (4,757) | (7,254) |
| | (51,048) | 200,980 |
| Noncontrolling interests' share of above adjustments | 2,971 | (12,404) |
| Items that affect comparability, net | \$ (48,077) | \$ 188,576 |

The percentage increase (decrease) in GAAP basis and Cash basis same store EBITDA of our operating segments for the nine months ended September 30, 2013 over the nine months ended September 30, 2012 is summarized below.

| Same Store EBITDA: | New York | Washington, DC | Retail Properties |
|--|-----------------|---------------------------|------------------------------|
| September 30, 2013 vs. September 30, 2012 | | | |
| GAAP basis | 5.3% | (5.0%) | 2.6% |
| Cash basis | 8.6% | (6.0%) | 3.1% |

Calculations of same store EBITDA, reconciliations of our net income to EBITDA and FFO and the reasons we consider these non-GAAP financial measures useful are provided in the following pages of Management's Discussion and Analysis of the Financial Condition and Results of Operations.

Overview – continued

2013 Acquisitions and Investments

On September 30, 2013, a joint venture, in which we have a 20.1% interest, acquired 650 Madison Avenue, a 27-story, 594,000 square foot Class A office and retail tower located on the full western blockfront of Madison Avenue between 59th and 60th Street, for \$1.295 billion. The property contains 523,000 square feet of office space and 71,000 square feet of retail space. The purchase price was funded with cash and a new \$800,000,000 seven-year 4.39% interest-only loan.

On October 4, 2013, we acquired a 92.5% interest in 655 Fifth Avenue, a 57,500 square foot retail and office property located at the northeast corner of Fifth Avenue and 52nd Street in Manhattan with 50 feet of frontage on Fifth Avenue, for \$277,500,000 in cash.

On October 15, 2013, we acquired, for \$194,000,000, land and air rights for 137,000 zoning square feet thereby completing the assemblage for our 220 Central Park South site in Manhattan.

2013 Dispositions

During 2013, we sold an aggregate of \$1.230 billion in assets resulting in net proceeds of approximately \$790,000,000 and net gains aggregating \$307,000,000. Below are the details of these sales.

On January 24, 2013, we sold the Green Acres Mall located in Valley Stream, New York, for \$500,000,000. The sale resulted in net proceeds of \$185,000,000, after repaying the existing loan and closing costs, and a net gain of \$202,275,000.

On April 15, 2013, we sold The Plant, a power strip shopping center in San Jose, California, for \$203,000,000. The sale resulted in net proceeds of \$98,000,000, after repaying the existing loan and closing costs, and a net gain of \$32,169,000.

On April 15, 2013, we sold a retail property in Philadelphia, which is a part of the Gallery at Market Street, for \$60,000,000. The sale resulted in net proceeds of \$58,000,000, and a net gain of \$33,058,000.

On April 22, 2013, LNR was sold for \$1.053 billion. We owned 26.2% of LNR and received net proceeds of approximately \$241,000,000.

On April 24, 2013, a site located in the Downtown Crossing district of Boston was sold by a joint venture, which we owned 50% of. Our share of the net proceeds were approximately \$45,000,000, which resulted in a \$2,335,000 impairment loss that was recognized in the first quarter.

On September 23, 2013, we sold a retail property in Tampa, Florida for \$45,000,000, of which our 75% share was \$33,750,000. Our share of the net proceeds after repaying the existing loan and closing costs were \$20,810,000, and our share of the net gain was \$8,728,000.

On October 1, 2013, we sold a parcel of land known as Harlem Park located at 1800 Park Avenue (at 125th Street) in New York City for \$66,000,000. The sale resulted in net proceeds of approximately \$63,000,000 and a net gain of approximately \$23,000,000.

In addition to the above, during 2013, we sold 12 other non-core properties, in separate transactions, for an aggregate of \$82,300,000, in cash, which resulted in a net gain aggregating \$7,851,000.

Overview – continued

2013 Financings

Secured Debt

On February 20, 2013, we completed a \$390,000,000 financing of the retail condominium located at 666 Fifth Avenue at 53rd Street, which we had acquired December 2012. The 10-year fixed-rate interest only loan bears interest at 3.61%. This property was previously unencumbered. The net proceeds from this financing were approximately \$387,000,000.

On March 25, 2013, we completed a \$300,000,000 financing of the Outlets at Bergen Town Center, a 948,000 square foot shopping center located in Paramus, New Jersey. The 10-year fixed-rate interest only loan bears interest at 3.56%. The property was previously encumbered by a \$282,312,000 floating-rate loan.

On June 7, 2013, we completed a \$550,000,000 refinancing of Independence Plaza, a three-building 1,328 unit residential complex in the Tribeca submarket of Manhattan. The five-year, fixed-rate interest only mortgage loan bears interest at 3.48%. The property was previously encumbered by a \$323,000,000 floating-rate loan. The net proceeds of \$219,000,000, after repaying the existing loan and closing costs, were distributed to the partners, of which our share was \$137,000,000.

Unsecured Revolving Credit Facility

On March 28, 2013, we extended one of our two revolving credit facilities from June 2015 to June 2017, with two six-month extension options. The interest on the extended facility was reduced from LIBOR plus 135 basis points to LIBOR plus 115 basis points. In addition, the facility fee was reduced from 30 basis points to 20 basis points.

Preferred Securities

On January 25, 2013, we sold 12,000,000 5.40% Series L Cumulative Redeemable Preferred Shares at a price of \$25.00 per share in an underwritten public offering pursuant to an effective registration statement. We retained aggregate net proceeds of \$290,536,000, after underwriters' discounts and issuance costs, and contributed the net proceeds to the Operating Partnership in exchange for 12,000,000 Series L Preferred Units (with economic terms that mirror those of the Series L Preferred Shares).

On February 19, 2013, we redeemed all of the outstanding 6.75% Series F Cumulative Redeemable Preferred Shares and 6.75% Series H Cumulative Redeemable Preferred Shares at par, for an aggregate of \$262,500,000 in cash, plus accrued and unpaid dividends through the date of redemption.

On May 9, 2013, we redeemed all of the outstanding 6.875% Series D-15 Cumulative Redeemable Preferred Units with an aggregate face amount of \$45,000,000 for \$36,900,000 in cash, plus accrued and unpaid distributions through the date of redemption.

Overview – continued

Recently Issued Accounting Literature

In February 2013, the Financial Accounting Standards Board (“FASB”) issued an update (“ASU 2013-02”) to Accounting Standards Codification (“ASC”) Topic 220, *Comprehensive Income* (“Topic 220”). ASU 2013-02 requires additional disclosures regarding significant reclassifications out of each component of accumulated other comprehensive income, including the effect on the respective line items of net income for amounts that are required to be reclassified into net income in their entirety and cross-references to other disclosures providing additional information for amounts that are not required to be reclassified into net income in their entirety. The adoption of this update as of January 1, 2013, did not have a material impact on our consolidated financial statements, but resulted in additional disclosures.

In June 2013, the FASB issued an update (“ASU 2013-08”) to ASC Topic 946, *Financial Services - Investment Companies* (“Topic 946”). ASU 2013-08 amends the guidance in Topic 946 for determining whether an entity qualifies as an investment company and requires certain additional disclosures. ASU 2013-08 is effective for interim and annual reporting periods in fiscal years that begin after December 15, 2013. We are currently evaluating the impact, if any, of ASU 2013-08 on our real estate fund and our consolidated financial statements.

Critical Accounting Policies

A summary of our critical accounting policies is included in our Annual Report on Form 10-K for the year ended December 31, 2012 in Management’s Discussion and Analysis of Financial Condition. There have been no significant changes to our policies during 2013.

Overview - continued**Leasing Activity:**

The leasing activity and related statistics in the table below are based on leases signed during the period and are not intended to coincide with the commencement of rental revenue in accordance with accounting principles generally accepted in the United States of America (“GAAP”). Second generation relet space represents square footage that has not been vacant for more than nine months and tenant improvements and leasing commissions are based on our share of square feet leased during the period.

| (Square feet in thousands) | New York | | Washington, DC | Retail Properties | |
|--|----------|-----------|-------------------|-------------------|----------|
| | Office | Retail | Office | Strips | Malls |
| Quarter Ended September 30, 2013 | | | | | |
| Total square feet leased | 396 | 35 | 953 | 288 | 243 |
| Our share of square feet leased: | 323 | 35 | 626 | 288 | 195 |
| Initial rent ⁽¹⁾ | \$ 62.04 | \$ 270.81 | \$ 38.35 | \$ 18.07 | \$ 20.42 |
| Weighted average lease term (years) | 6.7 | 8.3 | 9.3 | 4.9 | 10.6 |
| Second generation relet space: | | | | | |
| Square feet | 226 | 22 | 397 | 134 | 41 |
| Cash basis: | | | | | |
| Initial rent ⁽¹⁾ | \$ 60.01 | \$ 221.79 | \$ 42.02 | \$ 24.50 | \$ 12.60 |
| Prior escalated rent | \$ 55.12 | \$ 98.14 | \$ 42.47 | \$ 22.82 | \$ 12.16 |
| Percentage increase (decrease) | 8.9% | 126.0% | (1.1%) | 7.4% | 3.6% |
| GAAP basis: | | | | | |
| Straight-line rent ⁽²⁾ | \$ 58.45 | \$ 259.00 | \$ 42.73 | \$ 25.10 | \$ 12.93 |
| Prior straight-line rent | \$ 54.11 | \$ 77.15 | \$ 41.15 | \$ 22.07 | \$ 11.61 |
| Percentage increase | 8.0% | 235.7% | 3.8% | 13.7% | 11.4% |
| Tenant improvements and leasing commissions: | | | | | |
| Per square foot | \$ 56.11 | \$ 102.21 | \$ 34.76 | \$ 1.76 | \$ 37.02 |
| | \$ 8.38 | \$ 12.31 | \$ 3.74 | \$ 0.36 | \$ 3.49 |

| | | | | | |
|----------------------------|-------|------|------|------|-------|
| Per square foot per annum | | | | | |
| Percentage of initial rent | 13.5% | 4.5% | 9.8% | 2.0% | 17.1% |

Nine Months Ended September 30, 2013:

| | | | | | |
|--|----------|-----------|----------|----------|----------|
| Total square feet leased | 1,851 | 75 | 1,525 | 1,188 | 537 |
| Our share of square feet leased: | 1,599 | 69 | 1,116 | 1,188 | 465 |
| Initial rent ⁽¹⁾ | \$ 61.13 | \$ 262.38 | \$ 39.87 | \$ 16.26 | \$ 26.74 |
| Weighted average lease term (years) | 11.4 | 8.0 | 7.4 | 5.8 | 9.1 |
| Second generation relet space: | | | | | |
| Square feet | 1,419 | 53 | 731 | 830 | 117 |
| Cash basis: | | | | | |
| Initial rent ⁽¹⁾ | \$ 60.06 | \$ 243.40 | \$ 41.39 | \$ 16.22 | \$ 25.31 |
| Prior escalated rent | \$ 57.35 | \$ 100.98 | \$ 41.45 | \$ 14.91 | \$ 24.13 |
| Percentage increase (decrease) | 4.7% | 141.0% | (0.1%) | 8.8% | 4.9% |
| GAAP basis: | | | | | |
| Straight-line rent ⁽²⁾ | \$ 60.23 | \$ 275.86 | \$ 41.44 | \$ 16.55 | \$ 25.89 |
| Prior straight-line rent | \$ 52.77 | \$ 91.20 | \$ 39.88 | \$ 14.51 | \$ 23.43 |
| Percentage increase | 14.1% | 202.5% | 3.9% | 14.1% | 10.5% |
| Tenant improvements and leasing commissions: | | | | | |
| Per square foot | \$ 60.14 | \$ 114.50 | \$ 34.82 | \$ 3.51 | \$ 27.28 |
| Per square foot per annum: | \$ 5.31 | \$ 14.31 | \$ 4.71 | \$ 0.61 | \$ 3.00 |
| Percentage of initial rent | 8.7% | 5.5% | 11.8% | 3.8% | 11.2% |

(1) Represents the cash basis weighted average starting rent per square foot, which is generally indicative of market rents. Most leases include free rent and periodic step-ups in rent which are not included in the initial cash basis rent per square foot but are included in the GAAP basis straight-line rent per square foot.

(2) Represents the GAAP basis weighted average rent per square foot that is recognized over the term of the respective leases, and includes the effect of free rent and periodic step-ups in rent.

Overview – continued

Square footage (in service) and Occupancy as of September 30, 2013:

| (Square feet in thousands) | Number of Properties | Square Feet (in service) | | Occupancy % |
|---|----------------------|--------------------------|-----------|-------------|
| | | Total Portfolio | Our Share | |
| New York: | | | | |
| Office | 32 | 20,379 | 16,957 | 95.9% |
| Retail | 52 | 2,302 | 2,087 | 97.1% |
| Alexander's | 6 | 2,179 | 706 | 99.4% |
| Hotel Pennsylvania | 1 | 1,400 | 1,400 | |
| Residential - 1,655 units | 4 | 1,523 | 870 | 94.0% |
| | | 27,783 | 22,020 | 96.1% |
| Washington, DC: | | | | |
| Office, excluding the Skyline Properties | 51 | 13,584 | 11,153 | 85.4% |
| Skyline Properties | 8 | 2,652 | 2,652 | 61.3% |
| Total Office | 59 | 16,236 | 13,805 | 80.7% |
| Residential - 2,414 units | 7 | 2,597 | 2,455 | 97.2% |
| Other | 7 | 418 | 418 | 100.0% |
| | | 19,251 | 16,678 | 83.6% |
| Total occupancy, excluding the Skyline Properties | | | | 87.9% |
| Retail Properties: | | | | |
| Strip Shopping Centers | 99 | 14,306 | 13,927 | 94.3% |
| Regional Malls | 6 | 5,250 | 3,613 | 94.0% |
| | | 19,556 | 17,540 | 94.3% |
| Other: | | | | |
| Merchandise Mart | 2 | 3,842 | 3,833 | 96.3% |
| 555 California Street | 3 | 1,796 | 1,257 | 93.8% |
| Primarily Warehouses | 5 | 971 | 971 | 43.2% |
| | | 6,609 | 6,061 | |
| Total square feet at September 30, 2013 | | 73,199 | 62,299 | |

Overview - continued**Square footage (in service) and Occupancy as of December 31, 2012:**

| (Square feet in thousands) | Number of properties | Square Feet (in service) | | Occupancy % |
|---|----------------------|--------------------------|-----------|-------------|
| | | Total Portfolio | Our Share | |
| New York: | | | | |
| Office | 31 | 19,729 | 16,751 | 95.9% |
| Retail | 49 | 2,217 | 2,057 | 96.8% |
| Alexander's | 6 | 2,179 | 706 | 99.1% |
| Hotel Pennsylvania | 1 | 1,400 | 1,400 | |
| Residential - 1,655 units | 4 | 1,528 | 873 | 96.9% |
| | | 27,053 | 21,787 | 96.2% |
| Washington, DC: | | | | |
| Office, excluding the Skyline Properties | 51 | 13,463 | 10,994 | 86.3% |
| Skyline Properties | 8 | 2,643 | 2,643 | 60.0% |
| Total Office | 59 | 16,106 | 13,637 | 81.2% |
| Residential - 2,414 units | 7 | 2,599 | 2,457 | 97.9% |
| Other | 7 | 435 | 435 | 100.0% |
| | | 19,140 | 16,529 | 84.1% |
| Total occupancy, excluding the Skyline Properties | | | | 88.8% |
| Retail Properties: | | | | |
| Strip Shopping Centers | 100 | 14,126 | 13,748 | 93.9% |
| Regional Malls | 6 | 5,244 | 3,608 | 92.7% |
| | | 19,370 | 17,356 | 93.7% |
| Other: | | | | |
| Merchandise Mart | 2 | 3,905 | 3,896 | 94.6% |
| 555 California Street | 3 | 1,795 | 1,257 | 93.1% |
| Primarily Warehouses | 5 | 971 | 971 | 55.9% |
| | | 6,671 | 6,124 | |
| Total square feet at December 31, 2012 | | | 72,234 | 61,796 |

Overview - continued**Washington, DC Segment**

For the nine months ended September 30, 2013, EBITDA from continuing operations was lower than the prior year's nine months by approximately \$17,720,000, which is above the range of EBITDA diminution of \$5,000,000 to \$15,000,000 that we had previously estimated for the full year. We expect this EBITDA reduction to be partially offset by an increase in the fourth quarter and that EBITDA for the full year will be lower than the prior year by approximately \$10,000,000 to \$15,000,000.

