

VORNADO REALTY TRUST  
Form 10-Q  
August 03, 2015

**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, 2015**  
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)

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**Maryland**

(State or other jurisdiction of incorporation or organization)

**22-1657560**

(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 x No o

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 x No o

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

☒ Large Accelerated Filer

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

☐ Accelerated Filer

☐ 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 o No x

As of June 30, 2015, 188,496,525 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, 2015</b> | <b>December 31, 2014</b> |
|--|----------------------|--------------------------|
| <b>ASSETS</b>  |                      |                          |
| Real estate, at cost:  |                      |                          |
| Land   | \$ 4,036,944         | \$ 3,861,913             |
| Buildings and improvements   | 12,188,912           | 11,705,749               |
| Development costs and construction in progress   | 1,273,897            | 1,128,037                |
| Leasehold improvements and equipment   | 129,930              | 126,659                  |
| Total  | 17,629,683           | 16,822,358               |
| Less accumulated depreciation and amortization   | (3,303,014)          | (3,161,633)              |
| Real estate, net   | 14,326,669           | 13,660,725               |
| Cash and cash equivalents  | 516,337              | 1,198,477                |
| Restricted cash  | 127,857              | 176,204                  |
| Marketable securities  | 159,991              | 206,323                  |
| Tenant and other receivables, net of allowance for doubtful accounts of \$10,944 and \$12,210    | 115,049              | 109,998                  |
| Investments in partially owned entities  | 1,477,090            | 1,246,496                |
| Real estate fund investments   | 565,976              | 513,973                  |
| Receivable arising from the straight-lining of rents, net of allowance of \$3,229 and \$3,190    | 851,894              | 787,271                  |
| Deferred leasing and financing costs, net of accumulated amortization of \$280,286 and \$281,109 | 528,179              | 475,158                  |
| Identified intangible assets, net of accumulated amortization of \$207,744 and \$199,821         | 245,846              | 225,155                  |
| Assets related to discontinued operations  | 34,891               | 2,238,474                |
| Other assets   | 636,128              | 410,066                  |
|  | \$ 19,585,907        | \$ 21,248,320            |
| <b>LIABILITIES, REDEEMABLE NONCONTROLLING INTERESTS AND EQUITY</b>                               |                      |                          |
| Mortgages payable  | \$ 8,562,314         | \$ 8,263,165             |
| Senior unsecured notes   | 847,463              | 1,347,159                |
| Revolving credit facility debt   | 400,000              | -                        |
| Accounts payable and accrued expenses  | 437,813              | 447,745                  |
| Deferred revenue   | 390,636              | 358,613                  |
| Deferred compensation plan   | 118,931              | 117,284                  |
| Liabilities related to discontinued operations   | 12,611               | 1,511,362                |
| Other liabilities  | 417,935              | 375,830                  |
| Total liabilities  | 11,187,703           | 12,421,158               |
| Commitments and contingencies  |                      |                          |
| Redeemable noncontrolling interests:   |                      |                          |

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|   |               |               |
|---|---------------|---------------|
| Class A units - 11,455,453 and 11,356,550 units outstanding   | 1,087,466     | 1,336,780     |
| Series D cumulative redeemable preferred units - 177,101 and 1 units outstanding  | 5,428         | 1,000         |
| Total redeemable noncontrolling interests   | 1,092,894     | 1,337,780     |
| Vornado shareholders' equity:   |               |               |
| Preferred shares of beneficial interest: no par value per share; authorized 110,000,000 shares; issued and outstanding 52,678,429 and 52,678,939 shares   | 1,277,010     | 1,277,026     |
| Common shares of beneficial interest: \$.04 par value per share; authorized 250,000,000 shares; issued and outstanding 188,496,525 and 187,887,498 shares | 7,517         | 7,493         |
| Additional capital  | 7,161,150     | 6,873,025     |
| Earnings less than distributions  | (1,958,546)   | (1,505,385)   |
| Accumulated other comprehensive income  | 50,613        | 93,267        |
| Total Vornado shareholders' equity  | 6,537,744     | 6,745,426     |
| Noncontrolling interests in consolidated subsidiaries   | 767,566       | 743,956       |
| Total equity  | 7,305,310     | 7,489,382     |
|   | \$ 19,585,907 | \$ 21,248,320 |

See notes to consolidated financial statements (unaudited).

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

(Amounts in thousands, except per share amounts)

|  | <b>For the Three Months Ended</b> |                  | <b>For the Six Months Ended</b> |                   |
|--|-----------------------------------|------------------|---------------------------------|-------------------|
|  | <b>June 30,</b>                   |                  | <b>June 30,</b>                 |                   |
|  | <b>2015</b>                       | <b>2014</b>      | <b>2015</b>                     | <b>2014</b>       |
| <b>REVENUES:</b>   |                                   |                  |                                 |                   |
| Property rentals   | \$ 514,843                        | \$ 478,490       | \$ 1,015,117                    | \$ 945,630        |
| Tenant expense reimbursements                                      | 62,215                            | 55,110           | 129,136                         | 114,411           |
| Fee and other income   | 39,230                            | 40,811           | 78,837                          | 76,751            |
| Total revenues   | 616,288                           | 574,411          | 1,223,090                       | 1,136,792         |
| <b>EXPENSES:</b>   |                                   |                  |                                 |                   |
| Operating  | 242,690                           | 230,398          | 497,183                         | 466,959           |
| Depreciation and amortization                                      | 136,957                           | 113,200          | 261,079                         | 244,992           |
| General and administrative   | 39,189                            | 40,478           | 97,681                          | 87,980            |
| Acquisition and transaction related costs                          | 4,061                             | 1,067            | 6,042                           | 2,352             |
| Total expenses   | 422,897                           | 385,143          | 861,985                         | 802,283           |
| Operating income   | 193,391                           | 189,268          | 361,105                         | 334,509           |
| Loss from partially owned entities                                 | (5,231)                           | (53,742)         | (7,636)                         | (51,763)          |
| Income from real estate fund investments                           | 26,368                            | 100,110          | 50,457                          | 118,258           |
| Interest and other investment income, net                          | 5,666                             | 9,396            | 16,458                          | 21,246            |
| Interest and debt expense  | (92,092)                          | (103,913)        | (183,766)                       | (200,225)         |
| Net gain on disposition of wholly owned and partially owned assets | -                                 | 905              | 1,860                           | 10,540            |
| Income before income taxes   | 128,102                           | 142,024          | 238,478                         | 232,565           |
| Income tax benefit (expense)                                       | 88,072                            | (3,280)          | 87,101                          | (4,131)           |
| Income from continuing operations                                  | 216,174                           | 138,744          | 325,579                         | 228,434           |
| (Loss) income from discontinued operations                         | (774)                             | 26,943           | 15,067                          | 35,409            |
| Net income   | 215,400                           | 165,687          | 340,646                         | 263,843           |
| Less net income attributable to noncontrolling interests in:       |                                   |                  |                                 |                   |
| Consolidated subsidiaries  | (19,186)                          | (63,975)         | (35,068)                        | (75,554)          |
| Operating Partnership  | (10,198)                          | (4,704)          | (15,485)                        | (8,564)           |
| Net income attributable to Vornado                                 | 186,016                           | 97,008           | 290,093                         | 179,725           |
| Preferred share dividends  | (20,365)                          | (20,366)         | (39,849)                        | (40,734)          |
| <b>NET INCOME attributable to common shareholders</b>              | <b>\$ 165,651</b>                 | <b>\$ 76,642</b> | <b>\$ 250,244</b>               | <b>\$ 138,991</b> |
| <b>INCOME PER COMMON SHARE - BASIC:</b>                            |                                   |                  |                                 |                   |
| Income from continuing operations, net                             | \$ 0.88                           | \$ 0.27          | \$ 1.25                         | \$ 0.56           |
| Income from discontinued operations, net                           | -                                 | 0.14             | 0.08                            | 0.18              |
| Net income per common share  | \$ 0.88                           | \$ 0.41          | \$ 1.33                         | \$ 0.74           |
|  | 188,365                           | 187,527          | 188,183                         | 187,418           |

