

VORNADO REALTY TRUST  
Form 10-Q  
August 01, 2016

**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 **June 30, 2016**  
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.

- |  |  |
|--|--|
| <input checked="" type="checkbox"/> Large Accelerated Filer                                | <input type="checkbox"/> Accelerated Filer         |
| <input type="checkbox"/> Non-Accelerated Filer (Do not check if smaller reporting company) | <input type="checkbox"/> 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 June 30, 2016, 188,825,520 of the registrant's common shares of beneficial interest are outstanding.



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

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

(Amounts in thousands, except share and per share amounts)	<b>June 30, 2016</b>	<b>December 31, 2015</b>
<b>ASSETS</b>		
Real estate, at cost:		
Land	\$ 4,154,201	\$ 4,164,799
Buildings and improvements	12,541,161	12,582,671
Development costs and construction in progress	1,302,108	1,226,637
Leasehold improvements and equipment	112,096	116,030
Total	18,109,566	18,090,137
Less accumulated depreciation and amortization	(3,374,867)	(3,418,267)
Real estate, net	14,734,699	14,671,870
Cash and cash equivalents	1,644,067	1,835,707
Restricted cash	94,628	107,799
Marketable securities	194,489	150,997
Tenant and other receivables, net of allowance for doubtful accounts of \$11,260 and \$11,908	95,623	98,062
Investments in partially owned entities	1,499,792	1,550,422
Real estate fund investments	524,150	574,761
Receivable arising from the straight-lining of rents, net of allowance of \$2,489 and \$2,751	991,953	931,245
Deferred leasing costs, net of accumulated amortization of \$227,015 and \$218,239	462,649	480,421
Identified intangible assets, net of accumulated amortization of \$194,463 and \$187,360	210,010	227,901
Assets related to discontinued operations	8,678	37,020
Other assets	612,992	477,088
	\$ 21,073,730	\$ 21,143,293
<b>LIABILITIES, REDEEMABLE NONCONTROLLING INTERESTS AND EQUITY</b>		
Mortgages payable, net	\$ 9,746,818	\$ 9,513,713
Senior unsecured notes, net	844,868	844,159
Unsecured revolving credit facilities	115,630	550,000
Unsecured term loan, net	371,455	183,138
Accounts payable and accrued expenses	480,094	443,955
Deferred revenue	314,367	346,119
Deferred compensation plan	119,292	117,475
Liabilities related to discontinued operations	8,104	12,470
Other liabilities	480,030	426,965

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Total liabilities	12,480,658	12,437,994
Commitments and contingencies		
Redeemable noncontrolling interests:		
Class A units - 12,385,829 and 12,242,820 units outstanding	1,240,069	1,223,793
Series D cumulative redeemable preferred units - 177,101 units outstanding	5,428	5,428
Total redeemable noncontrolling interests	1,245,497	1,229,221
Vornado shareholders' equity:		
Preferred shares of beneficial interest: no par value per share; authorized 110,000,000 shares; issued and outstanding 52,676,629 shares	1,276,954	1,276,954
Common shares of beneficial interest: \$.04 par value per share; authorized 250,000,000 shares; issued and outstanding 188,825,520 and 188,576,853 shares	7,531	7,521
Additional capital	7,135,571	7,132,979
Earnings less than distributions	(1,898,505)	(1,766,780)
Accumulated other comprehensive income	72,556	46,921
Total Vornado shareholders' equity	6,594,107	6,697,595
Noncontrolling interests in consolidated subsidiaries	753,468	778,483
Total equity	7,347,575	7,476,078
	\$ 21,073,730	\$ 21,143,293

See notes to consolidated financial statements (unaudited).