Of the 2,395,000 square feet subject to the effects of the Base Realignment and Closure ("BRAC") statute, 348,000 square feet has been taken out of service for redevelopment and 755,000 square feet has been leased or is pending. The table below summarizes the status of the BRAC space as of September 30, 2013.

| | Rent Per | | Square Feet | | |
|--|-------------|-----------|--------------|---------|---------|
| | Square Foot | Total | Crystal City | Skyline | Rosslyn |
| Resolved: | | | | | |
| Relet as of September 30, 2013 | \$ 37.77 | 716,000 | 389,000 | 263,000 | 64,000 |
| Leases pending | 45.09 | 39,000 | 39,000 | - | - |
| Taken out of service for redevelopment | | 348,000 | 348,000 | - | - |
| | | 1,103,000 | 776,000 | 263,000 | 64,000 |
| To Be Resolved: | | | | | |
| Vacated as of September 30, 2013 | 37.58 | 930,000 | 507,000 | 341,000 | 82,000 |
| Expiring in: | | | | | |
| 2014 | 32.34 | 292,000 | 91,000 | 201,000 | - |
| 2015 | 43.13 | 70,000 | 65,000 | 5,000 | - |
| | | 1,292,000 | 663,000 | 547,000 | 82,000 |
| Total square feet subject to BRAC | | 2,395,000 | 1,439,000 | 810,000 | 146,000 |

On October 31, 2013, we completed the restructuring of the \$678,000,000 (face amount) 5.74% Skyline properties mortgage loan. The loan has been separated into two tranches; a senior \$350,000,000 position and a junior \$328,000,000 position. The maturity date has been extended from February 2017 to February 2022, with a one-year extension option. The effective interest rate is 2.965%. Capital we invest to re-lease the property will be senior to the \$328,000,000 junior position.

Net Income and EBITDA by Segment for the Three Months Ended September 30, 2013 and 2012

As a result of certain organizational changes and asset sales in 2012, the Merchandise Mart segment no longer meets the criteria to be a separate reportable segment; accordingly, effective January 1, 2013, the remaining assets have been reclassified to "Other." We have also reclassified the prior period segment financial results to conform to the current year presentation. Below is a summary of net income and a reconciliation of net income to EBITDA⁽¹⁾ by segment for the three months ended September 30, 2013 and 2012.

(Amounts in thousands)

For the Three Months Ended September 30, 2013

| | Retail | | | | | |
|---|---------------|-----------------|---------------------------|-------------------|-------------|--------------|
| | Total | New York | Washington, DC | Properties | Toys | Other |
| Property rentals | \$ 505,062 | \$ 277,855 | \$ 113,737 | \$ 63,361 | \$ - | \$ 50,109 |
| Straight-line rent adjustments | 15,809 | 9,430 | 234 | 1,491 | - | 4,654 |
| Amortization of acquired below-market leases, net | 11,820 | 7,151 | 521 | 2,894 | - | 1,254 |
| Total rentals | 532,691 | 294,436 | 114,492 | 67,746 | - | 56,017 |
| Tenant expense reimbursements | 84,638 | 47,142 | 10,462 | 21,670 | - | 5,364 |
| Cleveland Medical Mart development project | 4,893 | - | - | - | - | 4,893 |
| Fee and other income: | | | | | | |
| BMS cleaning fees | 15,898 | 21,191 | - | - | - | (5,293) |
| Signage revenue | 8,738 | 8,738 | - | - | - | - |
| Management and leasing fees | 7,982 | 2,615 | 5,263 | 371 | - | (267) |
| Lease termination fees | 20,432 | 19,496 | 867 | - | - | 69 |
| Other income | 8,108 | 581 | 6,520 | 656 | - | 351 |
| Total revenues | 683,380 | 394,199 | 137,604 | 90,443 | - | 61,134 |
| Operating expenses | 264,422 | 160,465 | 49,646 | 31,628 | - | 22,683 |
| Depreciation and amortization | 124,079 | 58,058 | 31,109 | 16,455 | - | 18,457 |
| General and administrative | 48,250 | 7,849 | 6,857 | 4,240 | - | 29,304 |
| Cleveland Medical Mart development project | 3,239 | - | - | - | - | 3,239 |
| Acquisition related costs | 2,818 | - | - | - | - | 2,818 |
| Total expenses | 442,808 | 226,372 | 87,612 | 52,323 | - | 76,501 |
| Operating income (loss) | 240,572 | 167,827 | 49,992 | 38,120 | - | (15,367) |
| (Loss) applicable to Toys | (34,209) | - | - | - | (34,209) | - |
| Income (loss) from partially owned entities | 1,453 | 4,189 | (2,003) | 188 | - | (921) |
| Income from Real Estate Fund | 22,913 | - | - | - | - | 22,913 |

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| | | | | | | |
|---|------------|---------------------------|--------------------------|--------------------------|-----------|--------------------------|
| Interest and other investment | | | | | | |
| (loss) income, net | (10,275) | 1,468 | 17 | 1 | - | (11,761) |
| Interest and debt expense | (119,870) | (42,538) | (27,246) | (10,839) | - | (39,247) |
| Net gain on disposition of wholly owned and partially owned assets | 15,138 | - | - | 1,377 | - | 13,761 |
| Income (loss) before income taxes | 115,722 | 130,946 | 20,760 | 28,847 | (34,209) | (30,622) |
| Income tax expense | (2,222) | (65) | (766) | (731) | - | (660) |
| Income (loss) from continuing operations | 113,500 | 130,881 | 19,994 | 28,116 | (34,209) | (31,282) |
| Income (loss) from discontinued operations | 18,751 | - | - | 19,012 | - | (261) |
| Net income (loss) | 132,251 | 130,881 | 19,994 | 47,128 | (34,209) | (31,543) |
| Less net income attributable to noncontrolling interests in: | | | | | | |
| Consolidated subsidiaries | (23,833) | (6,556) | - | (2,970) | - | (14,307) |
| Operating Partnership Preferred unit distributions of the Operating Partnership | (5,032) | - | - | - | - | (5,032) |
| | (12) | - | - | - | - | (12) |
| Net income (loss) attributable to Vornado | 103,374 | 124,325 | 19,994 | 44,158 | (34,209) | (50,894) |
| Interest and debt expense ⁽²⁾ | 183,116 | 59,344 | 30,717 | 12,119 | 38,435 | 42,501 |
| Depreciation and amortization ⁽²⁾ | 172,756 | 67,294 | 35,403 | 17,573 | 32,176 | 20,310 |
| Income tax (benefit) expense ⁽²⁾ | (20,292) | 67 | 828 | 731 | (22,690) | 772 |
| EBITDA ⁽¹⁾ | \$ 438,954 | \$ 251,030 ⁽³⁾ | \$ 86,942 ⁽⁴⁾ | \$ 74,581 ⁽⁵⁾ | \$ 13,712 | \$ 12,689 ⁽⁶⁾ |

See notes on page 54.

Net Income and EBITDA by Segment for the Three Months Ended September 30, 2013 and 2012 - continued

(Amounts in thousands)

For the Three Months Ended September 30, 2012

| | Retail | | | | | |
|---|--------------------|-----------------|------------|-------------------|-------------|--------------|
| | Washington, | | | | | |
| | Total | New York | DC | Properties | Toys | Other |
| Property rentals | \$ 486,914 | \$ 255,703 | \$ 115,641 | \$ 63,408 | \$ - | \$ 52,162 |
| Straight-line rent adjustments | 11,391 | 8,140 | 1,267 | 1,873 | - | 111 |
| Amortization of acquired below-market leases, net | 13,256 | 8,458 | 506 | 2,882 | - | 1,410 |
| Total rentals | 511,561 | 272,301 | 117,414 | 68,163 | - | 53,683 |
| Tenant expense reimbursements | 79,215 | 45,164 | 9,601 | 19,787 | - | 4,663 |
| Cleveland Medical Mart development project | 72,651 | - | - | - | - | 72,651 |
| Fee and other income: | | | | | | |
| BMS cleaning fees | 16,945 | 23,918 | - | - | - | (6,973) |
| Signage revenue | 4,783 | 4,783 | - | - | - | - |
| Management and leasing fees | 7,234 | 1,816 | 4,615 | 736 | - | 67 |
| Lease termination fees | 282 | 78 | 128 | 73 | - | 3 |
| Other income | 10,381 | 1,116 | 8,288 | 569 | - | 408 |
| Total revenues | 703,052 | 349,176 | 140,046 | 89,328 | - | 124,502 |
| Operating expenses | 261,512 | 159,048 | 50,305 | 30,726 | - | 21,433 |
| Depreciation and amortization | 122,241 | 57,967 | 29,825 | 16,359 | - | 18,090 |
| General and administrative | 48,456 | 6,739 | 6,668 | 6,103 | - | 28,946 |
| Cleveland Medical Mart development project | 70,431 | - | - | - | - | 70,431 |
| Acquisition related costs | 1,070 | - | - | - | - | 1,070 |
| Total expenses | 503,710 | 223,754 | 86,798 | 53,188 | - | 139,970 |
| Operating income (loss) | 199,342 | 125,422 | 53,248 | 36,140 | - | (15,468) |
| (Loss) applicable to Toys | (8,585) | - | - | - | (8,585) | - |
| Income (loss) from partially owned entities | 21,268 | 9,309 | (2,182) | 342 | - | 13,799 |
| Income from Real Estate Fund | 5,509 | - | - | - | - | 5,509 |
| Interest and other investment income, net | 10,523 | 1,057 | 24 | 4 | - | 9,438 |
| Interest and debt expense | (119,330) | (36,817) | (28,311) | (13,292) | - | (40,910) |
| | 108,727 | 98,971 | 22,779 | 23,194 | (8,585) | (27,632) |

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| | | | | | | |
|---|------------|---------------------------|---------------------------|--------------------------|-----------|--------------------------|
| Income (loss) before income taxes | | | | | | |
| Income tax (expense) benefit | (3,015) | (815) | 25 | - | - | (2,225) |
| Income (loss) from continuing operations | 105,712 | 98,156 | 22,804 | 23,194 | (8,585) | (29,857) |
| Income from discontinued operations | 158,444 | - | 126,437 | 11,370 | - | 20,637 |
| Net income (loss) | 264,156 | 98,156 | 149,241 | 34,564 | (8,585) | (9,220) |
| Less net (income) loss attributable to noncontrolling interests in: | | | | | | |
| Consolidated subsidiaries | (6,610) | (2,092) | - | 97 | - | (4,615) |
| Operating Partnership | (14,837) | - | - | - | - | (14,837) |
| Preferred unit distributions of the Operating Partnership | (1,403) | - | - | - | - | (1,403) |
| Net income (loss) attributable to Vornado | 241,306 | 96,064 | 149,241 | 34,661 | (8,585) | (30,075) |
| Interest and debt expense ⁽²⁾ | 183,241 | 46,823 | 33,280 | 17,499 | 34,526 | 51,113 |
| Depreciation and amortization ⁽²⁾ | 177,593 | 62,905 | 35,071 | 21,345 | 33,160 | 25,112 |
| Income tax expense (benefit) ⁽²⁾ | 3,850 | 871 | (25) | - | (11,118) | 14,122 |
| EBITDA ⁽¹⁾ | \$ 605,990 | \$ 206,663 ⁽³⁾ | \$ 217,567 ⁽⁴⁾ | \$ 73,505 ⁽⁵⁾ | \$ 47,983 | \$ 60,272 ⁽⁶⁾ |

See notes on the following page.

Net Income and EBITDA by Segment for the Three Months Ended September 30, 2013 and 2012 - continued**Notes to preceding tabular information:**

- (1) EBITDA represents "Earnings Before Interest, Taxes, Depreciation and Amortization." We consider EBITDA a supplemental measure for making decisions and assessing the unlevered performance of our segments as it relates to the total return on assets as opposed to the levered return on equity. As properties are bought and sold based on a multiple of EBITDA, we utilize this measure to make investment decisions as well as to compare the performance of our assets to that of our peers. EBITDA should not be considered a substitute for net income. EBITDA may not be comparable to similarly titled measures employed by other companies.
- (2) Interest and debt expense, depreciation and amortization and income tax (benefit) expense in the reconciliation of net income (loss) to EBITDA includes our share of these items from partially owned entities.
- (3) The elements of "New York" EBITDA are summarized below.

| (Amounts in thousands) | For the Three Months Ended September 30, | |
|--|---|-------------|
| | 2013 | 2012 |
| Office | \$ 172,367 | \$ 139,894 |
| Retail | 59,782 | 46,165 |
| Alexander's (decrease due to sale of Kings Plaza in November 2012) | 10,387 | 13,080 |
| Hotel Pennsylvania | 8,494 | 7,524 |
| Total New York | \$ 251,030 | \$ 206,663 |

- (4) The elements of "Washington, DC" EBITDA are summarized below.

| (Amounts in thousands) | For the Three Months Ended September 30, | |
|---|---|-------------|
| | 2013 | 2012 |
| Office, excluding the Skyline Properties ^(a) | \$ 69,220 | \$ 197,009 |
| Skyline properties | 6,841 | 9,936 |
| Total Office | 76,061 | 206,945 |
| Residential | 10,881 | 10,622 |
| Total Washington, DC | \$ 86,942 | \$ 217,567 |

- (a) 2012 includes EBITDA from discontinued operations, net gains on sale of real estate and other items that affect comparability, aggregating \$128,745. Excluding these items, EBITDA was \$68,264.

- (5) The elements of "Retail Properties" EBITDA are summarized below.

| (Amounts in thousands) | For the Three Months Ended September 30, | |
|---------------------------------------|---|-------------|
| | 2013 | 2012 |
| Strip shopping centers ^(a) | \$ 59,175 | \$ 49,378 |
| Regional malls ^(b) | 15,406 | 24,127 |
| Total Retail properties | \$ 74,581 | \$ 73,505 |

- (a) The three months ended September 30, 2013 and 2012 includes EBITDA from discontinued operations, net gains on sale of real estate and other items that affect comparability, aggregating \$17,756 and \$12,161, respectively. Excluding these items, EBITDA was \$41,419 and \$37,217, respectively.
- (b) 2012 includes EBITDA from discontinued operations, net gains on sale of real estate and other items that affect comparability, aggregating \$8,329. Excluding these items, EBITDA was \$15,798.