Weighted average shares  
outstanding

**INCOME (LOSS) PER COMMON  
SHARE - DILUTED:**

|   |         |         |         |         |
|---|---------|---------|---------|---------|
| Income from continuing operations, net          | \$ 0.88 | \$ 0.27 | \$ 1.25 | \$ 0.56 |
| (Loss) income from discontinued operations, net | (0.01)  | 0.14    | 0.07    | 0.18    |
| Net income per common share                     | \$ 0.87 | \$ 0.41 | \$ 1.32 | \$ 0.74 |
| Weighted average shares outstanding             | 189,600 | 188,617 | 189,775 | 188,431 |
| <b>DIVIDENDS PER COMMON SHARE</b>               | \$ 0.63 | \$ 0.73 | \$ 1.26 | \$ 1.46 |

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<br/>June 30,</b> |             | <b>For the Six Months Ended<br/>June 30,</b> |             |
|--|--|-------------|--|-------------|
|  | <b>2015</b>                                    | <b>2014</b> | <b>2015</b>                                  | <b>2014</b> |
| Net income   | \$ 215,400                                     | \$ 165,687  | \$ 340,646                                   | \$ 263,843  |
| Other comprehensive income (loss):                                       |  |             |  |             |
| Change in unrealized net (loss) gain on<br>available-for-sale securities | (25,000)                                       | 1,878       | (46,332)                                     | 15,003      |
| Pro rata share of other comprehensive<br>(loss) income of                |  |             |  |             |
| nonconsolidated subsidiaries   | (1,191)  | 14,163      | (1,034)                                      | 5,877       |
| Change in value of interest rate swap<br>and other                       | 2,848  | (547)       | 2,077  | 1,064       |
| Comprehensive income   | 192,057  | 181,181     | 295,357                                      | 285,787     |
| Less comprehensive income attributable to<br>noncontrolling interests    | (28,037)                                       | (69,578)    | (47,918)                                     | (85,378)    |
| Comprehensive income attributable to<br>Vornado                          | \$ 164,020                                     | \$ 111,603  | \$ 247,439                                   | \$ 200,409  |

See notes to consolidated financial statements (unaudited).

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

(Amounts in  
thousands)

|  | <b>Preferred Shares</b> |               | <b>Common Shares</b> |               | <b>Additional</b> | <b>Earnings</b>      | <b>Other</b>         | <b>Non-</b>         |               |
|--|-------------------------|---------------|----------------------|---------------|-------------------|----------------------|----------------------|---------------------|---------------|
|  | <b>Shares</b>           | <b>Amount</b> | <b>Shares</b>        | <b>Amount</b> | <b>Capital</b>    | <b>Less Than</b>     | <b>Comprehensive</b> | <b>controlling</b>  | <b>Total</b>  |
|  |                         |               |                      |               |                   | <b>Distributions</b> | <b>Income</b>        | <b>Interests</b>    | <b>Equity</b> |
|  |                         |               |                      |               |                   |                      | <b>(Loss)</b>        | <b>in</b>           |               |
|  |                         |               |                      |               |                   |                      |                      | <b>Consolidated</b> |               |
|  |                         |               |                      |               |                   |                      |                      | <b>Subsidiaries</b> |               |
| <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   | -                       | -             | 7                    | -             | 701               | -                    | -                    | -                   | 701           |

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|   |        |             |         |         |             |               |           |           |             |         |
|---|--------|-------------|---------|---------|-------------|---------------|-----------|-----------|-------------|---------|
| reinvestment<br>plan  |        |             |         |         |             |               |           |           |             |         |
| Contributions:  |        |             |         |         |             |               |           |           |             |         |
| Real estate<br>fund<br>investments  | -      | -           | -       | -       | -           | -             | -         | 51,725    | 51,725      |         |
| Distributions:  |        |             |         |         |             |               |           |           |             |         |
| Real estate<br>fund<br>investments  | -      | -           | -       | -       | -           | -             | -         | (62,495)  | (62,495)    |         |
| Other   | -      | -           | -       | -       | -           | -             | -         | (255)     | (255)       |         |
| Conversion of<br>Series A<br>preferred<br>shares to<br>common<br>shares                   | (1)    | (16)        | 1       | -       | 16          | -             | -         | -         | -           |         |
| Deferred<br>compensation<br>shares<br>and options   | -      | -           | 7       | 1       | 1,653       | (359)         | -         | -         | -           | 1,295   |
| Change in<br>unrealized net<br>loss on<br>available-for-sale<br>securities                | -      | -           | -       | -       | -           | -             | (46,332)  | -         | (46,332)    |         |
| Pro rata share<br>of other<br>comprehensive<br>loss of<br>nonconsolidated<br>subsidiaries | -      | -           | -       | -       | -           | -             | (1,034)   | -         | (1,034)     |         |
| Change in<br>value of<br>interest rate<br>swap  | -      | -           | -       | -       | -           | -             | 2,073     | -         | 2,073       |         |
| Adjustments<br>to carry<br>redeemable<br>Class A units<br>at redemption<br>value          | -      | -           | -       | -       | 229,521     | -             | -         | -         | -           | 229,521 |
| Redeemable<br>noncontrolling<br>interests'<br>share of<br>above<br>adjustments            | -      | -           | -       | -       | -           | -             | 2,635     | -         | 2,635       |         |
| Other   | -      | -           | -       | -       | -           | 955           | 4         | (92)      | 867         |         |
| <b>Balance,</b>   |        |             |         |         |             |               |           |           |             |         |
| <b>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).

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

(Amounts in  
thousands)

|  | <b>Preferred Shares</b> |               | <b>Common Shares</b> |               | <b>Additional</b> | <b>Earnings</b>      | <b>Other</b>         | <b>Non-</b>         |               |
|--|-------------------------|---------------|----------------------|---------------|-------------------|----------------------|----------------------|---------------------|---------------|
|  | <b>Shares</b>           | <b>Amount</b> | <b>Shares</b>        | <b>Amount</b> | <b>Capital</b>    | <b>Less Than</b>     | <b>Comprehensive</b> | <b>controlling</b>  | <b>Total</b>  |
|  |                         |               |                      |               |                   | <b>Distributions</b> | <b>Income</b>        | <b>Interests</b>    | <b>Equity</b> |
|  |                         |               |                      |               |                   |                      | <b>(Loss)</b>        | <b>in</b>           |               |
|  |                         |               |                      |               |                   |                      |                      | <b>Consolidated</b> |               |
| <b>Balance,</b>  |                         |               |                      |               |                   |                      |                      |                     |               |
| <b>December 31,</b>  |                         |               |                      |               |                   |                      |                      |                     |               |
| <b>2013</b>  | 52,683                  | \$1,277,225   | 187,285              | \$7,469       | \$7,143,840       | \$(1,734,839)        | \$71,537             | \$829,512           | \$7,594,744   |
| Net income attributable to Vornado   | -                       | -             | -                    | -             | -                 | 179,725              | -                    | -                   | 179,725       |
| Net income attributable to noncontrolling interests in consolidated subsidiaries | -                       | -             | -                    | -             | -                 | -                    | -                    | 75,554              | 75,554        |
| Dividends on common shares   | -                       | -             | -                    | -             | -                 | (273,694)            | -                    | -                   | (273,694)     |
| Dividends on preferred shares  | -                       | -             | -                    | -             | -                 | (40,734)             | -                    | -                   | (40,734)      |
| Common shares issued:  |                         |               |                      |               |                   |                      |                      |                     |               |
| Upon redemption of Class A units, at redemption value                            | -                       | -             | 199                  | 8             | 19,763            | -                    | -                    | -                   | 19,771        |
| Under employees' share option plan   | -                       | -             | 159                  | 6             | 9,200             | -                    | -                    | -                   | 9,206         |
| Under dividend reinvestment plan   | -                       | -             | 9                    | -             | 919               | -                    | -                    | -                   | 919           |
| Contributions:   | -                       | -             | -                    | -             | -                 | -                    | -                    | 5,297               | 5,297         |

