

VORNADO REALTY TRUST
Form 10-Q
November 03, 2014

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

(Mark one)

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

For the quarterly period **September 30, 2014**
ended:

Or

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

For the transition period from: _____ **to** _____

Commission File Number: **001-11954**

VORNADO REALTY TRUST

(Exact name of registrant as specified in its charter)

Maryland

22-1657560

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(State or other jurisdiction of incorporation or organization)

(I.R.S. Employer Identification Number)

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

10019
(Zip Code)

(212) 894-7000

(Registrant's telephone number, including area code)

N/A

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

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate website, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

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

Large Accelerated Filer

Accelerated Filer

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

Smaller Reporting Company

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

As of September 30, 2014, 187,735,229 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)	September 30, 2014	December 31, 2013
ASSETS		
Real estate, at cost:		
Land	\$ 4,137,278	\$ 4,066,837
Buildings and improvements	12,609,463	12,466,244
Development costs and construction in progress	1,680,202	1,353,103
Leasehold improvements and equipment	128,982	132,483
Total	18,555,925	18,018,667
Less accumulated depreciation and amortization	(3,613,098)	(3,372,207)
Real estate, net	14,942,827	14,646,460
Cash and cash equivalents	1,683,142	583,290
Restricted cash	160,848	262,440
Marketable securities	184,154	191,917
Tenant and other receivables, net of allowance for doubtful accounts of \$18,307 and \$21,869	118,636	115,862
Investments in partially owned entities	1,268,066	1,166,443
Investment in Toys "R" Us	-	83,224
Real Estate Fund investments	495,392	667,710
Mortgage and mezzanine loans receivable, net of allowance of \$5,811 and \$5,845	17,085	170,972
Receivable arising from the straight-lining of rents, net of allowance of \$3,396 and \$4,355	873,901	817,314
Deferred leasing and financing costs, net of accumulated amortization of \$299,542 and \$264,421	483,902	411,922
Identified intangible assets, net of accumulated amortization of \$223,786 and \$277,998	280,207	311,963
Assets related to discontinued operations	-	316,219
Other assets	492,355	351,488
	\$ 21,000,515	\$ 20,097,224
LIABILITIES, REDEEMABLE NONCONTROLLING INTERESTS AND EQUITY		
Mortgages payable	\$ 9,273,212	\$ 8,331,993
Senior unsecured notes	1,791,987	1,350,855
Revolving credit facility debt	88,138	295,870
Accounts payable and accrued expenses	498,565	422,276
Deferred revenue	489,250	529,048
Deferred compensation plan	113,549	116,515
Liabilities related to discontinued operations	-	13,950
Other liabilities	380,843	438,353

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Total liabilities	12,635,544	11,498,860
Commitments and contingencies		
Redeemable noncontrolling interests:		
Class A units - 11,395,068 and 11,292,038 units outstanding	1,139,052	1,002,620
Series D cumulative redeemable preferred unit - 1 unit outstanding	1,000	1,000
Total redeemable noncontrolling interests	1,140,052	1,003,620
Vornado shareholders' equity:		
Preferred shares of beneficial interest: no par value per share; authorized 110,000,000 shares; issued and outstanding 52,678,939 and 52,682,807 shares	1,277,026	1,277,225
Common shares of beneficial interest: \$.04 par value per share; authorized 250,000,000 shares; issued and outstanding 187,735,229 and 187,284,688 shares	7,487	7,469
Additional capital	7,040,538	7,143,840
Earnings less than distributions	(1,878,125)	(1,734,839)
Accumulated other comprehensive income	69,580	71,537
Total Vornado shareholders' equity	6,516,506	6,765,232
Noncontrolling interests in consolidated subsidiaries	708,413	829,512
Total equity	7,224,919	7,594,744
	\$ 21,000,515	\$ 20,097,224

See notes to consolidated financial statements (unaudited).