Net Income and EBITDA by Segment for the Three Months Ended September 30, 2013 and 2012 - continued**Notes to preceding tabular information - continued:**

(6) The elements of "other" EBITDA are summarized below.

| (Amounts in thousands) | For the Three Months Ended September 30, | |
|--|---|-------------|
| | 2013 | 2012 |
| Our share of Real Estate Fund: | | |
| Income before net realized/unrealized gains | \$ 1,997 | \$ 1,874 |
| Net unrealized gains | 3,092 | 1,389 |
| Net realized gain | 2,046 | - |
| Carried interest | 356 | (2,541) |
| Total | 7,491 | 722 |
| Merchandise Mart Building, 7 West 34th Street and trade shows | 15,006 | 13,869 |
| 555 California Street | 10,720 | 10,714 |
| India real estate ventures | 695 | 1,841 |
| LNR ^(a) | - | 18,773 |
| Lexington ^(b) | - | 7,859 |
| Other investments | 5,330 | 9,280 |
| | 39,242 | 63,058 |
| Corporate general and administrative expenses ^(c) | (23,467) | (22,811) |
| Investment income and other, net ^(c) | 11,108 | 6,854 |
| Net gain on sale of marketable securities | 31,741 | - |
| (Loss) income from the mark-to-market of J.C. Penney derivative position | (20,012) | 4,344 |
| Loss on sale of J.C. Penney common shares | (18,114) | - |
| Acquisition related costs | (2,818) | (1,070) |
| Net gain on sale of residential condominiums | 134 | - |
| Merchandise Mart discontinued operations | (81) | 32,087 |
| Verde Realty impairment loss | - | (4,936) |
| Severance costs (primarily reduction in force at the Merchandise Mart) | - | (1,014) |
| Net income attributable to noncontrolling interests in the Operating Partnership | (5,032) | (14,837) |
| Preferred unit distributions of the Operating Partnership | (12) | (1,403) |
| | \$ 12,689 | \$ 60,272 |

(a) On April 22, 2013, LNR was sold.

(b) In the first quarter of 2013, we began accounting for our investment in Lexington as a marketable equity security - available for sale.

(c) The amounts in these captions (for this table only) exclude income(expense) from the mark-to-market of our deferred compensation plan.

EBITDA by Region

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Below is a summary of the percentages of EBITDA by geographic region (excluding discontinued operations and other gains and losses that affect comparability), from our New York, Washington, DC and Retail Properties segments.

| Region: | For the Three Months Ended September 30, | |
|---|---|-------------|
| | 2013 | 2012 |
| New York City metropolitan area | 74% | 70% |
| Washington, DC / Northern Virginia metropolitan area | 23% | 26% |
| Puerto Rico | 1% | 2% |
| California | 1% | 1% |
| Other geographies | 1% | 1% |
| | 100% | 100% |

55

Results of Operations – Three Months Ended September 30, 2013 Compared to September 30, 2012**Revenues**

Our revenues, which consist primarily of property rentals (including hotel and trade show revenues), tenant expense reimbursements, and fee and other income, were \$683,380,000 in the three months ended September 30, 2013, compared to \$703,052,000 in the prior year's quarter, a decrease of \$19,672,000. Below are the details of the increase (decrease) by segment:

(Amounts in thousands)

| | | | | Retail | |
|--|--------------|-----------------|---------------------------|-------------------|--------------|
| Increase (decrease) due to: | Total | New York | Washington, DC | Properties | Other |
| Property rentals: | | | | | |
| Acquisitions and other Properties placed into / taken out of service for redevelopment | \$ 7,765 | \$ 11,162 | \$ - | \$ (2,473) | \$ (924) |
| Hotel Pennsylvania | 527 | 128 | 64 | 330 | 5 |
| Trade Shows | 2,941 | 2,941 | - | - | - |
| Same store operations | (1,973) | - | - | - | (1,973) |
| | 11,870 | 7,904 | (2,986) | 1,726 | 5,226 |
| | 21,130 | 22,135 | (2,922) | (417) | 2,334 |
| Tenant expense reimbursements: | | | | | |
| Acquisitions and other Properties placed into / taken out of service for redevelopment | (364) | 175 | - | (276) | (263) |
| Same store operations | 296 | 52 | 184 | 76 | (16) |
| | 5,491 | 1,751 | 677 | 2,083 | 980 |
| | 5,423 | 1,978 | 861 | 1,883 | 701 |
| Cleveland Medical Mart development project | (67,758)(1) | - | - | - | (67,758)(1) |
| Fee and other income: | | | | | |
| BMS cleaning fees | (1,047) | (2,727) | - | - | 1,680 (2) |
| Signage revenue | 3,955 | 3,955 | - | - | - |
| Management and leasing fees | 748 | 799 | 648 | (365) | (334) |
| Lease termination fees | 20,150 | 19,418 (3) | 739 | (73) | 66 |
| Other income | (2,273) | (535) | (1,768) | 87 | (57) |

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| | | | | | |
|---------------------------------------|--|-----------|------------|----------|-------------|
| | 21,533 | 20,910 | (381) | (351) | 1,355 |
| Total (decrease) increase in revenues | \$ (19,672) | \$ 45,023 | \$ (2,442) | \$ 1,115 | \$ (63,368) |
| (1) | Primarily due to the project nearing completion. This decrease in revenue is offset by a decrease in development costs expensed in the period. See note (3) on page 57. | | | | |
| (2) | Represents the elimination of intercompany fees from operating segments upon consolidation. See note (2) on page 57. | | | | |
| (3) | Primarily due to a \$19,500 termination fee from a tenant at 1290 Avenue of the Americas. Our share of this income, net of the write off of the straight lining of rents and amounts attributable to the noncontrolling interest was \$12,121. | | | | |

Results of Operations – Three Months Ended September 30, 2013 Compared to September 30, 2012 - continuedExpenses

Our expenses, which consist primarily of operating (including hotel and trade show expenses), depreciation and amortization and general and administrative expenses, were \$442,808,000 in the three months ended September 30, 2013, compared to \$503,710,000 in the prior year's quarter, a decrease of \$60,902,000. Below are the details of the increase (decrease) by segment:

(Amounts in thousands)

| Increase (decrease) due to: | Total | New York | Washington, DC | Retail Properties | Other |
|--|----------|----------|-------------------|----------------------|----------------------|
| Operating: | | | | | |
| Acquisitions and other Properties placed into / taken out of service for redevelopment | \$ 2,197 | \$ 3,355 | \$ - | \$ (507) | \$ (651) |
| Non-reimbursable expenses, including bad debt reserves | (1,159) | (93) | (111) | (938) | (17) |
| Hotel Pennsylvania | (3,292) | (2,316) | (48) | - | (928) |
| Trade Shows | 1,919 | 1,919 | - | - | - |
| BMS expenses | (2,189) | - | - | - | (2,189) |
| Same store operations | (847) | (2,527) | - | - | 1,680 ⁽²⁾ |
| | 6,281 | 1,079 | (500) | 2,347 | 3,355 |
| | 2,910 | 1,417 | (659) | 902 | 1,250 |
| Depreciation and amortization: | | | | | |
| Acquisitions and other Properties placed into / taken out of service for redevelopment | 4,504 | 5,114 | - | (504) | (106) |
| Same store operations | 415 | (268) | 37 | 646 | - |
| | (3,081) | (4,755) | 1,247 | (46) | 473 |
| | 1,838 | 91 | 1,284 | 96 | 367 |
| General and administrative: | | | | | |
| Mark-to-market of deferred compensation plan liability ⁽¹⁾ | (847) | - | - | - | (847) |

Revenues

112

| | | | | | |
|---|-------------|----------|--------|----------|-------------|
| Severance costs (primarily reduction in force at the Merchandise Mart) | (1,014) | - | - | - | (1,014) |
| Same store operations | 1,655 | 1,110 | 189 | (1,863) | 2,219 |
| | (206) | 1,110 | 189 | (1,863) | 358 |
| Cleveland Medical Mart development project | (67,192)(3) | - | - | - | (67,192)(3) |
| Acquisition related costs | 1,748 | - | - | - | 1,748 |
| Total (decrease) increase in expenses | \$ (60,902) | \$ 2,618 | \$ 814 | \$ (865) | \$ (63,469) |

- (1) This decrease in expense is entirely offset by a corresponding decrease in income from the mark-to-market of the deferred compensation plan assets, a component of “interest and other investment (loss) income, net” on our consolidated statements of income.
- (2) Represents the elimination of intercompany fees from operating segments upon consolidation. See note (2) on page 56.
- (3) Primarily due to the project nearing completion. This decrease in expense is offset by the decrease in development revenue in the period. See note (1) on page 56.

Results of Operations – Three Months Ended September 30, 2013 Compared to September 30, 2012 - continued(Loss) Income Applicable to Toys

In the three months ended September 30, 2013, we recognized a net loss of \$34,209,000 from our investment in Toys, comprised of \$36,056,000 for our 32.6% share of Toys' net loss, partially offset by \$1,847,000 of management fee income. In the three months ended September 30, 2012, we recognized a net loss of \$8,585,000 from our investment in Toys, comprised of \$10,956,000 for our 32.5% share of Toys' net loss, partially offset by \$2,371,000 of management fee income.

Income from Partially Owned Entities

Summarized below are the components of income (loss) from partially owned entities for the three months ended September 30, 2013 and 2012.

| (Amounts in thousands) | Percentage Ownership at September 30, 2013 | For the Three Months Ended September 30, | |
|---|---|---|-------------|
| Equity in Net Income (Loss): | | 2013 | 2012 |
| Alexander's (decrease due to sale of Kings Plaza in November 2012) | 32.4% | \$ 5,975 | \$ 8,958 |
| India real estate ventures | 4.0%-36.5% | (1,449) | 82 |
| Partially owned office buildings: | | | |
| Warner Building | 55.0% | (2,004) | (2,839) |
| 280 Park Avenue | 49.5% | (1,890) | (1,717) |
| 666 Fifth Avenue Office Condominium | 49.5% | 1,858 | 1,744 |
| 330 Madison Avenue | 25.0% | 1,225 | 1,224 |
| Rosslyn Plaza | 43.7%-50.4% | (707) | (204) |
| One Park Avenue | 30.3% | 680 | 256 |
| 1101 17th Street | 55.0% | 376 | 591 |
| West 57th Street Properties | 50.0% | 47 | 167 |
| Fairfax Square | 20.0% | (24) | (33) |
| Other partially owned office buildings | Various | 477 | 505 |

Other investments:

| | | | |
|--|---------|----------|-----------|
| Independence Plaza | 50.1% | (2,081) | 1,828 |
| Monmouth Mall | 50.0% | 165 | 347 |
| Lexington ⁽¹⁾ | n/a | - | (323) |
| LNR ⁽²⁾ | n/a | - | 16,600 |
| Downtown Crossing, Boston ⁽³⁾ | n/a | - | (38) |
| Other investments ⁽⁴⁾ | Various | (1,195) | (5,880) |
| | | \$ 1,453 | \$ 21,268 |

- (1) In the first quarter of 2013, we began accounting for our investment in Lexington as a marketable equity security - available for sale.
- (2) On April 22, 2013, LNR was sold for \$1.053 billion. We owned 26.2% of LNR and received net proceeds of approximately \$241,000.
- (3) On April 24, 2013, the joint venture sold the site in Downtown Crossing, Boston, and we received approximately \$45,000 for our 50% interest.
- (4) Includes interests in 85 10th Avenue, Fashion Centre Mall, 50-70 West 93rd Street and others.

Results of Operations – Three Months Ended September 30, 2013 Compared to September 30, 2012 - continuedIncome from Real Estate Fund

Below are the components of the income from our Real Estate Fund for the three months ended September 30, 2013 and 2012.

| (Amounts in thousands) | For the Three Months Ended September 30, | |
|---|--|---------|
| | 2013 | 2012 |
| Net investment income (loss) | \$ 2,362 | \$ (49) |
| Net realized gain | 8,184 | - |
| Net unrealized gains | 12,367 | 5,558 |
| Income from Real Estate Fund | 22,913 | 5,509 |
| Less (income) attributable to noncontrolling interests | (15,422) | (4,787) |
| Income from Real Estate Fund attributable to Vornado ⁽¹⁾ | \$ 7,491 | \$ 722 |

(1) Excludes management, leasing and development fees of \$770 and \$954 for the three months ended September 30, 2013 and 2012, respectively, which are included as a component of "fee and other income" on our consolidated statements of income.

Interest and Other Investment (Loss) Income, net

Interest and other investment (loss) income, net was a loss of \$10,275,000 in the three months ended September 30, 2013, compared to income of \$10,523,000 in the prior year's quarter, a decrease in income of \$20,798,000. This decrease resulted from:

(Amounts in thousands)

J.C. Penney derivative position (\$20,012 mark-to-market loss in the current year's quarter, compared to a

\$4,344 mark-to-market gain in the prior year's quarter)

\$ (24,356)

Dividends and interest on marketable securities in the current year's quarter

2,804

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| | |
|---|-------------|
| Decrease in the value of investments in our deferred compensation plan (offset by a corresponding | |
| decrease in the liability for plan assets in general and administrative expenses) | (847) |
| Other, net | 1,601 |
| | \$ (20,798) |

Interest and Debt Expense

Interest and debt expense was \$119,870,000 in the three months ended September 30, 2013, compared to \$119,330,000 in the prior year's quarter, an increase of \$540,000.

Net Gain (Loss) on Disposition of Wholly Owned and Partially Owned Assets

In the three months ended September 30, 2013, we recognized a \$15,138,000 gain on disposition of wholly owned and partially owned assets, primarily from a \$31,741,000 net gain on the sale of a marketable security, partially offset by an \$18,114,000 loss on sale of the remaining 13,400,000 J.C. Penney common shares.

Income Tax Expense

Income tax expense was \$2,222,000 in the three months ended September 30, 2013, compared to \$3,015,000 in the prior year's quarter, a decrease of \$793,000. This decrease resulted primarily from an income tax provision in the prior year's quarter applicable to a taxable REIT subsidiary that was liquidated in the fourth quarter of 2012.

Results of Operations – Three Months Ended September 30, 2013 Compared to September 30, 2012 - continuedIncome from Discontinued Operations

We have reclassified the revenues and expenses of the properties that were sold and that are currently held for sale to “income from discontinued operations” and the related assets and liabilities to “assets related to discontinued operations” and “liabilities related to discontinued operations” for all the periods presented in the accompanying financial statements. The table below sets forth the combined results of assets related to discontinued operations for the three months ended September 30, 2013 and 2012.

| (Amounts in thousands) | For the Three Months Ended | |
|--|-----------------------------------|-------------|
| | September 30, | |
| | 2013 | 2012 |
| Total revenues | \$ 2,963 | \$ 35,576 |
| Total expenses | 2,488 | 27,877 |
| | 475 | 7,699 |
| Net gains on sale of real estate (2013 includes \$2,909 | | |
| attributable to noncontrolling interests) | 18,996 | 131,088 |
| Gain on sale of Canadian Trade Shows, net of \$11,448 of | | |
| income taxes | - | 19,657 |
| Impairment losses | (720) | - |
| Income from discontinued operations | \$ 18,751 | \$ 158,444 |

Net Income Attributable to Noncontrolling Interests in Consolidated Subsidiaries

Net income attributable to noncontrolling interests in consolidated subsidiaries was \$23,833,000 in the three months ended September 30, 2013, compared to \$6,610,000 in the prior year’s quarter, an increase of \$17,223,000. This increase resulted primarily from higher net income allocated to the noncontrolling interests of our Real Estate Fund and the noncontrolling interests’ share of the net gain on sale of a retail property in Tampa, Florida.

Net Income Attributable to Noncontrolling Interests in the Operating Partnership

Net income attributable to noncontrolling interests in the Operating Partnership was \$5,032,000 in the three months ended September 30, 2013, compared to \$14,837,000 in the prior year's quarter, a decrease of \$9,805,000. This decrease resulted primarily from lower net income subject to allocation to unitholders.

Preferred Unit Distributions of the Operating Partnership

Preferred unit distributions of the Operating Partnership were \$12,000 in the three months ended September 30, 2013, compared to \$1,403,000 in the prior year's quarter, a decrease of \$1,391,000. This decrease resulted from the redemption of the 7.0% Series D-10 and 6.75% Series D-14 cumulative redeemable preferred units in July 2012.