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|   |     |       |   |   |           |       |         |           |           |
|---|-----|-------|---|---|-----------|-------|---------|-----------|-----------|
| Real estate<br>fund<br>investments  |     |       |   |   |           |       |         |           |           |
| Distributions:  |     |       |   |   |           |       |         |           |           |
| Real estate<br>fund<br>investments  | -   | -     | - | - | -         | -     | -       | (132,819) | (132,819) |
| Other   | -   | -     | - | - | -         | -     | -       | (301)     | (301)     |
| Transfer of<br>noncontrolling<br>interest<br>in real estate<br>fund<br>investments          | -   | -     | - | - | -         | -     | -       | (33,028)  | (33,028)  |
| Conversion of<br>Series A<br>preferred<br>shares to<br>common<br>shares                     | (4) | (193) | 6 | - | 193       | -     | -       | -         | -         |
| Deferred<br>compensation<br>shares<br>and options   | -   | -     | 7 | 1 | 3,383     | (340) | -       | -         | 3,044     |
| Change in<br>unrealized net<br>gain<br>on<br>available-for-sale<br>securities               | -   | -     | - | - | -         | -     | 15,003  | -         | 15,003    |
| Pro rata share<br>of other<br>comprehensive<br>income of<br>nonconsolidated<br>subsidiaries | -   | -     | - | - | -         | -     | 5,877   | -         | 5,877     |
| Change in<br>value of<br>interest rate<br>swap  | -   | -     | - | - | -         | -     | 1,065   | -         | 1,065     |
| Adjustments<br>to carry<br>redeemable<br>Class A units<br>at redemption<br>value            | -   | -     | - | - | (227,338) | -     | -       | -         | (227,338) |
| Redeemable<br>noncontrolling<br>interests'<br>share of<br>above                             | -   | -     | - | - | -         | -     | (1,260) | -         | (1,260)   |

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|             |   |     |   |   |       |         |     |     |         |
|-------------|---|-----|---|---|-------|---------|-----|-----|---------|
| adjustments |   |     |   |   |       |         |     |     |         |
| Other       | - | (6) | - | - | (297) | (2,368) | (1) | (5) | (2,677) |

**Balance,**

|                      |        |             |         |         |             |               |          |           |             |
|----------------------|--------|-------------|---------|---------|-------------|---------------|----------|-----------|-------------|
| <b>June 30, 2014</b> | 52,679 | \$1,277,026 | 187,665 | \$7,484 | \$6,949,663 | \$(1,872,250) | \$92,221 | \$744,210 | \$7,198,354 |
|----------------------|--------|-------------|---------|---------|-------------|---------------|----------|-----------|-------------|

See notes to consolidated financial statements (unaudited).

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

(Amounts in thousands)

For the Six Months Ended June 30,

2015

2014

**Cash Flows from Operating Activities:**

|  |            |            |
|--|------------|------------|
| Net income   | \$ 340,646 | \$ 263,843 |
| Adjustments to reconcile net income to net cash provided by operating activities:  |            |            |
| Depreciation and amortization (including amortization of deferred financing costs) | 272,942    | 288,187    |
| Reversal of allowance for deferred tax assets                                      | (90,030)   | -          |
| Return of capital from real estate fund investments                                | 83,443     | 140,920    |
| Straight-lining of rental income   | (64,121)   | (33,413)   |
| Net realized and unrealized gains on real estate fund investments                  | (41,857)   | (111,227)  |
| Distributions of income from partially owned entities                              | 37,821     | 25,784     |
| Net gains on sale of real estate and other   | (32,243)   | -          |
| Amortization of below-market leases, net   | (26,132)   | (22,624)   |
| Other non-cash adjustments   | 26,569     | 20,546     |
| Loss from partially owned entities   | 7,636      | 51,763     |
| Net gain on disposition of wholly owned and partially owned assets                 | (1,860)    | (10,540)   |
| Impairment losses  | 256        | 20,842     |
| Defeasance cost in connection with the refinancing of mortgage notes payable       | -          | 5,589      |
| Changes in operating assets and liabilities:                                       |            |            |
| Real estate fund investments   | (95,000)   | (2,666)    |
| Tenant and other receivables, net  | (5,051)    | (2,355)    |
| Prepaid assets   | (138,473)  | (138,884)  |
| Other assets   | (46,858)   | (43,842)   |
| Accounts payable and accrued expenses  | (26,440)   | 2,157      |
| Other liabilities  | (16,632)   | (6,437)    |
| Net cash provided by operating activities  | 184,616    | 447,643    |
| <b>Cash Flows from Investing Activities:</b>                                       |            |            |
| Acquisitions of real estate and other  | (381,001)  | (8,963)    |
| Proceeds from sales of real estate and related investments                         | 334,725    | 125,037    |
| Development costs and construction in progress                                     | (200,970)  | (214,615)  |
| Additions to real estate   | (137,528)  | (105,116)  |
| Investments in partially owned entities  | (137,465)  | (62,894)   |
| Distributions of capital from partially owned entities                             | 29,666     | 1,791      |
| Restricted cash  | 25,118     | 102,087    |
| Investments in loans receivable  | (23,919)   | -          |
| Proceeds from repayments of mortgage and mezzanine loans receivable and other      | 16,772     | 96,159     |
| Net cash used in investing activities  | (474,602)  | (66,514)   |



See notes to consolidated financial statements (unaudited).

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

(Amounts in thousands)

**For the Six Months Ended June 30,**  
**2015**                      **2014**

**Cash Flows from Financing Activities:**

|   |              |              |
|---|--------------|--------------|
| Proceeds from borrowings  | \$ 1,746,460 | \$ 1,398,285 |
| Repayments of borrowings  | (1,607,574)  | (313,444)    |
| Dividends paid on common shares   | (237,160)    | (273,694)    |
| Cash included in the spin-off of Urban Edge Properties  | (225,000)    | -            |
| Distributions to noncontrolling interests   | (77,447)     | (149,944)    |
| Contributions from noncontrolling interests   | 51,725       | 5,297        |
| Dividends paid on preferred shares  | (39,849)     | (40,737)     |
| Debt issuance costs   | (14,053)     | (29,560)     |
| Proceeds received from exercise of employee share options                                     | 13,683       | 10,125       |
| Repurchase of shares related to stock compensation agreements and/or related tax withholdings | (2,939)      | (637)        |
| Purchase of marketable securities in connection with the defeasance of mortgage notes payable | -            | (198,884)    |
| Net cash (used in) provided by financing activities   | (392,154)    | 406,807      |
| Net (decrease) increase in cash and cash equivalents  | (682,140)    | 787,936      |
| Cash and cash equivalents at beginning of period  | 1,198,477    | 583,290      |
| Cash and cash equivalents at end of period  | \$ 516,337   | \$ 1,371,226 |

**Supplemental Disclosure of Cash Flow Information:**

|   |            |            |
|---|------------|------------|
| Cash payments for interest, excluding capitalized interest of \$17,550 and \$30,182 | \$ 178,461 | \$ 214,239 |
| Cash payments for income taxes  | \$ 6,584   | \$ 6,726   |

**Non-Cash Investing and Financing Activities:**

|  |              |           |
|--|--------------|-----------|
| Non-cash distribution of Urban Edge Properties:                                  |              |           |
| Assets   | \$ 1,722,263 | -         |
| Liabilities  | (1,482,660)  | -         |
| Equity   | (239,603)    | -         |
| Adjustments to carry redeemable Class A units at redemption value                | 229,521      | (227,338) |
| Transfer of interest in real estate to Pennsylvania Real Estate Investment Trust | (145,313)    | -         |
| Write-off of fully depreciated assets  | (81,027)     | (85,037)  |
| Accrued capital expenditures included in accounts payable and accrued expenses   | 70,672       | 111,742   |
| Like-kind exchange of real estate:   |              |           |
| Acquisitions   | 62,355       | -         |
| Dispositions   | (38,822)     | -         |
| Financing assumed in acquisitions  | 62,000       | -         |
| Marketable securities transferred in connection with the defeasance of mortgage  |              |           |

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|   |   |           |
|---|---|-----------|
| notes payable   | - | 198,884   |
| Defeasance of mortgage notes payable  | - | (193,406) |
| Elimination of a mortgage and mezzanine loan asset and liability                        | - | 59,375    |
| Transfer of interest in real estate fund investments to an unconsolidated joint venture | - | (58,564)  |
| Transfer of noncontrolling interest in real estate fund investments                     | - | (33,028)  |

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 June 30, 2015. All references to “we,” “us,” “our,” the “Company” and “Vornado” refer to Vornado Realty Trust and its consolidated subsidiaries, including the Operating Partnership.