VORNADO REALTY TRUST
CONSOLIDATED STATEMENTS OF INCOME
(UNAUDITED)

	For the Three		For the Nine	
	Months Ended September 30,		Months Ended September 30,	
(Amounts in thousands, except per share amounts)	2014	2013	2014	2013
REVENUES:				
Property rentals	\$ 538,168	\$ 521,433	\$ 1,606,120	\$ 1,589,038
Tenant expense reimbursements	86,330	81,814	248,964	229,938
Cleveland Medical Mart development project	-	4,893	-	34,026
Fee and other income	46,411	60,849	142,618	205,523
Total revenues	670,909	668,989	1,997,702	2,058,525
EXPENSES:				
Operating	268,450	261,776	802,505	785,992
Depreciation and amortization	130,208	122,119	406,868	394,579
General and administrative	44,547	44,186	141,273	145,871
Cleveland Medical Mart development project	-	3,239	-	29,764
Impairment losses, acquisition and transaction related costs	7,105	2,818	32,972	6,769
Total expenses	450,310	434,138	1,383,618	1,362,975
Operating income	220,599	234,851	614,084	695,550
(Loss) applicable to Toys "R" Us	(18,418)	(34,209)	(74,162)	(69,311)
(Loss) income from partially owned entities	(7,245)	1,453	(3,264)	23,691
Income from Real Estate Fund	24,160	22,913	142,418	73,947
Interest and other investment income (loss), net	7,602	(10,275)	28,930	(32,935)
Interest and debt expense	(115,120)	(119,676)	(341,613)	(360,679)
Net gain (loss) on disposition of wholly owned and partially owned assets	2,665	15,138	13,205	(20,581)
Income before income taxes	114,243	110,195	379,598	309,682
Income tax expense	(3,177)	(2,222)	(8,358)	(6,172)
Income from continuing operations	111,066	107,973	371,240	303,510
Income from discontinued operations	58,131	24,278	61,800	299,989
Net income	169,197	132,251	433,040	603,499
Less net income attributable to noncontrolling interests in:				
Consolidated subsidiaries	(9,685)	(23,833)	(85,239)	(50,049)
Operating Partnership	(7,975)	(5,032)	(16,514)	(27,814)
Preferred unit distributions of the Operating Partnership	(13)	(12)	(38)	(1,146)
Net income attributable to Vornado	151,524	103,374	331,249	524,490
Preferred share dividends	(20,365)	(20,369)	(61,099)	(62,439)

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Preferred unit and share redemptions	-	-	-	(1,130)
NET INCOME attributable to common shareholders	\$ 131,159	\$ 83,005	\$ 270,150	\$ 460,921
INCOME PER COMMON SHARE - BASIC:				
Income from continuing operations, net	\$ 0.41	\$ 0.33	\$ 1.13	\$ 0.97
Income from discontinued operations, net	0.29	0.11	0.31	1.50
Net income per common share	\$ 0.70	\$ 0.44	\$ 1.44	\$ 2.47
Weighted average shares outstanding	187,671	186,969	187,503	186,885
INCOME PER COMMON SHARE - DILUTED:				
Income from continuing operations, net	\$ 0.40	\$ 0.33	\$ 1.12	\$ 0.96
Income from discontinued operations, net	0.29	0.11	0.31	1.50
Net income per common share	\$ 0.69	\$ 0.44	\$ 1.43	\$ 2.46
Weighted average shares outstanding	188,812	187,724	188,592	187,679
DIVIDENDS PER COMMON SHARE	\$ 0.73	\$ 0.73	\$ 2.19	\$ 2.19

See notes to consolidated financial statements (unaudited).

VORNADO REALTY TRUST
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(UNAUDITED)

	For the Three		For the Nine	
	Months Ended September 30,		Months Ended September 30,	
(Amounts in thousands)	2014	2013	2014	2013
Net income	\$ 169,197	\$ 132,251	\$ 433,040	\$ 603,499
Other comprehensive income (loss):				
Change in unrealized net (loss) gain on available-for-sale securities	(22,764)	(8,252)	(7,761)	160,886
Amounts reclassified from accumulated other comprehensive income related to sale of available-for-sale securities	-	(42,404)	-	(42,404)
Pro rata share of other comprehensive loss of nonconsolidated subsidiaries	(6,028)	(1,669)	(151)	(25,023)
Change in value of interest rate swap	4,781	(295)	5,846	14,265
Other	1	1	-	531
Comprehensive income	145,187	79,632	430,974	711,754
Less comprehensive income attributable to noncontrolling interests	(16,304)	(25,825)	(101,682)	(84,991)
Comprehensive income attributable to Vornado	\$ 128,883	\$ 53,807	\$ 329,292	\$ 626,763

See notes to consolidated financial statements (unaudited).