**VORNADO REALTY TRUST**  
**CONSOLIDATED STATEMENTS OF INCOME**  
**(UNAUDITED)**

(Amounts in thousands, except per share amounts)

	For the Three Months Ended		For the Six Months Ended	
	June 30,		June 30,	
	2016	2015	2016	2015
<b>REVENUES:</b>				
Property rentals	\$ 527,178	\$ 514,843	\$ 1,046,670	\$ 1,015,117
Tenant expense reimbursements	60,841	62,215	120,416	129,136
Fee and other income	33,689	39,230	67,659	78,837
Total revenues	621,708	616,288	1,234,745	1,223,090
<b>EXPENSES:</b>				
Operating	245,138	242,690	501,487	497,183
Depreciation and amortization	141,313	136,957	284,270	261,079
General and administrative	45,564	39,189	94,268	97,681
Impairment loss and acquisition and transaction related costs	2,879	4,061	168,186	6,042
Total expenses	434,894	422,897	1,048,211	861,985
Operating income	186,814	193,391	186,534	361,105
Income (loss) from partially owned entities	642	(5,641)	(3,598)	(8,384)
Income from real estate fund investments	16,389	26,368	27,673	50,457
Interest and other investment income, net	10,236	5,666	13,754	16,458
Interest and debt expense	(105,576)	(92,092)	(206,065)	(183,766)
Net gain on disposition of wholly owned and partially owned assets	159,511	-	160,225	1,860
Income before income taxes	268,016	127,692	178,523	237,730
Income tax (expense) benefit	(2,109)	88,072	(4,940)	87,101
Income from continuing operations	265,907	215,764	173,583	324,831
Income (loss) from discontinued operations	2,475	(364)	3,191	15,815
Net income	268,382	215,400	176,774	340,646
Less net income attributable to noncontrolling interests in:				
Consolidated subsidiaries	(13,025)	(19,186)	(22,703)	(35,068)
Operating Partnership	(14,531)	(10,198)	(7,044)	(15,485)
Net income attributable to Vornado	240,826	186,016	147,027	290,093
Preferred share dividends	(20,363)	(20,365)	(40,727)	(39,849)
<b>NET INCOME attributable to common shareholders</b>	<b>\$ 220,463</b>	<b>\$ 165,651</b>	<b>\$ 106,300</b>	<b>\$ 250,244</b>
 <b>INCOME PER COMMON SHARE - BASIC:</b>				
Income from continuing operations, net	\$ 1.16	\$ 0.88	\$ 0.54	\$ 1.25
	0.01	-	0.02	0.08



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Income from discontinued operations, net				
Net income per common share	\$ 1.17	\$ 0.88	\$ 0.56	\$ 1.33
Weighted average shares outstanding	188,772	188,365	188,715	188,183

**INCOME PER COMMON SHARE - DILUTED:**

Income from continuing operations, net	\$ 1.15	\$ 0.87	\$ 0.54	\$ 1.24
Income from discontinued operations, net	0.01	-	0.02	0.08
Net income per common share	\$ 1.16	\$ 0.87	\$ 0.56	\$ 1.32
Weighted average shares outstanding	189,885	189,600	190,000	189,775

<b>DIVIDENDS PER COMMON SHARE</b>	\$ 0.63	\$ 0.63	\$ 1.26	\$ 1.26
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See notes to consolidated financial statements (unaudited).

**VORNADO REALTY TRUST**  
**CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME**  
**(UNAUDITED)**

(Amounts in thousands)	<b>For the Three Months Ended</b>		<b>For the Six Months Ended</b>	
	<b>June 30,</b>		<b>June 30,</b>	
	<b>2016</b>	<b>2015</b>	<b>2016</b>	<b>2015</b>
Net income	\$ 268,382	\$ 215,400	\$ 176,774	\$ 340,646
Other comprehensive income (loss):				
Increase (reduction) in unrealized net gain on				
available-for-sale securities	28,019	(25,000)	39,113	(46,332)
Pro rata share of other comprehensive loss of				
nonconsolidated subsidiaries	(628)	(1,191)	(622)	(1,034)
(Reduction) increase in value of interest rate swaps and other	(6,976)	2,848	(11,171)	2,077
Comprehensive income	288,797	192,057	204,094	295,357
Less comprehensive income attributable to noncontrolling interests	(28,814)	(28,037)	(31,432)	(47,918)
Comprehensive income attributable to Vornado	\$ 259,983	\$ 164,020	\$ 172,662	\$ 247,439