Preferred Share Dividends

Preferred share dividends were \$20,369,000 in the three months ended September 30, 2013, compared to \$20,613,000 in the prior year's quarter, a decrease of \$244,000.

Preferred Unit and Share Redemptions

In the three months ended September 30, 2012, we recognized an \$11,700,000 discount from the redemption of all of the 7.0% Series D-10 and 6.75% Series D-14 cumulative redeemable preferred units.

Results of Operations – Three Months Ended September 30, 2013 Compared to September 30, 2012 - continuedSame Store EBITDA

Same store EBITDA represents EBITDA from property level operations which are owned by us in both the current and prior year reporting periods. Same store EBITDA excludes segment-level overhead expenses, which are expenses that we do not consider to be property-level expenses, as well as other non-operating items. We present same store EBITDA on both a GAAP basis and a cash basis, which excludes income from the straight-lining of rents, amortization of below-market leases, net of above-market leases and other non-cash adjustments. We present these non-GAAP measures to (i) facilitate meaningful comparisons of the operational performance of our properties and segments, (ii) make decisions on whether to buy, sell or refinance properties, and (iii) compare the performance of our properties and segments to those of our peers. Same store EBITDA should not be considered as an alternative to net income or cash flow from operations and may not be comparable to similarly titled measures employed by other companies.

Below are reconciliations of EBITDA to the same store EBITDA on a GAAP basis for each of our segments for the three months ended September 30, 2013, compared to the three months ended September 30, 2012.

| (Amounts in thousands) | New York | Washington, DC | Retail Properties |
|--|-----------------|---------------------------|------------------------------|
| EBITDA for the three months ended September 30, 2013 | \$ 251,030 | \$ 86,942 | \$ 74,581 |
| Add-back: | | | |
| Non-property level overhead expenses included above | 7,849 | 6,857 | 4,240 |
| Less EBITDA from: | | | |
| Acquisitions | (14,310) | - | - |
| Dispositions, including net gains on sale | - | (46) | (17,873) |
| Properties taken out-of-service for redevelopment | (5,461) | (1,182) | (2,196) |
| Other non-operating (income) expense | (20,114) | (867) | (549) |
| GAAP basis same store EBITDA for the three months ended September 30, 2013 | \$ 218,994 | \$ 91,704 | \$ 58,203 |
| EBITDA for the three months ended September 30, 2012 | \$ 206,663 | \$ 217,567 | \$ 73,505 |
| Add-back: | | | |
| Non-property level overhead expenses included above | 6,739 | 6,668 | 6,103 |
| Less EBITDA from: | | | |
| Acquisitions | (581) | - | - |
| Dispositions, including net gains on sale | (3,016) | (128,754) | (19,325) |
| | (5,012) | (1,776) | (597) |

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| | | | |
|---|------------|------------|-----------|
| Properties taken out-of-service for redevelopment | | | |
| Other non-operating (income) expense | (61) | (327) | (2,878) |
| GAAP basis same store EBITDA for the three months ended September 30, 2012 | \$ 204,732 | \$ 93,378 | \$ 56,808 |
| Increase (decrease) in GAAP basis same store EBITDA - Three months ended September 30, 2013 vs. September 30, 2012 ⁽¹⁾ | \$ 14,262 | \$ (1,674) | \$ 1,395 |
| % increase (decrease) in GAAP basis same store EBITDA | 7.0% | (1.8%) | 2.5% |
| (1) See notes on following page | | | |

Results of Operations – Three Months Ended September 30, 2013 Compared to September 30, 2012 - continued

Notes to preceding tabular information

New York:

The \$14,262,000 increase in New York GAAP basis same store EBITDA resulted primarily from an increase in Office and Retail GAAP basis same store EBITDA of \$10,690,000 and \$2,562,000, respectively. The \$10,690,000 increase in Office GAAP basis same store EBITDA resulted primarily from an increase in (i) rental revenue of \$4,889,000 (due to a \$0.60 increase in average annual rents per square foot, and a 150 basis point increase in average same store occupancy to 95.3% from 93.8%), and (ii) signage revenue and management and leasing fees of \$4,754,000. The \$2,562,000 increase in Retail GAAP basis same store EBITDA resulted primarily from an increase in rental revenue of \$3,019,000 (due to a \$9.80 increase in average annual rents per square foot).

Washington, DC:

The \$1,674,000 decrease in Washington, DC GAAP basis same store EBITDA resulted primarily from a decrease in rental revenue of \$2,986,000, primarily due to a 150 basis point decrease in office average same store occupancy to 83.6% from 85.1%, a significant portion of which resulted from the effects of the BRAC statute (see page 51).

Retail Properties:

The \$1,395,000 increase in Retail Properties GAAP basis same store EBITDA resulted primarily from an increase in rental revenue of \$1,726,000, primarily due to a 200 basis point increase in average same store occupancy to 94.0% from 92.0%.

Results of Operations – Three Months Ended September 30, 2013 Compared to September 30, 2012 - continuedReconciliation of GAAP basis Same Store EBITDA to Cash basis Same Store EBITDA

| (Amounts in thousands) | New York | Washington, DC | Retail Properties |
|---|-----------------|---------------------------|------------------------------|
| GAAP basis same store EBITDA for the three months ended | | | |
| September 30, 2013 | \$ 218,994 | \$ 91,704 | \$ 58,203 |
| Less: Adjustments for straight line rents, amortization of acquired | | | |
| below-market leases, net, and other non-cash adjustments | (25,220) | (1,519) | (2,852) |
| Cash basis same store EBITDA for the three months ended | | | |
| September 30, 2013 | \$ 193,774 | \$ 90,185 | \$ 55,351 |
| GAAP basis same store EBITDA for the three months ended | | | |
| September 30, 2012 | \$ 204,732 | \$ 93,378 | \$ 56,808 |
| Less: Adjustments for straight line rents, amortization of acquired | | | |
| below-market leases, net, and other non-cash adjustments | (26,341) | (1,241) | (3,439) |
| Cash basis same store EBITDA for the three months ended | | | |
| September 30, 2012 | \$ 178,391 | \$ 92,137 | \$ 53,369 |
| Increase (decrease) in Cash basis same store EBITDA - | | | |
| Three months ended September 30, 2013 vs. | | | |
| September 30, 2012 | \$ 15,383 | \$ (1,952) | \$ 1,982 |
| % increase (decrease) in Cash basis same store EBITDA | 8.6% | (2.1%) | 3.7% |

63

Net Income and EBITDA by Segment for the Nine Months Ended September 30, 2013 and 2012

As a result of certain organizational changes and asset sales in 2012, the Merchandise Mart segment no longer meets the criteria to be a separate reportable segment; accordingly, effective January 1, 2013, the remaining assets have been reclassified to "Other." We have also reclassified the prior period segment financial results to conform to the current year presentation. Below is a summary of net income and a reconciliation of net income to EBITDA⁽¹⁾ by segment for the nine months ended September 30, 2013 and 2012.

(Amounts in thousands)

| | For the Nine Months Ended September 30, 2013 | | | | | |
|---|---|-----------------|---------------------------|------------------------------|---------------|---------------|
| | Total | New York | Washington, DC | Retail Properties | Toys | Other |
| Property rentals | \$ 1,521,127 | \$ 839,349 | \$ 338,742 | \$ 189,964 | \$ - | \$ 153,072 |
| Straight-line rent adjustments | 47,989 | 27,289 | 4,242 | 3,741 | - | 12,717 |
| Amortization of acquired below-market leases, net | 40,326 | 26,184 | 1,543 | 8,669 | - | 3,930 |
| Total rentals | 1,609,442 | 892,822 | 344,527 | 202,374 | - | 169,719 |
| Tenant expense reimbursements | 236,580 | 128,598 | 31,264 | 63,601 | - | 13,117 |
| Cleveland Medical Mart development project | 34,026 | - | - | - | - | 34,026 |
| Fee and other income: | | | | | | |
| BMS cleaning fees | 49,071 | 63,192 | - | - | - | (14,121) |
| Signage revenue | 23,566 | 23,566 | - | - | - | - |
| Management and leasing fees | 19,675 | 7,533 | 11,529 | 1,170 | - | (557) |
| Lease termination fees | 87,587 | 24,986 | 1,417 | 59,797 | - | 1,387 |
| Other income | 26,431 | 4,550 | 17,915 | 1,448 | - | 2,518 |
| Total revenues | 2,086,378 | 1,145,247 | 406,652 | 328,390 | - | 206,089 |
| Operating expenses | 784,031 | 478,318 | 145,258 | 98,374 | - | 62,081 |
| Depreciation and amortization | 400,952 | 203,679 | 92,678 | 47,935 | - | 56,660 |
| General and administrative | 157,155 | 25,552 | 20,655 | 14,824 | - | 96,124 |
| Cleveland Medical Mart development project | 29,764 | - | - | - | - | 29,764 |
| Acquisition related costs | 6,769 | - | - | - | - | 6,769 |
| Total expenses | 1,378,671 | 707,549 | 258,591 | 161,133 | - | 251,398 |
| Operating income (loss) | 707,707 (69,311) | 437,698 - | 148,061 - | 167,257 - | - (69,311) | (45,309) - |

Revenues

125

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| | | | | | | |
|---|--------------|---------------------------|---------------------------|---------------------------|------------|-----------------------|
| (Loss) applicable to Toys | | | | | | |
| Income (loss) from partially owned entities | 23,691 | 14,020 | (6,545) | 1,512 | - | 14,704 |
| Income from Real Estate Fund | 73,947 | - | - | - | - | 73,947 |
| Interest and other investment (loss) income, net | (32,933) | 4,076 | 99 | 5 | - | (37,113) |
| Interest and debt expense | (363,128) | (125,991) | (83,350) | (34,523) | - | (119,264) |
| Net (loss) gain on disposition of wholly owned and partially owned assets | (20,581) | - | - | 1,377 | - | (21,958) |
| Income (loss) before income taxes | 319,392 | 329,803 | 58,265 | 135,628 | (69,311) | (134,993) |
| Income tax expense | (6,172) | (1,298) | (1,949) | (1,480) | - | (1,445) |
| Income (loss) from continuing operations | 313,220 | 328,505 | 56,316 | 134,148 | (69,311) | (136,438) |
| Income from discontinued operations | 290,279 | - | - | 290,267 | - | 12 |
| Net income (loss) | 603,499 | 328,505 | 56,316 | 424,415 | (69,311) | (136,426) |
| Less net income attributable to noncontrolling interests in: | | | | | | |
| Consolidated subsidiaries | (50,049) | (9,518) | - | (3,079) | - | (37,452) |
| Operating Partnership | (27,814) | - | - | - | - | (27,814) |
| Preferred unit distributions of the Operating Partnership | (1,146) | - | - | - | - | (1,146) |
| Net income (loss) attributable to Vornado | 524,490 | 318,987 | 56,316 | 421,336 | (69,311) | (202,838) |
| Interest and debt expense ⁽²⁾ | 551,357 | 163,579 | 93,715 | 40,057 | 119,347 | 134,659 |
| Depreciation and amortization ⁽²⁾ | 549,072 | 220,280 | 105,799 | 52,440 | 103,732 | 66,821 |
| Income tax expense ⁽²⁾ | 18,101 | 1,444 | 2,134 | 1,480 | 10,959 | 2,084 |
| EBITDA ⁽¹⁾ | \$ 1,643,020 | \$ 704,290 ⁽³⁾ | \$ 257,964 ⁽⁴⁾ | \$ 515,313 ⁽⁵⁾ | \$ 164,727 | \$ 726 ⁽⁶⁾ |

See notes on page 66.

Net Income and EBITDA by Segment for the Nine Months Ended September 30, 2013 and 2012 - continued

(Amounts in thousands)

| | For the Nine Months Ended September 30, 2012 | | | | | |
|---|--|------------|----------------|-------------------|--------|------------|
| | Total | New York | Washington, DC | Retail Properties | Toys | Other |
| Property rentals | \$ 1,443,478 | \$ 735,587 | \$ 356,459 | \$ 190,671 | \$ - | \$ 160,761 |
| Straight-line rent adjustments | 53,169 | 42,334 | 4,382 | 5,265 | - | 1,188 |
| Amortization of acquired below-market leases, net | 39,569 | 23,776 | 1,537 | 9,989 | - | 4,267 |
| Total rentals | 1,536,216 | 801,697 | 362,378 | 205,925 | - | 166,216 |
| Tenant expense reimbursements | 220,679 | 118,861 | 30,471 | 61,307 | - | 10,040 |
| Cleveland Medical Mart development project | 184,014 | - | - | - | - | 184,014 |
| Fee and other income: | | | | | | |
| BMS cleaning fees | 49,437 | 70,476 | - | - | - | (21,039) |
| Signage revenue | 14,252 | 14,252 | - | - | - | - |
| Management and leasing fees | 16,534 | 4,037 | 9,782 | 2,640 | - | 75 |
| Lease termination fees | 1,172 | 334 | 256 | 74 | - | 508 |
| Other income | 24,494 | 3,449 | 18,846 | 1,232 | - | 967 |
| Total revenues | 2,046,798 | 1,013,106 | 421,733 | 271,178 | - | 340,781 |
| Operating expenses | 749,213 | 447,910 | 143,923 | 97,154 | - | 60,226 |
| Depreciation and amortization | 381,270 | 168,391 | 107,395 | 51,877 | - | 53,607 |
| General and administrative | 150,578 | 21,980 | 19,849 | 18,803 | - | 89,946 |
| Cleveland Medical Mart development project | 177,127 | - | - | - | - | 177,127 |
| Acquisition related costs | 4,314 | - | - | - | - | 4,314 |
| Total expenses | 1,462,502 | 638,281 | 271,167 | 167,834 | - | 385,220 |
| Operating income (loss) | 584,296 | 374,825 | 150,566 | 103,344 | - | (44,439) |
| Income applicable to Toys | 88,696 | - | - | - | 88,696 | - |
| Income (loss) from partially owned entities | 53,491 | 20,345 | (4,571) | 1,040 | - | 36,677 |
| | 37,572 | - | - | - | - | 37,572 |

Revenues

128

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| | | | | | | |
|---|--------------|------------|----------------|----------------|----------------|----------------|
| Income from Real Estate Fund | | | | | | |
| Interest and other investment (loss) income, net | (22,984) | 3,166 | 97 | 24 | - | (26,271) |
| Interest and debt expense | (373,257) | (109,365) | (85,408) | (45,362) | - | (133,122) |
| Net gain on disposition of wholly owned and partially owned assets | 4,856 | - | - | - | - | 4,856 |
| Income (loss) before income taxes | 372,670 | 288,971 | 60,684 | 59,046 | 88,696 | (124,727) |
| Income tax expense | (17,319) | (2,480) | (1,277) | - | - | (13,562) |
| Income (loss) from continuing operations | 355,351 | 286,491 | 59,407 | 59,046 | 88,696 | (138,289) |
| Income (loss) from discontinued operations | 247,297 | (640) | 130,979 | 37,456 | - | 79,502 |
| Net income (loss) | 602,648 | 285,851 | 190,386 | 96,502 | 88,696 | (58,787) |
| Less net (income) loss attributable to noncontrolling interests in: | | | | | | |
| Consolidated subsidiaries | (30,928) | (7,266) | - | 308 | - | (23,970) |
| Operating Partnership | (31,445) | - | - | - | - | (31,445) |
| Preferred unit distributions of the Operating Partnership | (9,150) | - | - | - | - | (9,150) |
| Net income (loss) attributable to Vornado | 531,125 | 278,585 | 190,386 | 96,810 | 88,696 | (123,352) |
| Interest and debt expense ⁽²⁾ | 567,265 | 140,294 | 99,486 | 58,039 | 103,388 | 166,058 |
| Depreciation and amortization ⁽²⁾ | 552,794 | 188,480 | 122,987 | 65,751 | 100,371 | 75,205 |
| Income tax expense ⁽²⁾ | 50,076 | 2,677 | 1,532 | - | 17,982 | 27,885 |
| EBITDA ⁽¹⁾ | \$ 1,701,260 | \$ 610,036 | (3) \$ 414,391 | (4) \$ 220,600 | (5) \$ 310,437 | \$ 145,796 (6) |

See notes on the following page.