On January 15, 2015, we completed the spin-off of substantially all of our retail segment comprised of 79 strip shopping centers, three malls, a warehouse park and \$225,000,000 of cash to Urban Edge Properties (“UE”) (NYSE: UE). As part of this transaction, we retained 5,717,184 UE operating partnership units (5.4% ownership interest). We are providing transition services to UE for an initial period of up to two years, including information technology, human resources, tax and financial reporting. UE is providing us with leasing and property management services for (i) the Monmouth Mall, (ii) certain small retail properties that we plan to sell, and (iii) our affiliate, Alexander’s, Inc. (NYSE: ALX), Rego Park retail assets. Steven Roth, our Chairman and Chief Executive Officer is a member of the Board of Trustees of UE. The spin-off distribution was effected by Vornado distributing one UE common share for every two Vornado common shares. Beginning in the first quarter of 2015, the historical financial results of UE are reflected in our consolidated financial statements as discontinued operations for all periods presented.

**2. Basis of Presentation and Significant Accounting Policies**

***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 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, 2014, 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, 2015 are not necessarily indicative of the operating results for the full year.

Certain prior year balances have been reclassified in order to conform to the current period presentation. Beginning in the three months ended March 31, 2015, the Company classifies signage revenue within "property rentals". For the three and six months ended June 30, 2014, \$8,873,000 and \$18,191,000, respectively, related to signage revenue has been reclassified from "fee and other income" to "property rentals" to conform to the current period presentation.

### ***Significant Accounting Policies***

**Condominium Units Held For Sale:** Pursuant to ASC 605-35-25-88, *Revenue Recognition: Completed Contract Method*, revenue from condominium unit sales is recognized upon closing of the sale, as all conditions for full profit recognition have not been met until that time. We use the relative sales value method to allocate costs to individual condominium units.

We are constructing a residential condominium tower containing 392,000 salable square feet on our 220 Central Park South ("220 CPS") development site. As of June 30, 2015, we had entered into agreements to sell approximately 40% of the project for aggregate sales proceeds of \$1.4 billion. In connection therewith, \$209,902,000 of deposits are held with a third party escrow agent.

**VORNADO REALTY TRUST**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED**

**(UNAUDITED)**

**2. Basis of Presentation and Significant Accounting Policies - continued**

***Significant Accounting Policies - continued***

**Income Taxes:** We operate in a manner intended to enable us to continue to qualify as a REIT under Sections 856-860 of the Internal Revenue Code of 1986, as amended. Under those sections, a REIT which distributes at least 90% of its REIT taxable income as a dividend to its shareholders each year and which meets certain other conditions will not be taxed on that portion of its taxable income which is distributed to its shareholders. We distribute to our shareholders 100% of our taxable income and therefore, no provision for Federal income taxes is required.

We have elected to treat certain consolidated subsidiaries, and may in the future elect to treat newly formed subsidiaries, as taxable REIT subsidiaries pursuant to an amendment to the Internal Revenue Code that became effective January 1, 2001. Taxable REIT subsidiaries may participate in non-real estate related activities and/or perform non-customary services for tenants and are subject to Federal and State income tax at regular corporate tax rates.

At June 30, 2015 and December 31, 2014, our taxable REIT subsidiaries had deferred tax assets of \$95,419,000 and \$94,100,000, respectively, which are included in "other assets" on our consolidated balance sheets. Prior to the quarter ended June 30, 2015, there was a full valuation allowance against our deferred tax assets because we had not determined that it is more-likely-than-not that we would use the net operating loss carryforwards to offset future taxable income. During the second quarter of 2015, we began to enter into agreements to sell residential condominium units at 220 CPS and as of June 30, 2015, we had entered into agreements to sell approximately 40% of the project for aggregate sales proceeds of \$1.4 billion. Based on these agreements, among other factors, we have concluded that it is more-likely-than-not that we will generate sufficient taxable income to realize the deferred tax assets. Accordingly, during the second quarter of 2015, we reversed \$90,030,000 of the allowance for deferred tax assets and recognized an income tax benefit in our consolidated statements of income in the three and six months ended June 30, 2015.

### 3. Recently Issued Accounting Literature

In April 2014, the Financial Accounting Standards Board ("FASB") issued an update ("ASU 2014-08") *Reporting Discontinued Operations and Disclosures of Disposals of Components of an Entity* to ASC Topic 205, *Presentation of Financial Statements* and ASC Topic 360, *Property Plant and Equipment*. Under ASU 2014-08, only disposals that represent a strategic shift that has (or will have) a major effect on the entity's results and operations would qualify as discontinued operations. In addition, ASU 2014-08 expands the disclosure requirements for disposals that meet the definition of a discontinued operation and requires entities to disclose information about disposals of individually significant components that do not meet the definition of discontinued operations. ASU 2014-08 is effective for interim and annual reporting periods in fiscal years that began after December 15, 2014. Upon adoption of this standard on January 1, 2015, individual properties sold in the ordinary course of business are not expected to qualify as discontinued operations. The financial results of UE and certain other retail assets are reflected in our consolidated financial statements as discontinued operations for all periods presented (see Note 8 – *Discontinued Operations* for further details).

In May 2014, the FASB issued an update ("ASU 2014-09") establishing ASC Topic 606, *Revenue from Contracts with Customers*. 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. ASU 2014-09 is effective for interim and annual reporting periods in fiscal years that begin after December 15, 2017. We are currently evaluating the impact of the adoption of ASU 2014-09 on our consolidated financial statements.

**VORNADO REALTY TRUST**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED**

**(UNAUDITED)**

**3. Recently Issued Accounting Literature - continued**

In June 2014, the FASB issued an update ("ASU 2014-12") to ASC Topic 718, *Compensation – Stock Compensation*. 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 begin after December 15, 2015. We are currently evaluating the impact of the adoption of ASU 2014-12 on our consolidated financial statements.

In February 2015, the FASB issued an update ("ASU 2015-02") *Amendments to the Consolidation Analysis* to ASC Topic 810, *Consolidation*. ASU 2015-02 affects reporting entities that are required to evaluate whether they should consolidate certain legal entities. Specifically, the amendments: (i) modify the evaluation of whether limited partnerships and similar legal entities are variable interest entities ("VIEs") or voting interest entities, (ii) eliminate the presumption that a general partner should consolidate a limited partnership, (iii) affect the consolidation analysis of reporting entities that are involved with VIEs, and (iv) provide a scope exception for certain entities. ASU 2015-02 is effective for interim and annual reporting periods beginning after December 15, 2015. We are currently evaluating the impact of the adoption of ASU 2015-02 on our consolidated financial statements.

In April 2015, the FASB issued an update ("ASU 2015-03") *Simplifying the Presentation of Debt Issuance Costs* to ASC Topic 835, *Interest*. ASU 2015-03 requires that debt issuance costs be presented in the balance sheet as a direct deduction from the carrying amount of the debt liability to which they relate, consistent with debt discounts, as opposed to being presented as assets. ASU 2015-03 is effective for interim and annual reporting periods in fiscal years that begin after December 15, 2015. The adoption of this update on January 1, 2016 will not have a material impact on our consolidated financial statements.

**4. Acquisitions**



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On January 20, 2015, we and one of our real estate fund's limited partners co-invested with the Fund to buy out the Fund's joint venture partner's 57% interest in the Crowne Plaza Times Square Hotel (see Note 5 – *Real Estate Fund Investments*).

On March 18, 2015, we acquired the Center Building, a 437,000 square foot office building, located at 33-00 Northern Boulevard in Long Island City, New York, for \$142,000,000, including the assumption of an existing \$62,000,000, 4.43% mortgage maturing in October 2018.

On June 2, 2015, we completed the acquisition of 150 West 34<sup>th</sup> Street, a 78,000 square foot retail property leased to Old Navy through May 2019, and 226,000 square feet of additional zoning air rights, for approximately \$355,000,000. At closing we completed a \$205,000,000 financing of the property (see Note 10 – *Debt*).

**VORNADO REALTY TRUST****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED****(UNAUDITED)****5. Real Estate Fund Investments**

We are the general partner and investment manager of Vornado Capital Partners Real Estate Fund (the “Fund”), which has an eight-year term and a three-year investment period that 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 ASC 946, *Financial Services – Investment Companies* (“ASC 946”) 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.