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	Earnings	Other	Non- Accumulated controlling Interests in Consolidated	Total
	Shares	Amount	Shares	Amount	Capital	Less Than Distributions	Comprehensive Income	Subsidiaries	Equity
<b>Balance, December 31, 2015</b>	52,677	\$1,276,954	188,577	\$7,521	\$7,132,979	\$(1,766,780)	\$ 46,921	\$ 778,483	\$7,476,078
Net income attributable to Vornado	-	-	-	-	-	147,027	-	-	147,027
Net income attributable to noncontrolling interests in consolidated subsidiaries	-	-	-	-	-	-	-	22,703	22,703
Dividends on common shares	-	-	-	-	-	(237,832)	-	-	(237,832)
Dividends on preferred shares	-	-	-	-	-	(40,727)	-	-	(40,727)
Common shares issued:									
Upon redemption of Class A units, at redemption value	-	-	195	8	18,200	-	-	-	18,208
Under employees' share option plan	-	-	38	1	3,092	-	-	-	3,093
Under dividend reinvestment plan	-	-	8	-	717	-	-	-	717
Contributions: Other	-	-	-	-	-	-	-	19,674	19,674
Distributions:									

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Real estate fund investments	-	-	-	-	-	-	-	(56,533)	(56,533)
Other	-	-	-	-	-	-	-	(10,970)	(10,970)
Deferred compensation shares and options	-	-	7	1	953	(186)	-	-	768
Increase in unrealized net gain on available-for-sale securities	-	-	-	-	-	-	39,113	-	39,113
Pro rata share of other comprehensive loss of nonconsolidated subsidiaries	-	-	-	-	-	-	(622)	-	(622)
Reduction in value of interest rate swaps	-	-	-	-	-	-	(11,170)	-	(11,170)
Adjustments to carry redeemable Class A units at redemption value	-	-	-	-	(20,369)	-	-	-	(20,369)
Redeemable noncontrolling interests' share of above adjustments	-	-	-	-	-	-	(1,685)	-	(1,685)
Other	-	-	1	-	(1)	(7)	(1)	111	102
<b>Balance, June 30, 2016</b>	52,677	\$1,276,954	188,826	\$7,531	\$7,135,571	\$(1,898,505)	\$ 72,556	\$ 753,468	\$7,347,575

See notes to consolidated financial statements (unaudited).

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

(Amounts in thousands)

	Preferred Shares		Common Shares		Additional Capital	Earnings Less Than Comprehensive Distributions	Other Comprehensive Income	Non-	Consolidated	Total Equity
	Shares	Amount	Shares	Amount				Accumulated controlling Interests in Subsidiaries		
<b>Balance, December 31, 2014</b>	52,679	\$1,277,026	187,887	\$7,493	\$6,873,025	\$(1,505,385)	\$ 93,267	\$ 743,956	\$7,489,382	
Net income attributable to Vornado	-	-	-	-	-	290,093	-	-	290,093	
Net income attributable to noncontrolling interests in consolidated subsidiaries	-	-	-	-	-	-	-	35,068	35,068	
Distribution of Urban Edge Properties	-	-	-	-	-	(464,262)	-	(341)	(464,603)	
Dividends on common shares	-	-	-	-	-	(237,160)	-	-	(237,160)	
Dividends on preferred shares	-	-	-	-	-	(39,849)	-	-	(39,849)	
Common shares issued:										
Upon redemption of Class A units, at redemption value	-	-	400	16	43,262	-	-	-	43,278	
Under employees' share option plan	-	-	195	7	12,972	(2,579)	-	-	10,400	
Under dividend reinvestment plan	-	-	7	-	701	-	-	-	701	