Net Income and EBITDA by Segment for the Nine Months Ended September 30, 2013 and 2012 - continued**Notes to preceding tabular information:**

- (1) EBITDA represents "Earnings Before Interest, Taxes, Depreciation and Amortization." We consider EBITDA a supplemental measure for making decisions and assessing the unlevered performance of our segments as it relates to the total return on assets as opposed to the levered return on equity. As properties are bought and sold based on a multiple of EBITDA, we utilize this measure to make investment decisions as well as to compare the performance of our assets to that of our peers. EBITDA should not be considered a substitute for net income. EBITDA may not be comparable to similarly titled measures employed by other companies.
- (2) Interest and debt expense, depreciation and amortization and income tax (benefit) expense in the reconciliation of net income (loss) to EBITDA includes our share of these items from partially owned entities.
- (3) The elements of "New York" EBITDA are summarized below.

| (Amounts in thousands) | For the Nine Months Ended September 30, | |
|--|---|------------|
| | 2013 | 2012 |
| Office | \$ 476,849 | \$ 418,414 |
| Retail | 177,394 | 135,399 |
| Alexander's (decrease due to sale of Kings Plaza in November 2012) | 31,141 | 39,477 |
| Hotel Pennsylvania | 18,906 | 16,746 |
| Total New York | \$ 704,290 | \$ 610,036 |

- (4) The elements of "Washington, DC" EBITDA are summarized below.

| (Amounts in thousands) | For the Nine Months Ended September 30, | |
|---|---|------------|
| | 2013 | 2012 |
| Office, excluding the Skyline Properties ^(a) | \$ 202,463 | \$ 350,296 |
| Skyline properties | 22,546 | 32,127 |
| Total Office | 225,009 | 382,423 |
| Residential | 32,955 | 31,968 |
| Total Washington, DC | \$ 257,964 | \$ 414,391 |

- (a) 2012 includes EBITDA from discontinued operations, net gains on sale of real estate and other items that affect comparability, aggregating \$138,707. Excluding these items, EBITDA was \$211,589.

- (5) The elements of "Retail Properties" EBITDA are summarized below.

| (Amounts in thousands) | For the Nine Months Ended September 30, | |
|---------------------------------------|---|------------|
| | 2013 | 2012 |
| Strip shopping centers ^(a) | \$ 264,065 | \$ 148,554 |
| Regional malls ^(b) | 251,248 | 72,046 |
| Total Retail properties | \$ 515,313 | \$ 220,600 |

- (a) The nine months ended September 30, 2013 and 2012 includes EBITDA from discontinued operations, net gains on sale of real estate and other items that affect comparability, aggregating \$149,659 and \$38,856, respectively. Excluding these items, EBITDA was \$114,406 and \$109,698, respectively.

- (b) The nine months ended September 30, 2013 and 2012 includes EBITDA from discontinued operations, net gains on sale of real estate and other items that affect comparability, aggregating \$203,151 and \$25,057, respectively. Excluding these items, EBITDA was \$48,097 and \$46,989, respectively.

Net Income and EBITDA by Segment for the Nine Months Ended September 30, 2013 and 2012 - continued**Notes to preceding tabular information - continued:**

(6) The elements of "other" EBITDA are summarized below.

| (Amounts in thousands) | For the Nine Months Ended September | |
|--|--|---------------------|
| | 2013 | 30, 2012 |
| Our share of Real Estate Fund: | | |
| Income before net realized/unrealized gains | \$ 1,746 | \$ 4,162 |
| Net unrealized gains | 14,869 | 8,384 |
| Net realized gain | 2,046 | - |
| Carried interest | 15,965 | - |
| Total | 34,626 | 12,546 |
| Merchandise Mart Building, 7 West 34th Street and trade shows | 52,167 | 46,518 |
| 555 California Street | 32,371 | 31,406 |
| India real estate ventures | 4,708 | 1,718 |
| LNR ^(a) | 20,443 | 46,006 |
| Lexington ^(b) | 6,931 | 24,780 |
| Other investments | 14,207 | 30,226 |
| | 165,453 | 193,200 |
| Corporate general and administrative expenses ^(c) | (71,054) | (66,940) |
| Investment income and other, net ^(c) | 39,153 | 30,900 |
| Loss on sale of J.C. Penney common shares | (54,914) | - |
| Non-cash impairment loss on J.C. Penney common shares | (39,487) | - |
| Loss from the mark-to-market of J.C. Penney derivative position | (33,487) | (53,343) |
| Net gain on sale of marketable securities | 31,741 | 3,582 |
| Acquisition related costs | (6,769) | (4,314) |
| Severance costs (primarily reduction in force at the Merchandise Mart) | (4,154) | (1,520) |
| Merchandise Mart discontinued operations (including net gains on sale of assets) | 2,065 | 88,488 |
| Net gain on sale of residential condominiums | 1,139 | 1,274 |
| Verde Realty impairment loss | - | (4,936) |
| Net income attributable to noncontrolling interests in the Operating Partnership | (27,814) | (31,445) |
| Preferred unit distributions of the Operating Partnership | (1,146) | (9,150) |
| | \$ 726 | \$ 145,796 |

(a) On April 22, 2013, LNR was sold.

(b) In the first quarter of 2013, we began accounting for our investment in Lexington as a marketable equity security - available for sale.

(c) The amounts in these captions (for this table only) exclude income(expense) from the mark-to-market of our deferred compensation plan.

EBITDA by Region

Below is a summary of the percentages of EBITDA by geographic region (excluding discontinued operations and other gains and losses that affect comparability), from our New York, Washington, DC and Retail Properties segments.

| Region: | For the Nine Months Ended September 30, | |
|---|--|-------------|
| | 2013 | 2012 |
| New York City metropolitan area | 73% | 69% |
| Washington, DC / Northern Virginia metropolitan area | 23% | 27% |
| Puerto Rico | 2% | 2% |
| California | 1% | 1% |
| Other geographies | 1% | 1% |
| | 100% | 100% |

67

Results of Operations – Nine Months Ended September 30, 2013 Compared to September 30, 2012Revenues

Our revenues, which consist primarily of property rentals (including hotel and trade show revenues), tenant expense reimbursements, and fee and other income, were \$2,086,378,000 for the nine months ended September 30, 2013, compared to \$2,046,798,000 in the prior year's nine months, an increase of \$39,580,000. Below are the details of the increase (decrease) by segment:

(Amounts in thousands)

| Increase (decrease) due to: | Total | New York | Washington, DC | Retail Properties | Other |
|--|--------------|------------|-------------------|----------------------|--------------|
| Property rentals: | | | | | |
| Acquisitions and other Properties placed into / taken out of service for redevelopment | \$ 56,273 | \$ 63,808 | \$ 655 | \$ (7,443) | \$ (747) |
| Hotel Pennsylvania | (4,553) | (320) | (2,196) | (1,939) | (98) |
| Trade Shows | 7,357 | 7,357 | - | - | - |
| Same store operations | (5,049) | - | - | - | (5,049) |
| | 19,198 | 20,280 | (16,310) | 5,831 | 9,397 |
| | 73,226 | 91,125 | (17,851) | (3,551) | 3,503 |
| Tenant expense reimbursements: | | | | | |
| Acquisitions and other Properties placed into / taken out of service for redevelopment | (14) | 2,207 | (523) | (1,597) | (101) |
| Same store operations | (1,500) | (83) | 22 | (1,325) | (114) |
| | 17,415 | 7,613 | 1,294 | 5,216 | 3,292 |
| | 15,901 | 9,737 | 793 | 2,294 | 3,077 |
| Cleveland Medical Mart development project | (149,988)(1) | - | - | - | (149,988)(1) |
| Fee and other income: | | | | | |
| BMS cleaning fees | (366) | (7,284) | - | - | 6,918 (2) |
| Signage revenue | 9,314 | 9,314 | - | - | - |
| Management and leasing fees | 3,141 | 3,496 | 1,747 | (1,470) | (632) |
| Lease termination fees | 86,415 | 24,652 (3) | 1,161 | 59,723 (4) | 879 |
| Other income | 1,937 | 1,101 | (931) | 216 | 1,551 |

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| | | | | | |
|---------------------------------------|--|------------|-------------|-----------|--------------|
| | 100,441 | 31,279 | 1,977 | 58,469 | 8,716 |
| Total increase (decrease) in revenues | \$ 39,580 | \$ 132,141 | \$ (15,081) | \$ 57,212 | \$ (134,692) |
| (1) | Primarily due to the project nearing completion. This decrease in revenue is offset by a decrease in development costs expensed in the period. See note (3) on page 69. | | | | |
| (2) | Represents the elimination of intercompany fees from operating segments upon consolidation. See note (2) on page 69. | | | | |
| (3) | Primarily due to a \$19,500 termination fee from a tenant at 1290 Avenue of the Americas. Our share of this income, net of the write off of the straight lining of rents and amounts attributable to the noncontrolling interest was \$12,121. | | | | |
| (4) | Results primarily from income recognized in the first quarter of 2013 in connection with the settlement of the Stop & Shop litigation. | | | | |

Results of Operations – Nine Months Ended September 30, 2013 Compared to September 30, 2012 - continuedExpenses

Our expenses, which consist primarily of operating (including hotel and trade show expenses), depreciation and amortization and general and administrative expenses, were \$1,378,671,000 for the nine months ended September 30, 2013, compared to \$1,462,502,000 in the prior year's nine months, a decrease of \$83,831,000. Below are the details of the increase (decrease) by segment:

(Amounts in thousands)

| Increase (decrease) due to: | Total | New York | Washington, DC | Retail Properties | Other |
|--|-----------|-----------|-------------------|----------------------|-----------|
| Operating: | | | | | |
| Acquisitions and other Properties placed into / taken out of service for redevelopment | \$ 22,086 | \$ 24,007 | \$ - | \$ (1,029) | \$ (892) |
| Non-reimbursable expenses, including bad debt reserves | (8,800) | (1,099) | (1,009) | (5,537) | (1,155) |
| Hotel Pennsylvania | (2,113) | (3,784) | - | 1,470 | 201 |
| Trade Shows | 5,089 | 5,089 | - | - | - |
| BMS expenses | (4,642) | - | - | - | (4,642) |
| Same store operations | 565 | (6,353) | - | - | 6,918 (2) |
| | 22,633 | 12,548 | 2,344 | 6,316 | 1,425 |
| | 34,818 | 30,408 | 1,335 | 1,220 | 1,855 |
| Depreciation and amortization: | | | | | |
| Acquisitions and other Properties placed into / taken out of service for redevelopment | 35,112 | 36,718 | - | (1,335) | (271) |
| Same store operations | (19,136) | (463) | (16,109) | (2,564) | - |
| | 3,706 | (967) | 1,392 | (43) | 3,324 |
| | 19,682 | 35,288 | (14,717) | (3,942) | 3,053 |
| General and administrative: | | | | | |
| Mark-to-market of deferred compensation plan liability (1) | 940 | - | - | - | 940 |

Revenues

137

| | | | | | |
|---|---|-----------|-------------|------------|--------------|
| Severance costs (primarily reduction in force at the Merchandise Mart) | 2,634 | - | - | - | 2,634 |
| Same store operations | 3,003 | 3,572 | 806 | (3,979) | 2,604 |
| | 6,577 | 3,572 | 806 | (3,979) | 6,178 |
| Cleveland Medical Mart development project | (147,363)(3) | - | - | - | (147,363)(3) |
| Acquisition related costs | 2,455 | - | - | - | 2,455 |
| Total (decrease) increase in expenses | \$ (83,831) | \$ 69,268 | \$ (12,576) | \$ (6,701) | \$ (133,822) |
| (1) | This increase in expense is entirely offset by a corresponding increase in income from the mark-to-market of the deferred compensation plan assets, a component of “interest and other investment (loss) income, net” on our consolidated statements of income. | | | | |
| (2) | Represents the elimination of intercompany fees from operating segments upon consolidation. See note (2) on page 68. | | | | |
| (3) | Primarily due to the project nearing completion. This decrease in expense is offset by the decrease in development revenue in the period. See note (1) on page 68. | | | | |

Results of Operations – Nine Months Ended September 30, 2013 Compared to September 30, 2012 - continued(Loss) Income Applicable to Toys

In the fourth quarter of 2012, we recorded a \$40,000,000 non-cash impairment loss on our investment in Toys and disclosed, that if current facts don't change, our share of Toys' undistributed income, which in accordance with the equity method of accounting, would increase the carrying amount of our investment above fair value, would require an offsetting impairment loss.

In the first quarter of 2013, we recognized our share of Toys' fourth quarter net income of \$78,542,000 and a corresponding non-cash impairment loss of the same amount.

In the nine months ended September 30, 2013, we recognized a net loss of \$69,311,000 from our investment in Toys, comprised of \$3,778,000 for our 32.6% share of Toys' net income and \$5,453,000 of management fee income, offset by a \$78,542,000 impairment loss (see above). In the nine months ended September 30, 2012, we recognized net income of \$88,696,000 from our investment in Toys, comprised of \$81,667,000 for our 32.5% share of Toys' net income and \$7,029,000 of management fee income.

Income from Partially Owned Entities

Summarized below are the components of income (loss) from partially owned entities for the nine months ended September 30, 2013 and 2012.

| (Amounts in thousands) | Percentage Ownership at September 30, 2013 | For the Nine Months Ended September 30, | |
|--|---|--|-------------|
| Equity in Net Income (Loss): | | 2013 | 2012 |
| Alexander's (decrease due to sale of Kings Plaza in November 2012) | 32.4% | \$ 17,802 | \$ 24,827 |
| Lexington ⁽¹⁾ | n/a | (979) | 371 |
| LNR ⁽²⁾ | n/a | 18,731 | 39,319 |

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| | | | |
|--|-------------|-----------|-----------|
| India real estate ventures | 4.0%-36.5% | (2,630) | (4,526) |
| Partially owned office buildings: | | | |
| 280 Park Avenue | 49.5% | (6,480) | (9,267) |
| Warner Building | 55.0% | (6,346) | (7,438) |
| 666 Fifth Avenue Office | | | |
| Condominium | 49.5% | 5,776 | 5,244 |
| 330 Madison Avenue | 25.0% | 3,714 | 2,036 |
| Rosslyn Plaza | 43.7%-50.4% | (2,158) | 99 |
| One Park Avenue | 30.3% | 1,054 | 890 |
| 1101 17th Street | 55.0% | 996 | 1,920 |
| West 57th Street Properties | 50.0% | 415 | 732 |
| Fairfax Square | 20.0% | (87) | (85) |
| Other partially owned office buildings | Various | 1,530 | 1,587 |
| Other investments: | | | |
| Independence Plaza | 50.1% | (3,199) | 5,243 |
| Downtown Crossing, Boston ⁽³⁾ | n/a | (2,358) | (872) |
| Monmouth Mall | 50.0% | 1,450 | 1,007 |
| Other investments ⁽⁴⁾ | Various | (3,540) | (7,596) |
| | | \$ 23,691 | \$ 53,491 |

- (1) In the first quarter of 2013, we began accounting for our investment in Lexington as a marketable equity security - available for sale.
- (2) On April 22, 2013, LNR was sold for \$1.053 billion. We owned 26.2% of LNR and received net proceeds of approximately \$241,000.
- (3) On April 24, 2013, the joint venture sold the site in Downtown Crossing, Boston, and we received approximately \$45,000 for our 50% interest. In connection therewith, we recognized a \$2,335 impairment loss in the first quarter.
- (4) Includes interests in 85 10th Avenue, Fashion Centre Mall, 50-70 West 93rd Street and others.