On January 20, 2015, we and one of the Fund’s limited partners co-invested with the Fund to buy out the Fund’s joint venture partner’s 57% interest in the Crowne Plaza Times Square Hotel (the “Co-Investment”). The purchase price for the 57% interest was approximately \$95,000,000 (our share \$39,000,000) which valued the property at approximately \$480,000,000. The property is encumbered by a \$310,000,000 mortgage loan bearing interest at LIBOR plus 2.80% which matures in December 2018 with a one-year extension option. Our aggregate ownership interest in the property increased to 33% from 11%. The Co-Investment is also accounted for under ASC 946 and is included as a component of “real estate fund investments” on our consolidated balance sheet.

On March 25, 2015, the Fund completed the sale of 520 Broadway in Santa Monica, CA for \$91,650,000. The Fund realized a \$24,705,000 net gain over the holding period.

At June 30, 2015, we had six real estate fund investments with an aggregate fair value of \$565,976,000, or \$193,164,000 in excess of cost, and had remaining unfunded commitments of \$102,324,000, of which our share was \$25,581,000. Below is a summary of income from the Fund and the Co-Investment for the three and six months ended June 30, 2015 and 2014.

(Amounts in thousands)

**For the Three Months Ended**  
**June 30,**  
**2015                      2014**

**For the Six Months Ended**  
**June 30,**  
**2015                      2014**

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|   |           |           |           |           |
|---|-----------|-----------|-----------|-----------|
| Net investment income   | \$ 2,150  | \$ 3,052  | \$ 8,600  | \$ 7,031  |
| Net realized gains on exited investments  | 886       | 75,069    | 25,591    | 75,069    |
| Previously recorded unrealized gains on exited investments                      | -         | (35,365)  | (23,279)  | (22,388)  |
| Net unrealized gains on held investments  | 23,332    | 57,354    | 39,545    | 58,546    |
| Income from real estate fund investments  | 26,368    | 100,110   | 50,457    | 118,258   |
| Less income attributable to noncontrolling interests                            | (15,872)  | (61,780)  | (29,411)  | (72,629)  |
| Income from real estate fund investments attributable to Vornado <sup>(1)</sup> | \$ 10,496 | \$ 38,330 | \$ 21,046 | \$ 45,629 |

(1) Excludes property management, leasing and development fees of \$633 and \$638 for the three months ended June 30, 2015 and 2014, respectively, and \$1,337 and \$1,256 for the six months ended June 30, 2015 and 2014, respectively, which are included as a component of "fee and other income" on our consolidated statements of income.

## 6. Marketable Securities

Below is a summary of our marketable securities portfolio as of June 30, 2015 and December 31, 2014.

| (Amounts in thousands) |            | As of June 30, 2015 |                 |            | As of December 31, 2014 |                 |  |
|------------------------|------------|---------------------|-----------------|------------|-------------------------|-----------------|--|
|                        | Fair Value | GAAP Cost           | Unrealized Gain | Fair Value | GAAP Cost               | Unrealized Gain |  |
| Equity securities:     |            |                     |                 |            |                         |                 |  |
| Lexington Realty Trust | \$ 156,617 | \$ 72,549           | \$ 84,068       | \$ 202,789 | \$ 72,549               | \$ 130,240      |  |
| Other                  | 3,374      | -                   | 3,374           | 3,534      | -                       | 3,534           |  |
|                        | \$ 159,991 | \$ 72,549           | \$ 87,442       | \$ 206,323 | \$ 72,549               | \$ 133,774      |  |

**VORNADO REALTY TRUST****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED****(UNAUDITED)****7. Investments in Partially Owned Entities***Toys “R” Us (“Toys”)*

As of June 30, 2015, we own 32.5% of Toys. We have not guaranteed any of Toys’ obligations and are not committed to provide any support to Toys. Pursuant to ASC 323-10-35-20, we discontinued applying the equity method for our Toys’ investment when the carrying amount was reduced to zero in the third quarter of 2014. We will resume application of the equity method if, during the period the equity method has been suspended, our share of unrecognized net income exceeds our share of unrecognized net losses.

In the first quarter of 2014, we recognized our share of Toys’ fourth quarter net income of \$75,196,000 and a corresponding non-cash impairment loss of the same amount.

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

(Amounts in thousands)

|   |  | <b>Balance as of</b>            |                         |
|---|--|---------------------------------|-------------------------|
|   |  | <b>May 2, 2015</b>              | <b>November 1, 2014</b> |
| <b>Balance Sheet:</b>                   |  |                                 |                         |
| Assets                                  |  | \$ 9,772,000                    | \$ 11,267,000           |
| Liabilities                             |  | 8,965,000                       | 10,377,000              |
| Noncontrolling interests                |  | 85,000                          | 82,000                  |
| Toys “R” Us, Inc. equity <sup>(1)</sup> |  | 722,000                         | 808,000                 |
|   |  | <b>For the Six Months Ended</b> |                         |
|   |  | <b>May 2, 2015</b>              | <b>May 3, 2014</b>      |
| <b>Income Statement:</b>                |  |                                 |                         |
| Total revenues                          | \$ 2,325,000   | \$ 2,479,000                    | \$ 7,308,000            |
| Net (loss) income                       |  |                                 | \$ 7,746,000            |
| attributable to Toys                    | (129,700)  | (194,000)                       | 64,000                  |
| (1)                                     | At June 30, 2015, the carrying amount of our investment in Toys is less than our share of Toys' equity by approximately \$234,553. This basis difference results primarily from non-cash impairment losses aggregating |                                 |                         |

\$355,953 that we have recognized through June 30, 2015. We have allocated the basis difference primarily to Toys' real estate.

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

As of June 30, 2015, 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 June 30, 2015, the market value ("fair value" pursuant to ASC 820, *Fair Value Measurements and Disclosures*) of our investment in Alexander's, based on Alexander's June 30, 2015 closing share price of \$410.00, was \$678,168,000, or \$547,529,000 in excess of the carrying amount on our consolidated balance sheet. As of June 30, 2015, the carrying amount of our investment in Alexander's exceeds our share of the equity in the net assets of Alexander's by approximately \$40,690,000. 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.

**VORNADO REALTY TRUST**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED**  
**(UNAUDITED)**

**7. Investments in Partially Owned Entities - continued**

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

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

(Amounts in thousands)

|  |  | <b>Balance as of</b> |                          |
|--|--|----------------------|--------------------------|
|  |  | <b>June 30, 2015</b> | <b>December 31, 2014</b> |
| <b>Balance Sheet:</b>                  |  |                      |                          |
| Assets                                 |  | \$ 1,418,000         | \$ 1,423,000             |
| Liabilities                            |  | 1,074,000            | 1,075,000                |
| Stockholders' equity                   |  | 344,000              | 348,000                  |
|  |  | <b>Balance as of</b> |                          |
|  |  | <b>June 30, 2015</b> | <b>December 31, 2014</b> |
| <b>Income Statement:</b>               |  |                      |                          |
| Total revenues                         |  | \$ 103,000           | \$ 99,000                |
| Net income attributable to Alexander's |  | 35,000               | 32,000                   |

*Urban Edge Properties ("UE") (NYSE: UE)*

As part of our spin-off of substantially all of our retail segment to UE on January 15, 2015 (see Note 1 – *Organization*), we retained 5,717,184 UE operating partnership units, representing a 5.4% ownership interest in UE. We account for our investment in UE under the equity method and will recognize our share of UE's earnings on a one-quarter lag basis. We are providing transition services to UE for an initial period of up to two years, including information technology, human resources, tax and financial reporting. UE is providing us with leasing and property management

services for (i) the Monmouth Mall, (ii) certain small retail properties that we plan to sell, and (iii) our affiliate, Alexander's, Rego Park retail assets.

*Pennsylvania Real Estate Investment Trust ("PREIT") (NYSE: PEI)*

On March 31, 2015, we transferred the redeveloped Springfield Town Center, a 1,350,000 square foot mall located in Springfield, Fairfax County, Virginia, to PREIT Associates, L.P., which is the operating partnership of PREIT, in exchange for \$485,313,000; comprised of \$340,000,000 of cash and 6,250,000 PREIT operating partnership units (valued at \$145,313,000 or \$23.25 per PREIT unit) (See Note 8 – *Discontinued Operations*). \$19,000,000 of tenant improvements and allowances was credited to PREIT as a closing adjustment. As a result of this transaction, we own an 8.1% interest in PREIT. We account for our investment in PREIT under the equity method and will recognize our share of PREIT's earnings on a one-quarter lag basis.