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

(Amounts in thousands)	Preferred Shares		Common Shares		Additional	Earnings	Other	Non-controlling	Total
	Shares	Amount	Shares	Amount	Capital	Less Than	Comprehensive	Interests	Equity
						Distributions	Income	in	
								Consolidated	
Balance, December 31, 2013	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	-	-	-	-	-	331,249	-	-	331,249
Net income attributable to noncontrolling interests in consolidated subsidiaries	-	-	-	-	-	-	-	85,239	85,239
Dividends on common shares	-	-	-	-	-	(410,724)	-	-	(410,724)
Dividends on preferred shares	-	-	-	-	-	(61,099)	-	-	(61,099)
Common shares issued:									
Upon redemption of Class A units, at redemption value	-	-	227	9	22,659	-	-	-	22,668
Under employees' share option plan	-	-	199	8	12,342	-	-	-	12,350
Under dividend reinvestment plan	-	-	13	-	1,387	-	-	-	1,387
Contributions:									
Real Estate Fund	-	-	-	-	-	-	-	5,297	5,297

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Other	-	-	-	-	-	-	-	5,000	5,000
Distributions:									
Real Estate									
Fund	-	-	-	-	-	-	-	(182,964)	(182,964)
Other	-	-	-	-	-	-	-	(643)	(643)
Transfer of									
noncontrolling									
interest									
in Real									
Estate Fund	-	-	-	-	-	-	-	(33,028)	(33,028)
Conversion of									
Series A									
preferred									
shares to									
common									
shares	(4)	(193)	6	-	193	-	-	-	-
Deferred									
compensation									
shares									
and options	-	-	5	1	4,645	(340)	-	-	4,306
Change in									
unrealized net									
loss on									
available-for-sale									
securities	-	-	-	-	-	-	(7,761)	-	(7,761)
Pro rata share									
of other									
comprehensive									
loss of									
nonconsolidated									
subsidiaries	-	-	-	-	-	-	(151)	-	(151)
Change in									
value of									
interest rate									
swap	-	-	-	-	-	-	5,846	-	5,846
Adjustments									
to carry									
redeemable									
Class A units									
at redemption									
value	-	-	-	-	(144,231)	-	-	-	(144,231)
Redeemable									
noncontrolling									
interests'									
share of									
above									
adjustments	-	-	-	-	-	-	109	-	109
Other	-	(6)	-	-	(297)	(2,372)	-	-	(2,675)
Balance,									
September									
30, 2014	52,679	\$1,277,026	187,735	\$7,487	\$7,040,538	\$(1,878,125)	\$69,580	\$708,413	\$7,224,919

See notes to consolidated financial statements (unaudited).

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

(Amounts in thousands)	Preferred Shares		Common Shares		Additional Capital	Earnings Less Than Comprehensive Income	Other Consolidated Income	Non-controlling Interests in Subsidiaries	Total Equity
	Shares	Amount	Shares	Amount					
Balance, December 31, 2012	51,185	\$1,240,278	186,735	\$7,440	\$7,195,438	\$(1,573,275)	\$(18,946)	\$1,053,209	\$7,904,144
Net income attributable to Vornado	-	-	-	-	-	524,490	-	-	524,490
Net income attributable to noncontrolling interests in consolidated subsidiaries	-	-	-	-	-	-	-	50,049	50,049
Dividends on common shares	-	-	-	-	-	(409,332)	-	-	(409,332)
Dividends on preferred shares	-	-	-	-	-	(62,439)	-	-	(62,439)
Issuance of Series L preferred shares	12,000	290,536	-	-	-	-	-	-	290,536
Redemption of Series F and Series H preferred shares	(10,500)	(253,269)	-	-	-	-	-	-	(253,269)
Common shares issued:									
Upon redemption of Class A units, at redemption value	-	-	234	9	19,618	-	-	-	19,627
Under employees'									

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share option plan	-	-	66	3	3,678	-	-	-	3,681
Under dividend reinvestment plan	-	-	16	-	1,376	-	-	-	1,376
Contributions: Real Estate Fund	-	-	-	-	-	-	-	24,328	24,328
Other	-	-	-	-	-	-	-	15,687	15,687
Distributions: Real Estate Fund	-	-	-	-	-	-	-	(47,268)	(47,268)
Other	-	-	-	-	-	-	-	(126,799)	(126,799)
Conversion of Series A preferred shares to common shares	(2)	(90)	3	-	90	-	-	-	-
Deferred compensation shares and options	-	-	(6)	(12)	7,194	(305)	-	-	6,877
Change in unrealized net gain on available-for-sale securities	-	-	-	-	-	-	160,886	-	160,886
Amounts reclassified related to sale of available-for-sale securities	-	-	-	-	-	-	(42,404)	-	(42,404)
Pro rata share of other comprehensive loss of nonconsolidated subsidiaries	-	-	-	-	-	-	(25,023)	-	(25,023)
Change in value of interest rate swap	-	-	-	-	-	-	14,265	-	14,265
Adjustments to carry redeemable Class A units at	-	-	-	-	(43,709)	-	-	-	(43,709)