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Contributions:									
Real estate fund investments	-	-	-	-	-	-	-	51,725	51,725
Distributions:									
Real estate fund investments	-	-	-	-	-	-	-	(62,495)	(62,495)
Other	-	-	-	-	-	-	-	(255)	(255)
Conversion of Series A preferred shares to common shares	(1)	(16)	1	-	16	-	-	-	-
Deferred compensation shares and options	-	-	7	1	1,653	(359)	-	-	1,295
Reduction in unrealized net gain on available-for-sale securities	-	-	-	-	-	-	(46,332)	-	(46,332)
Pro rata share of other comprehensive loss of nonconsolidated subsidiaries	-	-	-	-	-	-	(1,034)	-	(1,034)
Increase in value of interest rate swap	-	-	-	-	-	-	2,073	-	2,073
Adjustments to carry redeemable Class A units at redemption value	-	-	-	-	229,521	-	-	-	229,521
Redeemable noncontrolling interests' share of above adjustments	-	-	-	-	-	-	2,635	-	2,635
Other	-	-	-	-	-	955	4	(92)	867
<b>Balance, June 30, 2015</b>	52,678	\$1,277,010	188,497	\$7,517	\$7,161,150	\$(1,958,546)	\$ 50,613	\$ 767,566	\$7,305,310

See notes to consolidated financial statements (unaudited).

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**VORNADO REALTY TRUST**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**  
**(UNAUDITED)**

(Amounts in thousands)

	<b>For the Six Months Ended June 30,</b>	
	<b>2016</b>	<b>2015</b>
<b>Cash Flows from Operating Activities:</b>		
Net income	\$ 176,774	\$ 340,646
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization (including amortization of deferred financing costs)	299,541	272,942
Real estate impairment losses	160,700	256
Net gain on disposition of wholly owned and partially owned assets	(160,225)	(1,860)
Straight-lining of rental income	(83,883)	(64,121)
Return of capital from real estate fund investments	71,888	83,443
Distributions of income from partially owned entities	46,500	37,821
Amortization of below-market leases, net	(29,811)	(26,132)
Other non-cash adjustments	23,049	26,569
Net realized and unrealized gains on real estate fund investments	(21,277)	(41,857)
Loss from partially owned entities	3,598	7,636
Net gains on sale of real estate and other	(2,210)	(32,243)
Reversal of allowance for deferred tax assets	-	(90,030)
Changes in operating assets and liabilities:		
Real estate fund investments	-	(95,000)
Tenant and other receivables, net	2,358	(5,051)
Prepaid assets	(131,927)	(138,473)
Other assets	(29,303)	(46,858)
Accounts payable and accrued expenses	6,634	(26,440)
Other liabilities	(9,113)	(16,632)
Net cash provided by operating activities	323,293	184,616
<b>Cash Flows from Investing Activities:</b>		
Development costs and construction in progress	(277,214)	(200,970)
Additions to real estate	(170,265)	(137,528)
Proceeds from sales of real estate and related investments	130,249	334,725
Investments in partially owned entities	(90,659)	(137,465)
Distributions of capital from partially owned entities	87,977	29,666
Acquisitions of real estate and other	(46,807)	(381,001)
Net deconsolidation of 7 West 34th Street	(42,000)	-
Investments in loans receivable and other	(11,700)	(23,919)
Restricted cash	(7,483)	25,118
Purchases of marketable securities	(4,379)	-
Proceeds from sales and repayments of mortgage and mezzanine loans receivable and other	22	16,772



Net cash used in investing activities	(432,259)	(474,602)
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See notes to consolidated financial statements (unaudited).

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

(Amounts in thousands)