*510 West 22<sup>nd</sup> Street*

On June 24, 2015, we entered into a joint venture, in which we own a 55% interest, to develop a 173,000 square foot Class-A office building, located along the western edge of the High Line at 510 West 22nd Street. The development cost of this project is approximately \$225,000,000. The development is expected to commence during the third quarter of 2015 and be completed in 2017.

## VORNADO REALTY TRUST

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

(UNAUDITED)

## 7. Investments in Partially Owned Entities – continued

Below are schedules summarizing our investments in, and (loss) income from, partially owned entities.

| (Amounts in thousands) |   | Percentage<br>Ownership at | Balance as of |                      |
|------------------------|---|----------------------------|---------------|----------------------|
|                        |   | June 30, 2015              | June 30, 2015 | December 31,<br>2014 |
| <b>Investments:</b>    |   |                            |               |                      |
|                        | Partially owned office buildings  |                            |               |                      |
| (1)                    |   | Various                    | \$ 859,544    | \$ 760,749           |
|                        | PREIT Associates  | 8.1%                       | 143,031       | -                    |
|                        | Alexander's   | 32.4%                      | 130,639       | 131,616              |
|                        | India real estate ventures  | 4.1%-36.5%                 | 50,542        | 76,752               |
|                        | UE  | 5.4%                       | 25,610        | -                    |
|                        | Toys  | 32.5%                      | -             | -                    |
|                        | Other investments (2)   | Various                    | 267,724       | 277,379              |
|                        |   |                            | \$ 1,477,090  | \$ 1,246,496         |
| (1)                    | Includes interests in 280 Park Avenue, 650 Madison Avenue, One Park Avenue, 666 Fifth Avenue (Office), 330 Madison Avenue, 510 West 22nd Street and others. |                            |               |                      |
| (2)                    | Includes interests in Independence Plaza, Monmouth Mall, 85 Tenth Avenue, Fashion Center Mall, 50-70 West 93rd Street and others.                           |                            |               |                      |

| (Amounts in thousands)                   |         | For the Three Months Ended |               | For the Six Months Ended |               |
|--|---------|----------------------------|---------------|--------------------------|---------------|
|  |         | June 30, 2015              | June 30, 2014 | June 30, 2015            | June 30, 2014 |
| <b>Our Share of Net (Loss) Income:</b>   |         |                            |               |                          |               |
| Alexander's:                             |         |                            |               |                          |               |
| Equity in net income                     | 32.4%   | \$ 5,447                   | \$ 5,272      | \$ 11,041                | \$ 10,031     |
| Management, leasing and development fees |         | 1,876                      | 1,622         | 3,973                    | 3,248         |
|  |         | 7,323                      | 6,894         | 15,014                   | 13,279        |
| Partially owned office buildings (1)     | Various | (3,238)                    | 990           | (12,534)                 | (1,405)       |
| UE:                                      |         |                            |               |                          |               |
| Equity in net income                     | 5.4%    | 404                        | -             | 404                      | -             |



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|   |            |            |             |            |             |
|---|------------|------------|-------------|------------|-------------|
| Management, leasing and development fees  |            | 500        | -           | 1,084      | -           |
|   |            | 904        | -           | 1,488      | -           |
| Toys:                                     |            |            |             |            |             |
| Equity in net (loss) income               | 32.5%      | -          | (59,530)    | -          | 15,666      |
| Non-cash impairment losses                |            | -          | -           | -          | (75,196)    |
| Management fees                           |            | 500        | 1,939       | 1,954      | 3,786       |
|   |            | 500        | (57,591)    | 1,954      | (55,744)    |
|   | 4.1%-36.5% |            |             |            |             |
| India real estate ventures <sup>(2)</sup> |            | (16,567)   | (2,041)     | (16,676)   | (2,178)     |
| Other investments <sup>(3)</sup>          | Various    | 5,847      | (1,994)     | 3,118      | (5,715)     |
|   |            | \$ (5,231) | \$ (53,742) | \$ (7,636) | \$ (51,763) |

- (1) Includes interests in 280 Park Avenue, 650 Madison Avenue, One Park Avenue, 666 Fifth Avenue (Office), 330 Madison Avenue, 510 West 22nd Street and others.
- (2) 2015 includes \$14,806 for our share of non-cash impairment loss.
- (3) Includes interests in Independence Plaza, Monmouth Mall, 85 Tenth Avenue, Fashion Center Mall, 50-70 West 93rd Street and others.

**VORNADO REALTY TRUST**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED**

**(UNAUDITED)**

**8. Discontinued Operations**

On January 15, 2015, we completed the spin-off of substantially all of our retail segment comprised of 79 strip shopping centers, three malls, a warehouse park and \$225,000,000 of cash to UE (NYSE: UE) (see Note 1 – *Organization*).

On March 13, 2015, we sold our Geary Street, CA lease for \$34,189,000, which resulted in a net gain of \$21,376,000.

On March 31, 2015, we transferred the redeveloped Springfield Town Center, a 1,350,000 square foot mall located in Springfield, Fairfax County, Virginia, to PREIT (see Note 7 – *Investments in Partially Owned Entities*). The financial statement gain was \$7,823,000, of which \$7,192,000 was recognized in the first quarter of 2015 and the remaining \$631,000 was deferred based on our ownership interest in PREIT. On March 31, 2018, we will be entitled to additional consideration of 50% of the increase in the value of Springfield Town Center, if any, over \$465,000,000, calculated utilizing a 5.5% capitalization rate. In the first quarter of 2014, we recorded a non-cash impairment loss of \$20,000,000 on Springfield Town Center which is included in “(loss) income from discontinued operations” on our consolidated statements of income.

During the first quarter of 2015, we sold five residual retail properties, in separate transactions, for an aggregate of \$10,731,000, which resulted in net gains of \$3,675,000.

We have reclassified the revenues and expenses of the properties discussed above to “(loss) 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 consolidated financial statements. The net gains resulting from the sale of these properties are included in “(loss) income from discontinued operations” on our consolidated statements of income. The tables below set forth the assets and liabilities related to discontinued operations at June 30, 2015 and December 31, 2014 and their combined results of operations and cash flows for the six months ended June 30, 2015 and 2014.

(Amounts in thousands)

|  | Balance as of |                   |
|--|---------------|-------------------|
|  | June 30, 2015 | December 31, 2014 |
| <b>Assets related to discontinued operations:</b>      |               |                   |
| Real estate, net                                       | \$ 27,205     | \$ 2,028,677      |
| Other assets   | 7,686         | 209,797           |
|  | \$ 34,891     | \$ 2,238,474      |
| <b>Liabilities related to discontinued operations:</b> |               |                   |
| Mortgages payable                                      | \$ -          | \$ 1,288,535      |
| Other liabilities (primarily deferred revenue in 2014) | 12,611        | 222,827           |
|  | \$ 12,611     | \$ 1,511,362      |

|   | For the Three Months Ended June 30, |           | For the Six Months Ended June 30, |            |
|---|-------------------------------------|-----------|-----------------------------------|------------|
| (Amounts in thousands)                                | 2015                                | 2014      | 2015                              | 2014       |
| <b>(Loss) income from discontinued operations:</b>    |                                     |           |                                   |            |
| Total revenues  | \$ 1,573                            | \$ 96,157 | \$ 21,531                         | \$ 202,720 |
| Total expenses  | 2,020                               | 65,879    | 15,393                            | 141,904    |
|   | (447)                               | 30,278    | 6,138                             | 60,816     |
| Transaction related costs                             | (327)                               | (3,016)   | (22,972)                          | (3,515)    |
| Net gain on sale of Geary Street, CA lease            | -                                   | -         | 21,376                            | -          |
| Net gains on sale of real estate                      | -                                   | -         | 10,867                            | -          |
| Impairment losses                                     | -                                   | -         | (256)                             | (20,842)   |
| Pretax (loss) income from discontinued operations     | (774)                               | 27,262    | 15,153                            | 36,459     |
| Income tax expense                                    | -                                   | (319)     | (86)                              | (1,050)    |
| (Loss) income from discontinued operations            | \$ (774)                            | \$ 26,943 | \$ 15,067                         | \$ 35,409  |
| <b>Cash flows related to discontinued operations:</b> |                                     |           |                                   |            |
| Cash flows from operating activities                  |                                     |           | \$ (35,738)                       | \$ 55,065  |
| Cash flows from investing activities                  |                                     |           | 310,069                           | (59,141)   |