redemption value									
Redeemable noncontrolling interests' share of above adjustments	-	-	-	-	-	-	(5,982)	-	(5,982)
Preferred unit and share redemptions	-	-	-	-	-	(1,130)	-	-	(1,130)
Deconsolidation of partially owned entity	-	-	-	-	-	-	-	(165,427)	(165,427)
Other	-	-	-	-	(25)	(5,672)	531	(164)	(5,330)
Balance, September 30, 2013	52,683	\$1,277,455	187,048	\$7,440	\$7,183,660	\$(1,527,663)	\$ 83,327	\$ 803,615	\$7,827,834

See notes to consolidated financial statements (unaudited).

VORNADO REALTY TRUST
CONSOLIDATED STATEMENTS OF CASH FLOWS
(UNAUDITED)

	For the Nine Months Ended	
	September 30,	
	2014	2013
<i>(Amounts in thousands)</i>		
Cash Flows from Operating Activities:		
Net income	\$ 433,040	\$ 603,499
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization (including amortization of deferred financing costs)	423,959	419,249
Proceeds from Real Estate Fund investments	215,676	56,664
Net realized and unrealized gains on Real Estate Fund investments	(131,558)	(59,476)
Equity in net loss of partially owned entities, including Toys “R” Us	77,426	45,620
Net gains on sale of real estate	(57,796)	(286,990)
Straight-lining of rental income	(56,983)	(48,561)
Distributions of income from partially owned entities	42,164	34,350
Amortization of below-market leases, net	(32,663)	(40,341)
Other non-cash adjustments	28,691	60,957
Impairment losses	20,842	4,727
Net (gain) loss on disposition of wholly owned and partially owned assets	(13,205)	20,581
Defeasance cost in connection with the refinancing of mortgage notes payable	5,589	-
Non-cash impairment loss on J.C. Penney common shares	-	39,487
Loss from the mark-to-market of J.C. Penney derivative position	-	33,487
Changes in operating assets and liabilities:		
Real Estate Fund investments	(3,392)	(32,392)
Accounts receivable, net	(2,775)	63,280
Prepaid assets	(85,372)	(60,388)
Other assets	(68,833)	(25,854)
Accounts payable and accrued expenses	36,949	(38,904)
Other liabilities	(3,190)	597
Net cash provided by operating activities	828,569	789,592
Cash Flows from Investing Activities:		
Development costs and construction in progress	(368,571)	(149,010)
Proceeds from sales of real estate and related investments	335,489	734,427
Additions to real estate	(171,660)	(170,424)
Restricted cash	101,592	21,883

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Acquisitions of real estate and other	(95,546)	(75,079)
Proceeds from repayments of mortgage and mezzanine loans receivable and other	96,504	49,452
Investments in partially owned entities	(91,697)	(212,624)
Investment in mortgage and mezzanine loans receivable and other	(11,380)	(390)
Distributions of capital from partially owned entities	8,130	287,944
Proceeds from sales of marketable securities	-	378,676
Proceeds from the sale of LNR	-	240,474
Funding of J.C. Penney derivative collateral and settlement of derivative	-	(186,079)
Return of J.C. Penney derivative collateral	-	101,150
Net cash (used in) provided by investing activities	(197,139)	1,020,400
See notes to consolidated financial statements (unaudited).		