Results of Operations – Nine Months Ended September 30, 2013 Compared to September 30, 2012 - continuedIncome from Real Estate Fund

Below are the components of the income from our Real Estate Fund for the nine months ended September 30, 2013 and 2012.

| (Amounts in thousands) | For the Nine Months Ended September 30, | |
|---|---|-----------|
| | 2013 | 2012 |
| Net investment income | \$ 6,287 | \$ 4,035 |
| Net realized gain | 8,184 | - |
| Net unrealized gains | 59,476 | 33,537 |
| Income from Real Estate Fund | 73,947 | 37,572 |
| Less (income) attributable to noncontrolling interests | (39,321) | (25,026) |
| Income from Real Estate Fund attributable to Vornado ⁽¹⁾ | \$ 34,626 | \$ 12,546 |

(1) Excludes management, leasing and development fees of \$2,446 and \$2,374 for the nine months ended September 30, 2013 and 2012, respectively, which are included as a component of "fee and other income" on our consolidated statements of income.

Interest and Other Investment (Loss) Income, net

Interest and other investment loss, net was a loss of \$32,933,000 in the nine months ended September 30, 2013, compared to a loss of \$22,984,000 in the prior year's nine months, an increase in loss of \$9,949,000. This increase resulted from:

| (Amounts in thousands) | |
|---|-------------|
| Non-cash impairment loss on J.C. Penney common shares in 2013 | \$ (39,487) |
| J.C. Penney derivative position (\$33,487 mark-to-market loss in 2013, compared to a | |
| \$53,343 mark-to-market loss in the prior year) | 19,856 |
| Higher interest on mezzanine loans receivable | 5,916 |
| Income from prepayment penalties in connection with the repayment of a mezzanine loan | 5,267 |
| Lower dividends and interest on marketable securities | (2,749) |

| | | |
|---|---|------------|
| Increase in the value of investments in our deferred compensation plan (offset by a corresponding | | |
| | increase in the liability for plan assets in general and administrative expenses) | 940 |
| Other, net | | 308 |
| | | \$ (9,949) |

Interest and Debt Expense

Interest and debt expense was \$363,128,000 in the nine months ended September 30, 2013, compared to \$373,257,000 in the prior year's nine months, a decrease of \$10,129,000. This decrease was primarily due to \$20,140,000 of higher capitalized interest in the current period, partially offset by interest expense of \$8,721,000 from the financing of the retail condominium at 666 Fifth Avenue in the first quarter of 2013.

Net Gain (Loss) on Disposition of Wholly Owned and Partially Owned Assets

In the nine months ended September 30, 2013, we recognized a \$20,581,000 loss on disposition of wholly owned and partially owned assets, primarily from a \$54,914,000 loss on sale of the J.C. Penney common shares, partially offset by a \$31,741,000 net gain on the sale of a marketable security, compared to a \$4,856,000 net gain in the prior year's nine months, primarily from the sale of residential condominiums and marketable securities.

Income Tax Expense

Income tax expense was \$6,172,000 in the nine months ended September 30, 2013, compared to \$17,319,000 in the prior year's nine months, a decrease of \$11,147,000. This decrease resulted primarily from an \$12,038,000 income tax provision in the prior year's nine months applicable to a taxable REIT subsidiary that was liquidated in the fourth quarter of 2012.

Results of Operations – Nine Months Ended September 30, 2013 Compared to September 30, 2012 - continuedIncome from Discontinued Operations

We have reclassified the revenues and expenses of the properties that were sold and that are currently held for sale to “income from discontinued operations” and the related assets and liabilities to “assets related to discontinued operations” and “liabilities related to discontinued operations” for all the periods presented in the accompanying financial statements. The table below sets forth the combined results of assets related to discontinued operations for the nine months ended September 30, 2013 and 2012.

| (Amounts in thousands) | For the Nine Months Ended September | |
|--|--|-------------|
| | 2013 | 2012 |
| Total revenues | \$ 35,193 | \$ 144,274 |
| Total expenses | 27,177 | 106,924 |
| | 8,016 | 37,350 |
| Net gains on sale of real estate (2013 includes \$2,909 | | |
| attributable to noncontrolling interests) | 286,990 | 203,801 |
| Gain on sale of Canadian Trade Shows, net of \$11,448 of | | |
| income taxes | - | 19,657 |
| Impairment losses | (4,727) | (13,511) |
| Income from discontinued operations | \$ 290,279 | \$ 247,297 |

Net Income Attributable to Noncontrolling Interests in Consolidated Subsidiaries

Net income attributable to noncontrolling interests in consolidated subsidiaries was \$50,049,000 in the nine months ended September 30, 2013, compared to \$30,928,000 in the prior year’s nine months, an increase of \$19,121,000. This increase resulted primarily from higher net income allocated to the noncontrolling interests of our Real Estate Fund and the noncontrolling interests’ share of the net gain on sale of a retail property in Tampa, Florida.

Net Income Attributable to Noncontrolling Interests in the Operating Partnership

Net income attributable to noncontrolling interests in the Operating Partnership was \$27,814,000 in the nine months ended September 30, 2013, compared to \$31,445,000 in the prior year’s nine months, a decrease of \$3,631,000. This

decrease resulted primarily from lower net income subject to allocation to unitholders.

Preferred Unit Distributions of the Operating Partnership

Preferred unit distributions of the Operating Partnership were \$1,146,000 in the nine months ended September 30, 2013, compared to \$9,150,000 in the prior year's nine months, a decrease of \$8,004,000. This decrease resulted from the redemption of the 6.875% Series D-15 cumulative redeemable preferred units in May 2013, and the 7.0% Series D-10 and 6.75% Series D-14 cumulative redeemable preferred units in July 2012.

Preferred Share Dividends

Preferred share dividends were \$62,439,000 in the nine months ended September 30, 2013, compared to \$56,187,000 in the prior year's nine months, an increase of \$6,252,000. This increase resulted from the issuance of \$300,000,000 of 5.70% Series K cumulative redeemable preferred shares in July 2012 and \$300,000,000 of 5.40% Series L cumulative redeemable preferred shares in January 2013, partially offset by the redemption of \$262,500,000 of 6.75% Series F and Series H cumulative redeemable preferred shares in February 2013 and \$75,000,000 of 7.0% Series E cumulative redeemable preferred shares in August 2012.

Preferred Unit and Share Redemptions

In the nine months ended September 30, 2013, we recognized \$1,130,000 of expense in connection with preferred unit and share redemptions, comprised of \$9,230,000 of expense from the redemption of the 6.75% Series F and Series H cumulative redeemable preferred shares in February 2013, partially offset by an \$8,100,000 discount from the redemption of all of the 6.875% Series D-15 cumulative redeemable preferred units in May 2013. In the nine months ended September 30, 2012, we recognized an \$11,700,000 discount from the redemption of all of the 7.0% Series D-10 and 6.75% Series D-14 cumulative redeemable preferred units in July 2012.

Results of Operations – Nine Months Ended September 30, 2013 Compared to September 30, 2012 - continued**Same Store EBITDA**

Same store EBITDA represents EBITDA from property level operations which are owned by us in both the current and prior year reporting periods. Same store EBITDA excludes segment-level overhead expenses, which are expenses that we do not consider to be property-level expenses, as well as other non-operating items. We present same store EBITDA on both a GAAP basis and a cash basis (which excludes income from the straight-lining of rents, amortization of below-market leases, net of above-market leases and other non-cash adjustments). We present these non-GAAP measures to (i) facilitate meaningful comparisons of the operational performance of our properties and segments, (ii) make decisions on whether to buy, sell or refinance properties, and (iii) compare the performance of our properties and segments to those of our peers. Same store EBITDA should not be considered as an alternative to net income or cash flow from operations and may not be comparable to similarly titled measures employed by other companies.

Below are reconciliations of EBITDA to same store EBITDA on a GAAP basis for each of our segments for the nine months ended September 30, 2013, compared to nine months ended September 30, 2012.

| (Amounts in thousands) | New York | Washington, DC | Retail Properties |
|---|-----------------|---------------------------|------------------------------|
| EBITDA for the nine months ended September 30, 2013 | \$ 704,290 | \$ 257,964 | \$ 515,313 |
| Add-back: | | | |
| Non-property level overhead expenses included above | 25,552 | 20,655 | 14,824 |
| Less EBITDA from: | | | |
| Acquisitions | (47,549) | - | - |
| Dispositions, including net gains on sale | - | (117) | (293,042) |
| Properties taken out-of-service for redevelopment | (14,771) | (3,280) | (3,579) |
| Other non-operating (income) expense | (27,003) | (813) | (59,492) |
| GAAP basis same store EBITDA for the nine months ended September 30, 2013 | \$ 640,519 | \$ 274,409 | \$ 174,024 |
| EBITDA for the nine months ended September 30, 2012 | \$ 610,036 | \$ 414,391 | \$ 220,600 |
| Add-back: | | | |
| Non-property level overhead expenses included above | 21,980 | 19,849 | 18,803 |
| Less EBITDA from: | | | |
| Acquisitions | (581) | - | - |
| Dispositions, including net gains on sale | (8,423) | (138,705) | (60,497) |
| | (14,915) | (7,045) | (606) |

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| | | | |
|--|------------|-------------|------------|
| Properties taken out-of-service for redevelopment | | | |
| Other non-operating (income) expense | 24 | 289 | (8,657) |
| GAAP basis same store EBITDA for the nine months ended September 30, 2012 | \$ 608,121 | \$ 288,779 | \$ 169,643 |
| Increase (decrease) in GAAP basis same store EBITDA - Nine months ended September 30, 2013 vs. September 30, 2012 ⁽¹⁾ | \$ 32,398 | \$ (14,370) | \$ 4,381 |
| % increase (decrease) in GAAP basis same store EBITDA | 5.3% | (5.0%) | 2.6% |
| (1) See notes on following page | | | |

Results of Operations – Nine Months Ended September 30, 2013 Compared to September 30, 2012 - continued

Notes to preceding tabular information

New York:

The \$32,398,000 increase in New York GAAP basis same store EBITDA resulted primarily from an increase in Office and Retail GAAP basis same store EBITDA of \$24,560,000 and \$5,576,000, respectively. The \$24,560,000 increase in Office GAAP basis same store EBITDA resulted primarily from an increase in (i) rental revenue of \$14,036,000 (due to a \$2.34 increase in average annual rents per square foot, partially offset by a 40 basis point decrease in average same store occupancy to 95.0% from 95.4%), and (ii) signage revenue and management and leasing fees of \$12,810,000. The \$5,576,000 increase in Retail GAAP basis same store EBITDA resulted primarily from an increase in (i) rental revenue of \$6,244,000, (primarily due a \$7.22 increase in average annual rents per square foot).

Washington, DC:

The \$14,370,000 decrease in Washington, DC GAAP basis same store EBITDA resulted primarily from a decrease in rental revenue of \$16,310,000, primarily due to a 420 basis point decrease in office average same store occupancy to 82.9% from 87.1%, a significant portion of which resulted from the effects of the BRAC statute (see page 51).

Retail Properties:

The \$4,381,000 increase in Retail Properties GAAP basis same store EBITDA resulted primarily from an increase in rental revenue of \$5,831,000, due to a 120 basis point increase in average same store occupancy to 93.4% from

92.2%, and a \$0.29 increase in average annual rents per square foot.

Results of Operations – Nine Months Ended September 30, 2013 Compared to September 30, 2012 - continuedReconciliation of GAAP basis Same Store EBITDA to Cash basis Same Store EBITDA

| (Amounts in thousands) | New York | Washington, DC | Retail Properties |
|---|-----------------|---------------------------|------------------------------|
| GAAP basis same store EBITDA for the nine months ended | | | |
| September 30, 2013 | \$ 640,519 | \$ 274,409 | \$ 174,024 |
| Less: Adjustments for straight line rents, amortization of acquired | | | |
| below-market leases, net, and other non-cash adjustments | (77,291) | (8,282) | (9,179) |
| Cash basis same store EBITDA for the nine months ended | | | |
| September 30, 2013 | \$ 563,228 | \$ 266,127 | \$ 164,845 |
| GAAP basis same store EBITDA for the nine months ended | | | |
| September 30, 2012 | \$ 608,121 | \$ 288,779 | \$ 169,643 |
| Less: Adjustments for straight line rents, amortization of acquired | | | |
| below-market leases, net, and other non-cash adjustments | (89,594) | (5,662) | (9,701) |
| Cash basis same store EBITDA for the nine months ended | | | |
| September 30, 2012 | \$ 518,527 | \$ 283,117 | \$ 159,942 |
| Increase (decrease) in Cash basis same store EBITDA - | | | |
| Nine months ended September 30, 2013 vs. | | | |
| September 30, 2012 | \$ 44,701 | \$ (16,990) | \$ 4,903 |
| % increase (decrease) in Cash basis same store EBITDA | 8.6% | (6.0%) | 3.1% |

75

SUPPLEMENTAL INFORMATION

Reconciliation of Net Income to EBITDA for the Three Months Ended June 30, 2013.

| (Amounts in thousands) | New York | Washington, DC | Retail Properties |
|---|------------|-------------------|----------------------|
| Net income attributable to Vornado for the three months ended | | | |
| June 30, 2013 | \$ 105,574 | \$ 17,433 | \$ 87,594 |
| Interest and debt expense | 54,546 | 31,245 | 13,715 |
| Depreciation and amortization | 74,573 | 35,248 | 16,348 |
| Income tax expense | 1,030 | 852 | 749 |
| EBITDA for the three months ended June 30, 2013 | \$ 235,723 | \$ 84,778 | \$ 118,406 |

Reconciliation of EBITDA to GAAP basis Same Store EBITDA – Three Months Ended September 30, 2013 compared to June 30, 2013

| (Amounts in thousands) | New York | Washington, DC | Retail Properties |
|---|------------|-------------------|----------------------|
| EBITDA for the three months ended September 30, 2013 | \$ 251,030 | \$ 86,942 | \$ 74,581 |
| Add-back: | | | |
| Non-property level overhead expenses included above | 7,849 | 6,857 | 4,240 |
| Less EBITDA from: | | | |
| Acquisitions | (575) | - | - |
| Dispositions, including net gains on sale | - | (46) | (17,873) |
| Properties taken out-of-service for redevelopment | (5,461) | (1,182) | (2,196) |
| Other non-operating (income) expense | (20,115) | (867) | (549) |
| GAAP basis same store EBITDA for the three months ended | | | |
| September 30, 2013 | \$ 232,728 | \$ 91,704 | \$ 58,203 |
| EBITDA for the three months ended June 30, 2013 | \$ 235,723 | \$ 84,778 | \$ 118,406 |
| Add-back: | | | |
| Non-property level overhead expenses included above | 8,881 | 6,873 | 5,169 |
| Less EBITDA from: | | | |
| Acquisitions | 913 | - | - |
| Dispositions, including net gains on sale | - | 27 | (64,874) |

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| | | | |
|---|------------|-----------|-----------|
| Properties taken out-of-service for redevelopment | (4,900) | (822) | (916) |
| Other non-operating (income) expense | (5,679) | 422 | 839 |
| GAAP basis same store EBITDA for the three months ended June 30, 2013 | \$ 234,938 | \$ 91,278 | \$ 58,624 |
| (Decrease) increase in GAAP basis same store EBITDA - Three months ended September 30, 2013 vs. June 30, 2013 | \$ (2,210) | \$ 426 | \$ (421) |
| % (decrease) increase in GAAP basis same store EBITDA | (0.9%) | 0.5% | (0.7%) |

SUPPLEMENTAL INFORMATION – CONTINUED

Reconciliation of GAAP basis Same Store EBITDA to Cash basis Same Store EBITDA – Three Months Ended September 30, 2013 vs. June 30, 2013

| (Amounts in thousands) | New York | Washington, DC | Retail Properties |
|---|------------|-------------------|----------------------|
| GAAP basis same store EBITDA for the three months ended | | | |
| September 30, 2013 | \$ 232,728 | \$ 91,704 | \$ 58,203 |
| Less: Adjustments for straight line rents, amortization of acquired | | | |
| below-market leases, net, and other non-cash adjustments | (25,219) | (1,519) | (2,852) |
| Cash basis same store EBITDA for the three months ended | | | |
| September 30, 2013 | \$ 207,509 | \$ 90,185 | \$ 55,351 |
| GAAP basis same store EBITDA for the three months ended June 30, 2013 | \$ 234,938 | \$ 91,278 | \$ 58,624 |
| Less: Adjustments for straight line rents, amortization of acquired | | | |
| below-market leases, net, and other non-cash adjustments | (28,106) | (2,596) | (3,160) |
| Cash basis same store EBITDA for the three months ended June 30, 2013 | \$ 206,832 | \$ 88,682 | \$ 55,464 |
| Increase (decrease) in Cash basis same store EBITDA - Three months ended September 30, 2013 vs. June 30, 2013 | \$ 677 | \$ 1,503 | \$ (113) |
| % increase (decrease) in Cash basis same store EBITDA | 0.3% | 1.7% | (0.2%) |

77

Liquidity and Capital Resources

Property rental income is our primary source of cash flow and is dependent upon the occupancy and rental rates of our properties. Our cash requirements include property operating expenses, capital improvements, tenant improvements, leasing commissions, dividends to shareholders, distributions to unitholders of the Operating Partnership, as well as acquisition and development costs. Other sources of liquidity to fund cash requirements include proceeds from debt financings, including mortgage loans, senior unsecured borrowings, and our revolving credit facilities; proceeds from the issuance of common and preferred equity; and asset sales.