**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 June 30, 2015 and December 31, 2014.

| (Amounts in thousands)   |    | <b>Balance as of</b> |                          |
|--|----|----------------------|--------------------------|
|  |    | <b>June 30, 2015</b> | <b>December 31, 2014</b> |
| <b>Identified intangible assets:</b>                                     |    |                      |                          |
| Gross amount   | \$ | 453,590              | \$ 424,976               |
| Accumulated amortization   |    | (207,744)            | (199,821)                |
| Net  | \$ | 245,846              | \$ 225,155               |
| <b>Identified intangible liabilities (included in deferred revenue):</b> |    |                      |                          |
| Gross amount   | \$ | 668,314              | \$ 657,976               |
| Accumulated amortization   |    | (306,956)            | (329,775)                |
| Net  | \$ | 361,358              | \$ 328,201               |

Amortization of acquired below-market leases, net of acquired above-market leases, resulted in an increase to rental income of \$13,378,000 and \$8,522,000 for the three months ended June 30, 2015 and 2014, respectively, and \$25,828,000 and \$18,234,000 for the six months ended June 30, 2015 and 2014, 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, 2016 is as follows:

| (Amounts in thousands) |           |
|------------------------|-----------|
| 2016                   | \$ 51,912 |
| 2017                   | 49,937    |
| 2018                   | 48,654    |
| 2019                   | 29,912    |
| 2020                   | 21,681    |

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Amortization of all other identified intangible assets (a component of depreciation and amortization expense) was \$5,309,000 and \$6,940,000 for the three months ended June 30, 2015 and 2014, respectively, and \$11,494,000 and \$15,831,000 for the six months ended June 30, 2015 and 2014, 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, 2016 is as follows:

| (Amounts in thousands) |    |        |
|------------------------|----|--------|
| 2016                   | \$ | 29,217 |
| 2017                   |    | 24,385 |
| 2018                   |    | 20,067 |
| 2019                   |    | 14,246 |
| 2020                   |    | 10,703 |

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 \$457,000 for the three months ended June 30, 2015 and 2014 and \$916,000 for the six months ended June 30, 2015 and 2014. Estimated annual amortization of these below-market leases, net of above-market leases for each of the five succeeding years commencing January 1, 2016 is as follows:

| (Amounts in thousands) |    |       |
|------------------------|----|-------|
| 2016                   | \$ | 1,832 |
| 2017                   |    | 1,832 |
| 2018                   |    | 1,832 |
| 2019                   |    | 1,832 |
| 2020                   |    | 1,832 |

**VORNADO REALTY TRUST****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED****(UNAUDITED)****10. Debt**

On January 1, 2015, we redeemed all of the \$500,000,000 principal amount of our outstanding 4.25% senior unsecured notes, which were scheduled to mature on April 1, 2015, at a redemption price of 100% of the principal amount plus accrued interest through December 31, 2014.

On April 1, 2015, we completed a \$308,000,000 refinancing of RiverHouse Apartments, a three building, 1,670 unit rental complex located in Arlington, VA. The loan is interest-only at LIBOR plus 1.28% and matures in 2025. We realized net proceeds of approximately \$43,000,000. The property was previously encumbered by a 5.43%, \$195,000,000 mortgage maturing in April 2015 and a \$64,000,000 mortgage at LIBOR plus 1.53% maturing in 2018.

On June 2, 2015, we completed a \$205,000,000 financing in connection with the acquisition of 150 West 34<sup>th</sup> Street (see Note 4 – *Acquisitions*). The loan bears interest at LIBOR plus 2.25% and matures in 2018 with two one-year extension options.

The following is a summary of our debt:

| (Amounts in thousands)         | Interest Rate at<br>June 30, 2015 | Balance at<br>June 30, 2015 | Balance at<br>December 31, 2014 |
|--------------------------------|-----------------------------------|-----------------------------|---------------------------------|
| <b>Mortgages Payable:</b>      |                                   |                             |                                 |
| Fixed rate                     | 4.43%                             | \$ 6,349,878                | \$ 6,499,396                    |
| Variable rate                  | 2.16%                             | 2,212,436                   | 1,763,769                       |
|                                | 3.85%                             | \$ 8,562,314                | \$ 8,263,165                    |
| <b>Unsecured Debt:</b>         |                                   |                             |                                 |
| Senior unsecured notes         | 3.68%                             | \$ 847,463                  | \$ 1,347,159                    |
| Revolving credit facility debt | 1.24%                             | 400,000                     | -                               |
|                                | 2.90%                             | \$ 1,247,463                | \$ 1,347,159                    |



**VORNADO REALTY TRUST****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED****(UNAUDITED)****11. Redeemable Noncontrolling Interests**

Redeemable noncontrolling interests on our consolidated balance sheets are comprised primarily of Class A Operating Partnership units that are held by third parties and 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, 2013                                       | \$ 1,003,620 |
| Net income   | 8,564        |
| Other comprehensive income   | 1,260        |
| Distributions  | (16,824)     |
| Redemption of Class A units for common shares, at redemption value | (19,771)     |
| Adjustments to carry redeemable Class A units at redemption value  | 227,338      |
| Other, net   | 16,771       |
| Balance at June 30, 2014   | \$ 1,220,958 |
| Balance at December 31, 2014                                       | \$ 1,337,780 |
| Net income   | 15,485       |
| Other comprehensive loss   | (2,635)      |
| Distributions  | (14,734)     |
| Redemption of Class A units for common shares, at redemption value | (43,278)     |
| Adjustments to carry redeemable Class A units at redemption value  | (229,521)    |
| Issuance of Series D-17 Preferred Units                            | 4,427        |
| Other, net   | 25,370       |
| Balance at June 30, 2015   | \$ 1,092,894 |

As of June 30, 2015 and December 31, 2014, the aggregate redemption value of redeemable Class A units was \$1,087,466,000 and \$1,336,780,000, 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 as of June 30, 2015 and December 31, 2014. Changes in the value from period to period, if any, are charged to “interest and debt expense” on our consolidated statements of income.

## VORNADO REALTY TRUST

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

(UNAUDITED)

## 12. Accumulated Other Comprehensive Income (“AOCI”)

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

(Amounts in thousands)

|   | Total     | Securities<br>available-<br>for-sale | Pro rata share of<br>nonconsolidated<br>subsidiaries' OCI | Interest<br>rate<br>swap | Other      |
|---|-----------|--------------------------------------|---|--------------------------|------------|
| <b>For the Three Months Ended<br/>June 30, 2015</b> |           |                                      |   |                          |            |
| Balance as of March 31, 2015                        | \$ 72,609 | \$ 112,442                           | \$ (8,835)  | \$ (26,579)              | \$ (4,419) |
| OCI before<br>reclassifications                     | (21,996)  | (25,000)                             | (1,191)   | 2,849                    | 1,346      |
| Amounts reclassified from<br>AOCI                   | -         | -                                    | -   | -                        | -          |
| Net current period OCI                              | (21,996)  | (25,000)                             | (1,191)   | 2,849                    | 1,346      |
| Balance as of June 30, 2015                         | \$ 50,613 | \$ 87,442                            | \$ (10,026)   | \$ (23,730)              | \$ (3,073) |
| <b>For the Three Months Ended<br/>June 30, 2014</b> |           |                                      |   |                          |            |
| Balance as of March 31, 2014                        | \$ 77,626 | \$ 132,434                           | \$ (19,787)   | \$ (30,272)              | \$ (4,749) |
| OCI before<br>reclassifications                     | 14,595    | 1,878                                | 14,163  | (545)                    | (901)      |
| Amounts reclassified from<br>AOCI                   | -         | -                                    | -   | -                        | -          |
| Net current period OCI                              | 14,595    | 1,878                                | 14,163  | (545)                    | (901)      |
| Balance as of June 30, 2014                         | \$ 92,221 | \$ 134,312                           | \$ (5,624)  | \$ (30,817)              | \$ (5,650) |
| <b>For the Six Months Ended June<br/>30, 2015</b>   |           |                                      |   |                          |            |
| Balance as of December 31, 2014                     | \$ 93,267 | \$ 133,774                           | \$ (8,992)  | \$ (25,803)              | \$ (5,712) |
| OCI before<br>reclassifications                     | (42,654)  | (46,332)                             | (1,034)   | 2,073                    | 2,639      |
| Amounts reclassified from<br>AOCI                   | -         | -                                    | -   | -                        | -          |
| Net current period OCI                              | (42,654)  | (46,332)                             | (1,034)   | 2,073                    | 2,639      |
| Balance as of June 30, 2015                         | \$ 50,613 | \$ 87,442                            | \$ (10,026)   | \$ (23,730)              | \$ (3,073) |