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

	For the Nine Months Ended	
	September 30,	
	2014	2013
(Amounts in thousands)		
Cash Flows from Financing Activities:		
Proceeds from borrowings	\$ 1,713,285	\$ 1,600,357
Dividends paid on common shares	(410,724)	(409,332)
Repayments of borrowings	(343,354)	(2,851,420)
Distributions to noncontrolling interests	(208,773)	(200,667)
Purchase of marketable securities in connection with the defeasance of mortgage notes payable	(198,884)	-
Dividends paid on preferred shares	(61,102)	(62,820)
Debt issuance costs	(40,424)	(9,982)
Proceeds received from exercise of employee share options	13,738	5,057
Contributions from noncontrolling interests	5,297	40,015
Repurchase of shares related to stock compensation agreements and/or related tax withholdings	(637)	(332)
Purchases of outstanding preferred units and shares	-	(299,400)
Proceeds from the issuance of preferred shares	-	290,536
Net cash provided by (used in) financing activities	468,422	(1,897,988)
Net increase (decrease) in cash and cash equivalents	1,099,852	(87,996)
Cash and cash equivalents at beginning of period	583,290	960,319
Cash and cash equivalents at end of period	\$ 1,683,142	\$ 872,323
Supplemental Disclosure of Cash Flow Information:		
Cash payments for interest, excluding capitalized interest of \$46,517 and \$28,024	\$ 317,162	\$ 350,899
Cash payments for income taxes	\$ 9,407	\$ 7,529
Non-Cash Investing and Financing Activities:		
Marketable securities transferred in connection with the defeasance of mortgage notes payable	\$ 198,884	\$ -
Defeasance of mortgage notes payable	(193,406)	-
Adjustments to carry redeemable Class A units at redemption value	(144,231)	(43,709)
Write-off of fully depreciated assets	(103,184)	(54,377)
Elimination of a mortgage and mezzanine loan asset and liability	59,375	-
Transfer of interest in Real Estate Fund to an unconsolidated joint venture	(58,564)	-
Like-kind exchange of real estate:		
Acquisitions	50,159	7,663
Dispositions	(50,159)	(163,468)

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Transfer of noncontrolling interest in Real Estate Fund	(33,028)	-
Beverly Connection seller financing	13,620	-
Decrease in assets and liabilities resulting from the deconsolidation of Independence Plaza:		
Real estate, net	-	(852,166)
Notes and mortgages payable	-	(322,903)
See notes to consolidated financial statements (unaudited).		

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VORNADO REALTY TRUST
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED)

1. Organization

Vornado Realty Trust (“Vornado”) is a fully integrated real estate investment trust (“REIT”) and conducts its business through, and substantially all of its interests in properties are held by, Vornado Realty L.P., a Delaware limited partnership (the “Operating Partnership”). Vornado is the sole general partner of, and owned approximately 94.0% of the common limited partnership interest in the Operating Partnership at September 30, 2014. All references to “we,” “us,” “our,” the “Company” and “Vornado” refer to Vornado Realty Trust and its consolidated subsidiaries, including the Operating Partnership.

On April 11, 2014, we announced a plan to spin off our shopping center business, consisting of 80 strip centers, four malls and a warehouse park adjacent to our East Hanover strip center, into a new publicly traded REIT, Urban Edge Properties (“UE”), formerly Vornado Spinco. The spin-off is expected to be effectuated through a pro rata distribution of UE’s common shares to Vornado common shareholders and Vornado Realty L.P. common unitholders, and is intended to be treated as tax-free for U.S. federal income tax purposes. We expect the spin-off to be completed by the end of 2014, subject to certain conditions, including the Securities and Exchange Commission (“SEC”) declaring UE’s Form 10 registration statement effective, filing and approval of UE’s listing application with the NYSE, receipt of third party consents, and formal approval and declaration of the distribution by Vornado’s Board of Trustees. Vornado may, at any time and for any reason until the proposed transaction is complete, abandon the separation or modify or change its terms. Vornado will retain, for disposition in the near term, 20 small retail assets which do not fit UE’s strategy, and the Springfield Town Center, which is under contract for disposition (see Note 9 – *Dispositions*).

2. Basis of Presentation

The accompanying consolidated financial statements are unaudited and include the accounts of Vornado and its consolidated subsidiaries, including the Operating Partnership. All intercompany amounts have been eliminated. In our opinion, all adjustments (which include only normal recurring adjustments) necessary to present fairly the financial position, results of operations and changes in cash flows have been made. Certain information and footnote disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States of America (“GAAP”) have been condensed or omitted. These condensed consolidated

financial statements have been prepared in accordance with the instructions to Form 10-Q of the 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, 2013, as filed with the SEC.

We have made estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting periods. Actual results could differ from those estimates. The results of operations for the three and nine months ended September 30, 2014 are not necessarily indicative of the operating results for the full year. Certain prior year balances have been reclassified in order to conform to current year presentation.

3. Recently Issued Accounting Literature

In June 2013, the Financial Accounting Standards Board (“FASB”) issued an update (“ASU 2013-08”) to Accounting Standards Codification (“ASC”) Topic 946, *Financial Services - Investment Companies* (“Topic 946”). ASU 2013-08 amends the guidance in Topic 946 for determining whether an entity qualifies as an investment company and requires certain additional disclosures. ASU 2013-08 is effective for interim and annual reporting periods in fiscal years that begin after December 15, 2013. The adoption of this update as of January 1, 2014, did not have any impact on our real estate fund or our consolidated financial statements.