We anticipate that cash flow from continuing operations over the next twelve months will be adequate to fund our business operations, cash distributions to unitholders of the Operating Partnership, cash dividends to shareholders, debt amortization and recurring capital expenditures. Capital requirements for development expenditures and acquisitions (excluding Fund acquisitions) may require funding from borrowings and/or equity offerings. Our Real Estate Fund has aggregate unfunded commitments of \$239,186,000, including \$59,796,000 from us.

We may from time to time purchase or retire outstanding debt securities or redeem our equity securities. Such purchases, if any, will depend on prevailing market conditions, liquidity requirements and other factors. The amounts involved in connection with these transactions could be material to our consolidated financial statements.

Cash Flows for the Nine Months Ended September 30, 2013

Our cash and cash equivalents were \$872,323,000 at September 30, 2013, a \$87,996,000 decrease over the balance at December 31, 2012. Our consolidated outstanding debt was \$10,001,333,000 at September 30, 2013, a \$1,170,875,000 decrease over the balance at December 31, 2012. As of September 30, 2013 and December 31, 2012, \$83,982,000 and \$1,170,000,000, respectively, was outstanding under our revolving credit facilities. During the remainder of 2013 and 2014, \$176,572,000 and \$233,283,000, respectively, of our outstanding debt matures; we may refinance this maturing debt as it comes due or choose to repay it.

Cash flows provided by operating activities of \$789,592,000 was comprised of (i) net income of \$603,499,000, (ii) \$188,740,000 of non-cash adjustments, which include depreciation and amortization expense, the effect of straight-lining of rental income, equity in net income of partially owned entities and net gains on sale of real estate, (iii) return of capital from Real Estate Fund investments of \$56,664,000, and (iv) distributions of income from partially owned entities of \$34,350,000, partially offset by (v) the net change in operating assets and liabilities of \$93,661,000, including \$32,392,000 related to Real Estate Fund investments.

Net cash provided by investing activities of \$1,020,400,000 was comprised of (i) \$734,427,000 of proceeds from sales of real estate and related investments, (ii) \$378,676,000 of proceeds from the sale of marketable securities, (iii) \$287,944,000 of capital distributions from partially owned entities, (iv) \$240,474,000 from the sale of LNR, (v) \$101,150,000 from the return of the J.C. Penney derivative collateral, (vi) \$49,452,000 of proceeds from repayments of mortgages and mezzanine loans receivable and other, and (vii) \$21,883,000 of changes in restricted cash, partially offset by (viii) \$212,624,000 of investments in partially owned entities, (ix) \$186,079,000 for the funding of the J.C. Penney derivative collateral; and settlement of derivative position in 2013, (x) \$170,424,000 of additions to real estate, (xi) \$149,010,000 of development costs and construction in progress, (xii) \$75,079,000 of acquisitions of real estate, and (xiii) \$390,000 of investment in mortgage and mezzanine loans receivable.

Net cash used in financing activities of \$1,897,988,000 was comprised of (i) \$2,851,420,000 for the repayments of borrowings, (ii) \$409,332,000 of dividends paid on common shares, (iii) \$299,400,000 for purchases of outstanding preferred units and shares, (iv) \$200,667,000 of distributions to noncontrolling interests, (v) \$62,820,000 of dividends paid on preferred shares, (vi) \$9,982,000 of debt issuance and other costs, and (vii) \$332,000 for the repurchase of shares related to stock compensation agreements and related tax holdings, partially offset by (viii) \$1,600,357,000 of proceeds from borrowings, (ix) \$290,536,000 of proceeds from the issuance of preferred shares, (x) \$40,015,000 of contributions from noncontrolling interests in consolidated subsidiaries, and (xi) \$5,057,000 of proceeds received from the exercise of employee share options.

Liquidity and Capital Resources – continued*Capital Expenditures*

Capital expenditures consist of expenditures to maintain assets, tenant improvement allowances and leasing commissions. Recurring capital expenditures include expenditures to maintain a property's competitive position within the market and tenant improvements and leasing commissions necessary to re-lease expiring leases or renew or extend existing leases. Non-recurring capital improvements include expenditures to lease space that has been vacant for more than nine months and expenditures completed in the year of acquisition and the following two years that were planned at the time of acquisition, as well as tenant improvements and leasing commissions for space that was vacant at the time of acquisition of a property.

Below is a summary of capital expenditures, leasing commissions and a reconciliation of total expenditures on an accrual basis to the cash expended in the nine months ended September 30, 2013.

| (Amounts in thousands) | Total | New York | Retail | | |
|--|--------------|-----------------|---------------------------|-------------------|--------------|
| | | | Washington, DC | Properties | Other |
| Expenditures to maintain assets | \$ 39,322 | \$ 20,665 | \$ 9,244 | \$ 3,160 | \$ 6,253 |
| Tenant improvements | 117,088 | 67,476 | 32,087 | 11,075 | 6,450 |
| Leasing commissions | 42,341 | 31,324 | 8,030 | 1,686 | 1,301 |
| Non-recurring capital expenditures | 6,454 | 6,183 | - | - | 271 |
| Total capital expenditures and leasing commissions (accrual basis) | 205,205 | 125,648 | 49,361 | 15,921 | 14,275 |
| Adjustments to reconcile to cash basis: | | | | | |
| Expenditures in the current year | | | | | |
| applicable to prior periods | 111,984 | 43,536 | 22,228 | 4,577 | 41,643 |
| Expenditures to be made in future periods for the current period | (116,655) | (68,813) | (34,191) | (12,556) | (1,095) |
| Total capital expenditures and leasing commissions (cash basis) | \$ 200,534 | \$ 100,371 | \$ 37,398 | \$ 7,942 | \$ 54,823 |
| <i>Tenant improvements and leasing commissions:</i> | | | | | |
| <i>Per square foot per annum</i> | \$ 4.19 | \$ 5.54 | \$ 4.71 | \$ 1.52 | \$ - |

Revenues

155

| | | | | | |
|-----------------------------------|------|------|-------|------|---|
| <i>Percentage of initial rent</i> | 9.7% | 8.0% | 11.8% | 7.9% | - |
|-----------------------------------|------|------|-------|------|---|

Development and Redevelopment Expenditures

Development and redevelopment expenditures consist of all hard and soft costs associated with the development or redevelopment of a property, including tenant improvements, leasing commissions, capitalized interest and operating costs until the property is substantially completed and ready for its intended use.

We are in the process of renovating the Springfield Mall, which is expected to be substantially completed in 2014. The estimated cost of this project is approximately \$225,000,000, of which \$21,500,000 was expended prior to 2013, \$80,000,000 is expected to be expended in 2013 and the balance is to be expended in 2014.

We plan to develop a new 699-unit residential project in Pentagon City (Metropolitan Park 4&5), which is expected to be completed in 2016. The project will include a 37,000 square foot Whole Foods Market at the base of the building. The estimated cost of this project is approximately \$250,000,000; a significant portion of which is expected to be financed.

Liquidity and Capital Resources – continued*Development and Redevelopment Expenditures - continued*

Below is a summary of development and redevelopment expenditures incurred in the nine months ended September 30, 2013.

| (Amounts in thousands) | Total | New York | Washington, DC | Retail | |
|--|--------------|-----------------|---------------------------|-------------------|--------------|
| | | | | Properties | Other |
| Springfield Mall | \$ 39,810 | \$ - | \$ - | \$ 39,810 | \$ - |
| 220 Central Park South | 23,946 | - | - | - | 23,946 |
| Marriott Marquis Times Square - retail | | | | | |
| and signage | 13,920 | 13,920 | - | - | - |
| 1290 Avenue of the Americas | 11,374 | 11,374 | - | - | - |
| Metropolitan Park 4 & 5 | 5,054 | - | 5,054 | - | - |
| LED Signage | 4,589 | 4,589 | - | - | - |
| 1540 Broadway | 4,267 | 4,267 | - | - | - |
| 1851 South Bell Street (1900 Crystal Drive) | 3,739 | - | 3,739 | - | - |
| Other | 42,311 | 7,949 | 15,039 | 15,910 | 3,413 |
| | \$ 149,010 | \$ 42,099 | \$ 23,832 | \$ 55,720 | \$ 27,359 |

In addition to the development and redevelopment projects above, we are in the process of retenanting and repositioning 280 Park Avenue (50% owned). Our share of the estimated cost of this project is approximately \$62,000,000, of which \$11,000,000 was expended prior to 2013 and \$18,000,000 has been expended in 2013.

There can be no assurance that any of our development projects will commence, or if commenced, be completed on schedule or within budget.

Cash Flows for the Nine Months Ended September 30, 2012

Our cash and cash equivalents were \$465,884,000 at September 30, 2012, a \$140,669,000 decrease over the balance at December 31, 2011. This decrease was primarily due to cash flows from financing activities, partially offset by cash flows from operating and investing activities, as discussed below.

Cash flows provided by operating activities of \$510,646,000 was comprised of (i) net income of \$602,648,000, (ii) return of capital from Real Estate Fund investments of \$61,052,000, (iii) distributions of income from partially owned entities of \$59,322,000, and (iv) \$14,489,000 of non-cash adjustments, which include depreciation and amortization expense, the effect of straight-lining of rental income, equity in net income of partially owned entities and net gains on sale of real estate, partially offset by (v) the net change in operating assets and liabilities of \$226,865,000, including \$163,307,000 related to Real Estate Fund investments.

Net cash provided by investing activities of \$34,012,000 was comprised of (i) \$408,856,000 of proceeds from sales of real estate and related investments, (ii) \$89,850,000 from the return of the J.C. Penney derivative collateral, (iii) \$58,460,000 of proceeds from the sale of marketable securities, (iv) \$52,504,000 of proceeds from the sale of the Canadian Trade Shows, (v) \$26,665,000 of capital distributions from partially owned entities, (vi) \$13,123,000 of proceeds from the repayment of loan to officer, and (vii) \$2,379,000 of proceeds from repayments of mezzanine loans, partially offset by (viii) \$138,060,000 of additions to real estate, (ix) \$121,117,000 for the funding of the J.C. Penney derivative collateral, (x) \$116,264,000 of investments in partially owned entities, (xi) \$106,502,000 of development costs and construction in progress, (xii) \$73,069,000 of acquisitions of real estate and other, and (xiii) \$62,813,000 of changes in restricted cash.

Net cash used in financing activities of \$685,327,000 was comprised of (i) \$2,070,295,000 for the repayments of borrowings, (ii) \$384,353,000 of dividends paid on common shares, (iii) \$243,300,000 for purchases of outstanding preferred units and shares, (iv) \$80,994,000 of distributions to noncontrolling interests, (v) \$54,034,000 of dividends paid on preferred shares, (vi) \$30,034,000 for the repurchase of shares related to stock compensation agreements and related tax holdings, and (vii) \$17,417,000 of debt issuance and other costs, partially offset by (viii) \$1,773,000,000 of proceeds from borrowings, (ix) \$291,144,000 of proceeds from the issuance of preferred shares, (x) \$120,746,000 of contributions from noncontrolling interests in consolidated subsidiaries, and (xi) \$10,210,000 of proceeds from exercise of employee share options.

Liquidity and Capital Resources – continued*Capital Expenditures in the nine months ended September 30, 2012*

| | | | | | Retail | |
|--|--------------|-----------------|-----------|--------------------|-------------------|--------------|
| | | | | Washington, | Properties | Other |
| (Amounts in thousands) | Total | New York | DC | | | |
| Expenditures to maintain assets | \$ 37,829 | \$ 17,925 | \$ 10,758 | \$ 2,497 | \$ 6,649 | |
| Tenant improvements | 150,099 | 55,628 | 41,874 | 6,682 | 45,915 | |
| Leasing commissions | 48,900 | 21,536 | 10,607 | 1,971 | 14,786 | |
| Non-recurring capital expenditures | 5,227 | 4,240 | - | - | 987 | |
| Total capital expenditures and leasing commissions (accrual basis) | 242,055 | 99,329 | 63,239 | 11,150 | 68,337 | |
| Adjustments to reconcile to cash basis: | | | | | | |
| Expenditures in the current year | | | | | | |
| applicable to prior periods | 74,087 | 35,008 | 11,811 | 6,868 | 20,400 | |
| Expenditures to be made in future periods for the current period | (157,152) | (66,954) | (38,221) | (5,731) | (46,246) | |
| Total capital expenditures and leasing commissions (cash basis) | \$ 158,990 | \$ 67,383 | \$ 36,829 | \$ 12,287 | \$ 42,491 | |
| <i>Tenant improvements and leasing commissions:</i> | | | | | | |
| <i>Per square foot per annum</i> | \$ 4.28 | \$ 5.43 | \$ 5.18 | \$ 1.05 | \$ - | |
| <i>Percentage of initial rent</i> | 9.8% | 8.5% | 12.9% | 5.4% | - | |

Development and Redevelopment Expenditures in the nine months ended September 30, 2012

| | | | | | Retail | |
|-----------------------------|--------------|-----------------|-----------|--------------------|-------------------|--------------|
| | | | | Washington, | Properties | Other |
| (Amounts in thousands) | Total | New York | DC | | | |
| Crystal Square 5 | \$ 12,773 | \$ - | \$ 12,773 | \$ - | \$ - | |
| 1290 Avenue of the Americas | 11,613 | 11,613 | - | - | - | |
| 510 Fifth Avenue | 10,203 | 10,203 | - | - | - | |

Revenues

159

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| | | | | | |
|--|------------|-----------|-----------|-----------|----------|
| Bergen Town Center | 9,881 | - | - | 9,881 | - |
| Springfield Mall | 8,801 | - | - | 8,801 | - |
| Marriott Marquis Times Square - retail | | | | | |
| and signage | 5,970 | 5,970 | - | - | - |
| 1851 South Bell Street (1900 Crystal Drive) | 2,840 | - | 2,840 | - | - |
| Other | 44,421 | 9,581 | 9,716 | 17,252 | 7,872 |
| | \$ 106,502 | \$ 37,367 | \$ 25,329 | \$ 35,934 | \$ 7,872 |

Liquidity and Capital Resources – continued

Other Commitments and Contingencies

We are from time to time involved in legal actions arising in the ordinary course of business. In our opinion, after consultation with legal counsel, the outcome of such matters is not expected to have a material adverse effect on our financial position, results of operations or cash flows.