	<b>For the Six Months Ended June 30,</b>	
	<b>2016</b>	<b>2015</b>
<b>Cash Flows from Financing Activities:</b>		
Proceeds from borrowings	\$ 1,325,246	\$ 1,746,460
Repayments of borrowings	(1,032,115)	(1,607,574)
Dividends paid on common shares	(237,832)	(237,160)
Distributions to noncontrolling interests	(83,266)	(77,447)
Dividends paid on preferred shares	(40,727)	(39,849)
Debt issuance and other costs	(29,478)	(14,053)
Contributions from noncontrolling interests	11,874	51,725
Proceeds received from exercise of employee share options	3,810	13,683
Repurchase of shares related to stock compensation agreements and related tax withholdings and other	(186)	(2,939)
Cash included in the spin-off of Urban Edge Properties	-	(225,000)
Net cash used in financing activities	(82,674)	(392,154)
Net decrease in cash and cash equivalents	(191,640)	(682,140)
Cash and cash equivalents at beginning of period	1,835,707	1,198,477
Cash and cash equivalents at end of period	\$ 1,644,067	\$ 516,337
<b>Supplemental Disclosure of Cash Flow Information:</b>		
Cash payments for interest, excluding capitalized interest of \$13,918 and \$17,550	\$ 181,432	\$ 178,461
Cash payments for income taxes	\$ 5,003	\$ 6,584
<b>Non-Cash Investing and Financing Activities:</b>		
Write-off of fully depreciated assets	\$ (220,654)	\$ (81,027)
Accrued capital expenditures included in accounts payable and accrued expenses	144,079	70,672
Change in unrealized net gain (loss) on securities available-for-sale	39,113	(46,332)
Adjustments to carry redeemable Class A units at redemption value	(20,369)	229,521
Decrease in assets and liabilities resulting from the deconsolidation of investments that were previously consolidated		
Real estate, net	(122,047)	-
Mortgages payable, net	(290,418)	-
Non-cash distribution of Urban Edge Properties:		
Assets	-	1,722,263
Liabilities	-	(1,482,660)
Equity	-	(239,603)
	-	(145,313)

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Transfer of interest in real estate to Pennsylvania Real  
Estate Investment Trust

Financing assumed in acquisitions	-	62,000
Like-kind exchange of real estate:		
Acquisitions	46,698	62,355
Dispositions	(29,639)	(38,822)

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 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 93.6% of the common limited partnership interest in, the Operating Partnership at June 30, 2016. 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 inter-company 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 ("SEC") and should be read in conjunction with the consolidated financial statements and notes thereto included in our Annual Report on Form 10-K, as amended, for the year ended December 31, 2015, 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 six months ended June 30, 2016 are not necessarily indicative of the operating results for the full year.

### **3. Recently Issued Accounting Literature**

In May 2014, the Financial Accounting Standards Board ("FASB") issued an update ("ASU 2014-09") establishing Accounting Standards Codification ("ASC") Topic 606, *Revenue from Contracts with Customers* ("ASC 606"). ASU 2014-09 establishes a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers and supersedes most of the existing revenue recognition guidance. ASU 2014-09 requires an entity to recognize revenue when it transfers promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services and also requires certain additional disclosures. In August 2015, the FASB issued an update ("ASU 2015-14") to ASC 606, *Deferral of the Effective Date*, which defers the adoption of ASU 2014-09 to interim and annual reporting periods in fiscal years that begin after December 15, 2017. In March 2016, the FASB issued an update ("ASU 2016-08") to ASC 606, *Principal versus Agent Considerations (Reporting Revenue Gross versus Net)*, which clarifies the implementation guidance on principal versus agent considerations in the new revenue recognition standard pursuant to ASU 2014-09. In April 2016, the FASB issued an update ("ASU 2016-10") to ASC 606, *Identifying Performance Obligations and Licensing*, which clarifies guidance related to identifying performance obligations and licensing implementation guidance contained in ASU 2014-09. In May 2016, the FASB issued an update ("ASU 2016-12") to ASC 606, *Narrow-Scope Improvements and Practical Expedients*, which amends certain aspects of the new revenue recognition standard pursuant to ASU 2014-09. We are currently evaluating the impact of the adoption of these ASUs on our consolidated financial statements.

In June 2014, the FASB issued an update ("ASU 2014-12") to ASC Topic 718, *Compensation – Stock Compensation* ("ASC 718"). ASU 2014-12 requires an entity to treat performance targets that can be met after the requisite service period of a share based award has ended, as a performance condition that affects vesting. ASU 2014-12 is effective for interim and annual reporting periods in fiscal years that began after December 15, 2015. The adoption of this update as of January 1, 2016, did not have any impact on our consolidated financial statements.





**VORNADO REALTY TRUST**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED**

**(UNAUDITED)**