In April 2014, the 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 begin after December 15, 2014. We are currently evaluating the impact of ASU 2014-08 on our consolidated financial statements.

VORNADO REALTY TRUST

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

(UNAUDITED)

3. Recently Issued Accounting Literature – continued

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, 2016. We are currently evaluating the impact of the adoption of ASU 2014-09 on our consolidated financial statements.

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.

4. Acquisitions

On August 1, 2014, we acquired the land under our 715 Lexington Avenue retail property located on the Southeast corner of 58th Street and Lexington Avenue in Manhattan, for \$63,000,000.

On October 28, 2014, we completed the purchase of the St. Regis Fifth Avenue retail for \$700,000,000. We own approximately 75% of the joint venture which owns the property. The acquisition will be used in a like-kind exchange for income tax purposes for the sale of 1740 Broadway (see Note 22 – *Subsequent Events*). We consolidate the accounts of the venture into our consolidated financial statements from the date of acquisition. As of September 30, 2014, the venture's \$50,000,000 non-refundable deposit was included in "other assets" on our consolidated balance

sheet.

VORNADO REALTY TRUST

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

(UNAUDITED)

5. Vornado Capital Partners Real Estate Fund (the “Fund”)

We are the general partner and investment manager of the Fund. The Fund is accounted for under the AICPA Investment Company Guide and its investments are reported on its balance sheet at fair value, with changes in value each period recognized in earnings. We consolidate the accounts of the Fund into our consolidated financial statements, retaining the fair value basis of accounting.

On June 26, 2014, the Fund sold its 64.7% interest in One Park Avenue to a newly formed joint venture that we and an institutional investor own 55% and 45%, respectively (see Note 8 - *Investments in Partially Owned Entities - One Park Avenue*). This transaction was based on a property value of \$560,000,000. From the inception of this investment through its disposition, the Fund realized a \$75,529,000 net gain.

On August 21, 2014, the Fund and its 50% joint venture partner completed the sale of The Shops at Georgetown Park, a 305,000 square foot retail property, for \$272,500,000. From the inception of this investment through its disposition, the Fund realized a \$51,124,000 net gain.

At September 30, 2014, the Fund had seven investments with an aggregate fair value of \$495,392,000, or \$158,317,000 in excess of cost, and had remaining unfunded commitments of \$144,123,000, of which our share was \$36,031,000. Below is a summary of income from the Fund for the three and nine months ended September 30, 2014 and 2013.

For the Three Months		For the Nine Months	
Ended September		Ended September	
30,		30,	
2014		2014	
2013		2013	
Net investment	3,829 \$ 2,362	\$ 10,860	\$ 6,287

income				
Net				
realized				
gains				
on				
exited				
investments	8,184	126,653	8,184	
Previously				
recorded				
unrealized				
gains				
on				
exited				
investments	-	(50,316)	-	
Net				
unrealized				
gains				
on				
held				
investments	12,367	55,221	59,476	
Income				
from				
Real				
Estate				
Fund	24,160	22,913	142,418	73,947
Less				
income				
attributable				
to				
noncontrolling				
interest	(8,188)	(15,422)	(81,217)	(39,321)
Income				
from				
Real				
Estate				
Fund				
attributable				
to				
Vornado				
\$	15,572	\$ 7,491	\$ 61,201	\$ 34,626

- (1) Excludes management, leasing and development fees of \$759 and \$770 for the three months ended September 30, 2014 and 2013, respectively, and \$2,208 and \$2,446 for the nine months ended September 30, 2014 and 2013, 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 September 30, 2014 and December 31, 2013.

(Amounts in thousands)	As of September 30, 2014			As of December 31, 2013		
	Fair Value	GAAP Cost	Unrealized Gain	Fair Value	GAAP Cost	Unrealized Gain
Equity securities:						
Lexington Realty Trust	\$ 180,811	\$ 72,549	\$ 108,262	\$ 188,567	\$ 72,549	\$ 116,018
Other	3,343	57	3,286	3,350	59	3,291
	\$ 184,154	\$ 72,606	\$ 111,548	\$ 191,917	\$ 72,608	\$ 119,309

In the first quarter of 2013, we wrote down 8,584,010 J.C. Penney common shares we owned to fair value, based on J.C. Penney's March 31, 2013 closing share price of \$15.11 per share, and recorded a \$39,487,000 impairment loss. In the third quarter of 2013, we settled a forward contract and received 4,815,990 J.C. Penney common shares. In connection therewith, we recognized a \$20,012,000 loss from the mark-to-market of the derivative position through its settlement date. These losses are included in "interest and other investment income (loss), net" on our consolidated statements of income.