**For the Six Months Ended June  
30, 2014**

|                                 |           |            |             |             |            |
|---------------------------------|-----------|------------|-------------|-------------|------------|
| Balance as of December 31, 2013 | \$ 71,537 | \$ 119,309 | \$ (11,501) | \$ (31,882) | \$ (4,389) |
| OCI before reclassifications    | 20,684    | 15,003     | 5,877       | 1,065       | (1,261)    |
| Amounts reclassified from AOCI  | -         | -          | -           | -           | -          |
| Net current period OCI          | 20,684    | 15,003     | 5,877       | 1,065       | (1,261)    |
| Balance as of June 30, 2014     | \$ 92,221 | \$ 134,312 | \$ (5,624)  | \$ (30,817) | \$ (5,650) |

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**VORNADO REALTY TRUST**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED**

**(UNAUDITED)**

**13. Variable Interest Entities (“VIEs”)**

At June 30, 2015 and December 31, 2014, we have unconsolidated VIEs comprised of our investments in the entities that own One Park Avenue, Independence Plaza, the Warner Building and Suffolk Downs. 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. As of June 30, 2015 and December 31, 2014, the net carrying amounts of our investment in these entities were \$305,865,000 and \$286,783,000, respectively, and our maximum exposure to loss in these entities is limited to our investment. We did not have any consolidated VIEs as of June 30, 2015 and December 31, 2014.

**14. Fair Value Measurements**

ASC 820, *Fair Value Measurements 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 on our consolidated balance sheets 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) mandatorily redeemable instruments (Series G-1 through G-4 convertible preferred units and Series D-13 cumulative redeemable preferred units), and (v) an interest rate swap. The tables below aggregate the fair values of these financial assets and liabilities by their levels in the fair value hierarchy at June 30, 2015 and December 31, 2014, respectively.

(Amounts in thousands)

|   | <b>As of June 30, 2015</b> |                |                |                |
|---|----------------------------|----------------|----------------|----------------|
|   | <b>Total</b>               | <b>Level 1</b> | <b>Level 2</b> | <b>Level 3</b> |
| Marketable securities   | \$ 159,991                 | \$ 159,991     | \$ -           | \$ -           |
| Real estate fund investments (75% of which is attributable to noncontrolling interests) | 565,976                    | -              | -              | 565,976        |
| Deferred compensation plan assets (included in other assets)                            | 118,932                    | 51,264         | -              | 67,668         |
| Total assets  | \$ 844,899                 | \$ 211,255     | \$ -           | \$ 633,644     |
| Mandatorily redeemable instruments (included in other liabilities)                      | \$ 55,097                  | \$ 55,097      | \$ -           | \$ -           |
| Interest rate swap (included in other liabilities)                                      | 23,747                     | -              | 23,747         | -              |
| Total liabilities   | \$ 78,844                  | \$ 55,097      | \$ 23,747      | \$ -           |

(Amounts in thousands)

|   | <b>As of December 31, 2014</b> |                |                |                |
|---|--------------------------------|----------------|----------------|----------------|
|   | <b>Total</b>                   | <b>Level 1</b> | <b>Level 2</b> | <b>Level 3</b> |
| Marketable securities   | \$ 206,323                     | \$ 206,323     | \$ -           | \$ -           |
| Real estate fund investments (75% of which is attributable to noncontrolling interests) | 513,973                        | -              | -              | 513,973        |
| Deferred compensation plan assets (included in other assets)                            | 117,284                        | 53,969         | -              | 63,315         |
| Total assets  | \$ 837,580                     | \$ 260,292     | \$ -           | \$ 577,288     |
| Mandatorily redeemable instruments (included in other liabilities)                      | \$ 55,097                      | \$ 55,097      | \$ -           | \$ -           |
| Interest rate swap (included in other liabilities)                                      | 25,797                         | -              | 25,797         | -              |
| Total liabilities   | \$ 80,894                      | \$ 55,097      | \$ 25,797      | \$ -           |

**VORNADO REALTY TRUST**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED**

**(UNAUDITED)**

**14. Fair Value Measurements – continued**

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

Real Estate Fund Investments

At June 30, 2015, we had six real estate fund investments with an aggregate fair value of \$565,976,000, or \$193,164,000 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 0.2 to 5.5 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 real estate fund investments at June 30, 2015 and December 31, 2014.

| Unobservable Quantitative<br>Input | Range          | Weighted Average<br>(based on fair value of<br>investments) |                  |                      |
|------------------------------------|----------------|---|------------------|----------------------|
|                                    |                | December 31,<br>2014  | June 30,<br>2015 | December 31,<br>2014 |
| Discount rates                     | 12.0% to 14.5% | 12.0% to 17.5%  | 13.4%            | 13.7%                |
| Terminal capitalization rates      | 4.8% to 6.5%   | 4.7% to 6.5%  | 5.5%             | 5.3%                 |

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 real estate fund investments that are classified as Level 3, for the three and six months ended June 30, 2015 and 2014.

| (Amounts in thousands)          | For the Three Months Ended June 30, |            | For the Six Months Ended June 30, |            |
|---------------------------------|-------------------------------------|------------|-----------------------------------|------------|
|                                 | 2015                                | 2014       | 2015                              | 2014       |
| Beginning balance               | \$ 554,426                          | \$ 682,002 | \$ 513,973                        | \$ 667,710 |
| Purchases                       | -                                   | 2,544      | 95,000                            | 2,667      |
| Dispositions /<br>Distributions | (11,235)                            | (232,513)  | (83,421)                          | (232,513)  |
| Net unrealized gains            | 23,332                              | 57,354     | 39,545                            | 58,546     |
| Net realized gains              | 886                                 | 39,704     | 2,312                             | 52,681     |
| Other, net                      | (1,433)                             | -          | (1,433)                           | -          |
| Ending balance                  | \$ 565,976                          | \$ 549,091 | \$ 565,976                        | \$ 549,091 |

**VORNADO REALTY TRUST****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED****(UNAUDITED)****14. 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 six months ended June 30, 2015 and 2014.

| (Amounts in thousands)              | <b>For the Three Months Ended June 30,</b> |             | <b>For the Six Months Ended June 30,</b> |             |
|-------------------------------------|--|-------------|--|-------------|
|                                     | <b>2015</b>                                | <b>2014</b> | <b>2015</b>                              | <b>2014</b> |
| Beginning balance                   | \$ 64,836                                  | \$ 67,627   | \$ 63,315                                | \$ 68,782   |
| Purchases                           | 5,607                                      | 7,915       | 6,231                                    | 9,559       |
| Sales                               | (4,655)                                    | (11,255)    | (5,093)                                  | (16,379)    |
| Realized and unrealized gain (loss) | 1,387                                      | (198)       | 2,722                                    | 1,974       |
| Other, net                          | 493  | 520         | 493                                      | 673         |
| Ending balance                      | \$ 67,668                                  | \$ 64,609   | \$ 67,668                                | \$ 64,609   |

*Fair Value Measurements on a Nonrecurring Basis*



Assets measured at fair value on a nonrecurring basis on our consolidated balance sheets consist primarily of real estate assets required to be measured for impairment at December 31, 2014. There are no assets remaining at fair value on a nonrecurring basis at June 30, 2015. The fair values of real estate assets required to be measured for impairment 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.

(Amounts in thousands)

|                    |              | <b>As of December 31, 2014</b> |                |                |
|--------------------|--------------|--------------------------------|----------------|----------------|
|                    | <b>Total</b> | <b>Level 1</b>                 | <b>Level 2</b> | <b>Level 3</b> |
| Real estate assets | \$ 4,848     | \$ -                           | \$ -           | \$ 4,848       |

**VORNADO REALTY TRUST**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED**

**(UNAUDITED)**

**14. 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 as of December 31, 2014 is classified as Level 3. There are no mortgage and mezzanine loans receivable outstanding as of June 30, 2015. 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 June 30, 2015 and December 31, 2014.

(Amounts in thousands)

**As of June 30, 2015**  
**Carrying**

**As of December 31, 2014**