Each of our properties has been subjected to varying degrees of environmental assessment at various times. The environmental assessments did not reveal any material environmental contamination. However, there can be no assurance that the identification of new areas of contamination, changes in the extent or known scope of contamination, the discovery of additional sites, or changes in cleanup requirements would not result in significant costs to us.

Our mortgage loans are non-recourse to us. However, in certain cases we have provided guarantees or master leased tenant space. These guarantees and master leases terminate either upon the satisfaction of specified circumstances or repayment of the underlying loans. As of September 30, 2013, the aggregate dollar amount of these guarantees and master leases is approximately \$367,000,000.

At September 30, 2013, \$33,068,000 of letters of credit were outstanding under one of our revolving credit facilities. Our credit facilities contain financial covenants that require us to maintain minimum interest coverage and maximum debt to market capitalization ratios, and provide for higher interest rates in the event of a decline in our ratings below Baa3/BBB. Our credit facilities also contain customary conditions precedent to borrowing, including representations and warranties, and also contain customary events of default that could give rise to accelerated repayment, including such items as failure to pay interest or principal.

Two of our wholly owned subsidiaries that are contracted to develop and operate the Cleveland Medical Mart and Convention Center, in Cleveland, Ohio, are required to fund \$11,500,000, primarily for tenant improvements, and they are responsible for operating expenses and are entitled to the net operating income, if any, upon the completion of development and the commencement of operations. As of September 30, 2013, our subsidiaries have funded approximately \$3,598,000 of the commitment.

As of September 30, 2013, we expect to fund additional capital to certain of our partially owned entities aggregating approximately \$155,000,000.

Funds From Operations (“FFO”)

FFO is computed in accordance with the definition adopted by the Board of Governors of the National Association of Real Estate Investment Trusts (“NAREIT”). NAREIT defines FFO as GAAP net income or loss adjusted to exclude net gain from sales of depreciated real estate assets, real estate impairment losses, depreciation and amortization expense from real estate assets, extraordinary items and other specified non-cash items, including the pro rata share of such adjustments of unconsolidated subsidiaries. FFO and FFO per diluted share are used by management, investors and analysts to facilitate meaningful comparisons of operating performance between periods and among our peers because it excludes the effect of real estate depreciation and amortization and net gains on sales, which are based on historical costs and implicitly assume that the value of real estate diminishes predictably over time, rather than fluctuating based on existing market conditions. FFO does not represent cash generated from operating activities and is not necessarily indicative of cash available to fund cash requirements and should not be considered as an alternative to net income as a performance measure or cash flows as a liquidity measure. FFO may not be comparable to similarly titled measures employed by other companies. The calculations of both the numerator and denominator used in the computation of income per share are disclosed in Note 20 – *Income per Share*, in our consolidated financial statements on page 31 of this Quarterly Report on Form 10-Q.

FFO for the Three and Nine Months Ended September 30, 2013 and 2012

FFO attributable to common shareholders plus assumed conversions was \$210,627,000, or \$1.12 per diluted share for the three months ended September 30, 2013, compared to \$251,019,000, or \$1.34 per diluted share, for the prior year’s quarter. FFO attributable to common shareholders plus assumed conversions was \$647,767,000, or \$3.45 per diluted share for the nine months ended September 30, 2013, compared to \$767,347,000, or \$4.07 per diluted share, for the prior year’s nine months. Details of certain items that affect comparability are discussed in the financial results summary of our “Overview.”

| (Amounts in thousands, except per share amounts) | For The Three Months | | For The Nine Months | |
|--|-----------------------------|-------------|----------------------------|-------------|
| | Ended September 30, | | Ended September 30, | |
| Reconciliation of our net income to FFO: | 2013 | 2012 | 2013 | 2012 |
| Net income attributable to Vornado | \$ 103,374 | \$ 241,306 | \$ 524,490 | \$ 531,125 |
| Depreciation and amortization of real property | 117,901 | 118,717 | 377,142 | 377,338 |
| Net gains on sale of real estate | (16,087) | (131,088) | (284,081) | (203,801) |
| Real estate impairment losses | 720 | - | 4,727 | 13,511 |
| Proportionate share of adjustments to equity in net income | | | | |
| of Toys, to arrive at FFO: | | | | |
| Depreciation and amortization of real property | 16,430 | 16,905 | 53,235 | 50,706 |
| Real estate impairment losses | 1,826 | - | 6,096 | 8,394 |
| | (6,390) | (5,917) | (20,766) | (20,765) |

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| | | | | |
|---|------------|------------|------------|------------|
| Income tax effect of above adjustments | | | | |
| Proportionate share of adjustments to equity in net income of partially owned entities, excluding Toys, to arrive at FFO: | | | | |
| Depreciation and amortization of real property | 20,931 | 22,750 | 62,247 | 65,810 |
| Net gains on sale of real estate | - | (1,156) | (465) | (2,051) |
| Real estate impairment losses | - | - | - | 1,849 |
| Noncontrolling interests' share of above adjustments | (7,736) | (1,613) | (11,343) | (18,197) |
| FFO | 230,969 | 259,904 | 711,282 | 803,919 |
| Preferred share dividends | (20,369) | (20,613) | (62,439) | (56,187) |
| Preferred unit and share redemptions | - | 11,700 | (1,130) | 11,700 |
| FFO attributable to common shareholders | 210,600 | 250,991 | 647,713 | 759,432 |
| Convertible preferred share dividends | 27 | 28 | 54 | 85 |
| Interest on 3.88% exchangeable senior debentures | - | - | - | 7,830 |
| FFO attributable to common shareholders plus assumed conversions | \$ 210,627 | \$ 251,019 | \$ 647,767 | \$ 767,347 |
| Reconciliation of Weighted Average Shares | | | | |
| Weighted average common shares outstanding | 186,969 | 185,924 | 186,885 | 185,656 |
| Effect of dilutive securities: | | | | |
| Employee stock options and restricted share awards | 755 | 681 | 746 | 693 |
| Convertible preferred shares | 47 | 50 | 48 | 50 |
| 3.88% exchangeable senior debentures | - | - | - | 2,279 |
| Denominator for FFO per diluted share | 187,771 | 186,655 | 187,679 | 188,678 |
| FFO attributable to common shareholders plus assumed conversions | | | | |
| per diluted share | \$ 1.12 | \$ 1.34 | \$ 3.45 | \$ 4.07 |

Item 3. Quantitative and Qualitative Disclosures About Market Risk

We have exposure to fluctuations in market interest rates. Market interest rates are sensitive to many factors that are beyond our control. Our exposure to a change in interest rates on our consolidated and non-consolidated debt (all of which arises out of non-trading activity) is as follows:

| (Amounts in thousands, except per share amounts) | September 30, | 2013 | Effect of 1% | December 31, | 2012 |
|--|----------------------|---------------------------------------|-----------------------------|---------------------|---------------------------------------|
| | Balance | Weighted Average Interest Rate | Change In Base Rates | Balance | Weighted Average Interest Rate |
| Consolidated debt: | | | | | |
| Variable rate | \$ 1,353,097 | 2.32% | \$ 13,531 | \$ 3,043,199 | 1.84% |
| Fixed rate | 8,648,236 | 5.03% | - | 8,129,009 | 5.18% |
| | \$ 10,001,333 | 4.67% | 13,531 | \$ 11,172,208 | 4.27% |
| Prorata share of debt of non-consolidated entities (non-recourse): | | | | | |
| Variable rate – excluding Toys | \$ 194,423 | 2.12% | 1,944 | \$ 264,531 | 2.88% |
| Variable rate – Toys | 731,522 | 5.71% | 7,315 | 703,922 | 5.69% |
| Fixed rate (including \$984,990 and \$1,148,407 of Toys debt in 2013 and 2012) | 3,106,589 | 6.89% | - | 3,030,476 | 7.04% |
| | \$ 4,032,534 | 6.44% | 9,259 | \$ 3,998,929 | 6.53% |
| Noncontrolling interests' share of above | | | (1,322) | | |
| Total change in annual net income | | | \$ 21,468 | | |
| Per share-diluted | | | \$ 0.11 | | |

We may utilize various financial instruments to mitigate the impact of interest rate fluctuations on our cash flows and earnings, including hedging strategies, depending on our analysis of the interest rate environment and the costs and risks of such strategies. As of September 30, 2013, we have one interest rate cap with a principal amount of \$60,000,000 and an interest rate of 2.36%. This cap is based on a notional amount of \$60,000,000 and caps LIBOR at a rate of 7.00%. In addition, we have one interest rate swap on a \$425,000,000 mortgage loan that swapped the rate from LIBOR plus 2.00% (2.18% at September 30, 2013) to a fixed rate of 5.13% for the remaining five-year term of the loan.

As of September 30, 2013, we have investments in mezzanine loans with an aggregate carrying amount of \$152,079,000 that are based on variable interest rates which partially mitigate our exposure to a change in interest rates on our variable rate debt.

Fair Value of Debt

The estimated fair value of our consolidated debt is calculated based on current market prices and discounted cash flows at the rate at which similar loans could be made currently to borrowers with similar credit ratings, for the remaining term of such debt. As of September 30, 2013, the estimated fair value of our consolidated debt was \$10,134,982,000.

Item 4. Controls and Procedures

Disclosure Controls and Procedures: The Company's management, with the participation of the Company's Chief Executive Officer and Chief Financial Officer, has evaluated the effectiveness of the Company's disclosure controls and procedures (as such term is defined in Rule 13a-15(e) under the Securities Exchange Act of 1934, as amended) as of the end of the period covered by this report. Based on such evaluation, the Company's Chief Executive Officer and Chief Financial Officer have concluded that, as of September 30, 2013, such disclosure controls and procedures were effective.

Internal Control Over Financial Reporting: There have not been any changes in the Company's internal control over financial reporting (as such term is defined in Rule 13a-15(f) under the Securities and Exchange Act of 1934, as amended) during the fiscal quarter to which this report relates that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

PART II. OTHER INFORMATION

Item 1. Legal Proceedings

We are from time to time involved in legal actions arising in the ordinary course of business. In our opinion, after consultation with legal counsel, the outcome of such matters is not expected to have a material adverse effect on our financial position, results of operations or cash flows.

Item 1A. Risk Factors

There were no material changes to the Risk Factors disclosed in our Annual Report on Form 10-K for the year ended December 31, 2012.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

During the third quarter of 2013, we issued 6,558 common shares upon the redemption of Class A units of the Operating Partnership held by persons who received units, in private placements in earlier periods, in exchange for their interests in limited partnerships that owned real estate. The common shares were issued without registration under the Securities Act of 1933 in reliance on Section 4 (2) of that Act.

Information relating to compensation plans under which our equity securities are authorized for issuance is set forth under Part III, Item 12 of the Annual Report on Form 10-K for the year ended December 31, 2012, and such information is incorporated by reference herein.

Item 3. Defaults Upon Senior Securities

None.

Item 4. Mine Safety Disclosures

Not applicable.

Item 5. Other Information

None.

Item 6. Exhibits

Exhibits required by Item 601 of Regulation S-K are filed herewith or incorporated herein by reference and are listed in the attached Exhibit Index.

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.

VORNADO REALTY TRUST
(Registrant)

Date: November 4, 2013

By: /s/ Stephen W. Theriot
Stephen W. Theriot, Chief Financial Officer
(duly authorized officer and principal financial and
accounting officer)

87

EXHIBIT INDEX

Exhibit No.

| | | | |
|-------|----|--|---|
| 3.3 | - | Articles Supplementary, 5.40% Series L Cumulative Redeemable Preferred Shares of Beneficial Interest, liquidation preference \$25.00 per share, no par value – Incorporated by reference to Exhibit 3.6 to Vornado Realty Trust’s Registration Statement on Form 8-A (File No. 001-11954), filed on January 25, 2013 | * |
| 3.49 | - | Forty-Fifth Amendment to Second Amended and Restated Agreement of Limited Partnership, dated as of January 25, 2013 – Incorporated by reference to Exhibit 3.1 to Vornado Realty L.P.’s Current Report on Form 8-K (File No. 001-34482), filed on January 25, 2013 | * |
| 10.46 | ** | - | * |
| | | Letter Agreement between Vornado Realty Trust and Michael D. Fascitelli, dated February 27, 2013. Incorporated by reference to Exhibit 99.1 to Vornado Realty Trust’s Current Report on Form 8-K (File No. 001-11954), filed on February 27, 2013 | |
| 10.47 | ** | - | * |
| | | Waiver and Release between Vornado Realty Trust and Michael D. Fascitelli, dated February 27, 2013. Incorporated by reference to Exhibit 99.2 to Vornado Realty Trust’s Current Report on Form 8-K (File No. 001-11954), filed on February 27, 2013 | |
| 10.48 | - | Amendment to June 2011 Revolving Credit Agreement dated as of March 28, 2013, by and among Vornado Realty L.P., as Borrower, the banks listed on the signature pages, and J.P. Morgan Chase Bank N.A., as Administrative Agent. Incorporated by reference to Exhibit 10.48 to Vornado Realty Trust’s Quarterly Report on Form 10-Q for the quarter ended March 31, 2013 (File No. 001-11954), filed on May 6, 2013 | * |
| 10.49 | - | Amendment to November 2011 Revolving Credit Agreement dated as of March 28, 2013, by and among Vornado Realty L.P., as Borrower, the banks listed on the signature pages, and | * |

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J.P. Morgan Chase Bank N.A., as Administrative Agent.
Incorporated by reference to
Exhibit 10.49 to Vornado Realty Trust's Quarterly Report
on Form 10-Q for the quarter
ended March 31, 2013 (File No. 001-11954), filed on May
6, 2013

- | | | | | |
|-------|----|---|---|---|
| 10.50 | ** | - | Form of Vornado Realty Trust 2013 Outperformance Plan Award Agreement. Incorporated by reference to Exhibit 10.50 to Vornado Realty Trust's Quarterly Report on Form 10-Q for the quarter ended March 31, 2013 (File No. 001-11954), filed on May 6, 2013 | * |
| 10.51 | ** | - | Employment agreement between Vornado Realty Trust and Stephen W. Theriot dated June 1, 2013. Incorporated by reference to Exhibit 10.51 to Vornado Realty Trust's Quarterly Report on Form 10-Q for the quarter ended June 30, 2013 (File No. 001-11954), filed on August 5, 2013 | * |

*
**

Incorporated by reference
Management contract or compensation agreement

EXHIBIT INDEX

Exhibit No.

| | | |
|---------|---|--|
| 15.1 | - | Letter regarding Unaudited Interim Financial |
| 31.1 | - | Rule 13a-14 (a) Certification of the Chief Executive Officer |
| 31.2 | - | Rule 13a-14 (a) Certification of the Chief Financial Officer |
| 32.1 | - | Section 1350 Certification of the Chief Executive Officer |
| 32.2 | - | Section 1350 Certification of the Chief Financial Officer |
| 101.INS | - | XBRL Instance Document |
| 101.SCH | - | XBRL Taxonomy Extension Schema |
| 101.CAL | - | XBRL Taxonomy Extension Calculation Linkbase |
| 101.DEF | - | XBRL Taxonomy Extension Definition Linkbase |
| 101.LAB | - | XBRL Taxonomy Extension Label Linkbase |
| 101.PRE | - | XBRL Taxonomy Extension Presentation Linkbase |