VORNADO REALTY TRUST

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

(UNAUDITED)

6. Marketable Securities – continued

In March 2013 and September 2013, we sold an aggregate of 23,400,000 J.C. Penney common shares at a price of \$14.29 per share, or \$334,500,000, resulting in a net loss of \$54,914,000, of which \$36,800,000 and \$18,114,000 was recognized during the first and third quarter of 2013, respectively. In addition, in the third quarter of 2013, we sold another marketable security for \$44,176,000, resulting in a net gain of \$31,741,000. The net gains and losses resulting from these sales are included in “net gain (loss) on disposition of wholly owned and partially owned assets” on our consolidated statements of income.

7. Mortgage and Mezzanine Loans Receivable

In October 2012, we acquired a 25.0% participation in a mortgage and mezzanine loan on 701 Seventh Avenue. In March 2013, we transferred at par, the 25.0% participation in the mortgage loan to a third party, for \$59,375,000 in cash. The transfer did not qualify for sale accounting given our continuing interest in the mezzanine loan. Accordingly, we continued to include the 25.0% participation in the mortgage loan in “mortgage and mezzanine loans receivable” and recorded a \$59,375,000 liability in “other liabilities” on our consolidated balance sheet. In January 2014, the mortgage and mezzanine loans were repaid; accordingly, the \$59,375,000 asset and liability were eliminated.

In March 2014, a \$30,000,000 mezzanine loan that was scheduled to mature in January 2015 was repaid. In May 2014, a \$25,000,000 mezzanine loan that was scheduled to mature in November 2014 was repaid.

As of September 30, 2014 and December 31, 2013, the carrying amount of mortgage and mezzanine loans receivable was \$17,085,000 and \$170,972,000, respectively. These loans have a weighted average interest rate of 9.1% and 11.0% at September 30, 2014 and December 31, 2013, respectively, and have maturities ranging from April 2015 to May 2016.

8. Investments in Partially Owned Entities

Toys “R” Us (“Toys”)

As of September 30, 2014, we own 32.7% of Toys. We account for our investment in Toys under the equity method and record our share of Toys’ net income or loss on a one-quarter lag basis because Toys’ fiscal year ends on the Saturday nearest January 31, and our fiscal year ends on December 31. The business of Toys is highly seasonal and substantially all of Toys’ net income is generated in its fourth quarter.

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 of accounting for our Toys’ investment when the carrying amount was reduced to zero. We will resume application of the equity method if our share of unrecognized net income exceeds our share of unrecognized net losses during the period the equity method was suspended.

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

(Amounts in thousands)		Balance as of		
		August 2, 2014	November 2,	
Balance Sheet:			2013	
Assets		\$ 10,213,000	\$ 11,756,000	
Liabilities		9,139,000	10,437,000	
Noncontrolling interests		83,000	75,000	
Toys “R” Us, Inc. equity		991,000	1,244,000	
(1)				
	For the Three Months Ended		For the Nine Months Ended	
Income Statement:	August 2, 2014	August 3, 2013	August 2, 2014	August 3, 2013
Total revenues	\$ 2,440,000	\$ 2,377,000	\$ 10,186,000	\$ 10,555,000
Net (loss) income				
attributable to Toys	(133,000)	(111,000)	(244,000)	11,000

- (1) At September 30, 2014, the carrying amount of our investment in Toys is less than our share of Toys’ equity by approximately \$323,497. This basis difference results primarily from non-cash impairment losses aggregating \$355,953 that we have recognized through September 30, 2014. We have allocated the basis difference primarily to Toys’ real estate, which is being amortized over its remaining estimated useful life.

VORNADO REALTY TRUST

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

(UNAUDITED)

8. Investments in Partially Owned Entities – continued

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

As of September 30, 2014, we own 1,654,068 Alexander's common shares, or approximately 32.4% of Alexander's common equity. We manage, lease and develop Alexander's properties pursuant to agreements which expire in March of each year and are automatically renewable. As of September 30, 2014, we have a \$44,179,000 receivable from Alexander's for fees under these agreements.

As of September 30, 2014, the market value ("fair value" pursuant to ASC 820) of our investment in Alexander's, based on Alexander's September 30, 2014 closing share price of \$373.91, was \$618,473,000, or \$451,750,000 in excess of the carrying amount on our consolidated balance sheet. As of September 30, 2014, the carrying amount of our investment in Alexander's, excluding amounts owed to us, exceeds our share of the equity in the net assets of Alexander's by approximately \$41,394,000. The majority of this basis difference resulted from the excess of our purchase price for the Alexander's common stock acquired over the book value of Alexander's net assets. Substantially all of this basis difference was allocated, based on our estimates of the fair values of Alexander's assets and liabilities, to real estate (land and buildings). We are amortizing the basis difference related to the buildings into earnings as additional depreciation expense over their estimated useful lives. This depreciation is not material to our share of equity in Alexander's net income. The basis difference related to the land will be recognized upon disposition of our investment.

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

(Amounts in thousands)

	Balance as of	
Balance Sheet:	September 30,	December 31,
	2014	2013
Assets	\$ 1,465,400	\$ 1,457,700
Liabilities	1,129,000	1,124,100

Stockholders' equity			336,400	333,600
	For the Three Months Ended		For the Nine Months Ended September	
	September 30,		30,	
Income Statement:	2014	2013	2014	2013
Total revenues	\$ 50,100	\$ 49,900	\$ 149,500	\$ 146,000
Net income attributable to Alexander's	17,700	13,800	49,800	41,100

LNR Property LLC ("LNR")

In January 2013, we and the other equity holders of LNR entered into a definitive agreement to sell LNR for \$1.053 billion, of which our share of the net proceeds was \$240,474,000. The definitive agreement provided that LNR would not (i) make any cash distributions to the equity holders, including us, through the completion of the sale, which occurred on April 19, 2013, and (ii) take any of the following actions (among others) without the purchaser's approval, the lending or advancing of any money, the acquisition of assets in excess of specified amounts, or the issuance of equity interests. Notwithstanding the terms of the definitive agreement, in accordance with GAAP, we recorded our pro rata share of LNR's earnings on a one-quarter lag basis through the date of sale, which increased the carrying amount of our investment in LNR above our share of the net sales proceeds and resulted in us recognizing a \$27,231,000 "other-than-temporary" impairment loss on our investment in the three months ended March 31, 2013.

One Park Avenue

On June 26, 2014, we invested an additional \$22,700,000 to increase our ownership in One Park Avenue to 55.0% from 46.5% through a joint venture with an institutional investor, who increased his ownership interest to 45.0% (see Note 5 – *Vornado Capital Partners Real Estate Fund*). The transaction was based on a property value of \$560,000,000. The property is encumbered by a \$250,000,000 interest-only mortgage loan that bears interest at 4.995% and matures in March 2016. We account for our investment in the joint venture under the equity method because we share control over major decisions with our joint venture partner.

61 Ninth Avenue

On July 23, 2014, a joint venture in which we are a 50.1% partner entered into a 99-year ground lease for 61 Ninth Avenue located on the Southwest corner of Ninth Avenue and 15th Street in Manhattan. The venture's current plans are to construct an office building, with retail at the base, of approximately 130,000 square feet. Total development costs are currently estimated to be approximately \$125,000,000. We account for our investment in the joint venture under the equity method because we share control over major decisions with our joint venture partner.

VORNADO REALTY TRUST

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

(UNAUDITED)

8. Investments in Partially Owned Entities – continued

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

(Amounts in thousands)	Percentage Ownership at September 30, 2014	Balance as of	
		September 30, 2014	December 31, 2013
Investments:			
Toys	32.7%	\$ -	\$ 83,224
Alexander's	32.4%	\$ 166,723	\$ 167,785
India real estate ventures	4.1%-36.5%	82,588	88,467
Partially owned office buildings ⁽¹⁾	Various	733,904	621,294
Other investments ⁽²⁾	Various	284,851	288,897
		\$ 1,268,066	\$ 1,166,443

(1) Includes interests in 280 Park Avenue, 650 Madison Avenue, One Park Avenue, 666 Fifth Avenue (Office), 330 Madison Avenue and others.

(2) Includes interests in Independence Plaza, Monmouth Mall, 85 10th Avenue, Fashion Center Mall, 50-70 West 93rd Street and others.

(Amounts in thousands)	Percentage Ownership at September 30, 2014	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
		2014	2013	2014	2013
Our Share of Net (Loss) Income:					
Toys:	32.7%				
Equity in net (loss) earnings		\$ (20,357)	\$ (36,056)	\$ (4,691)	\$ 3,778
Non-cash impairment losses		-	-	(75,196)	(78,542)
Management fees		1,939	1,847	5,725	5,453
		\$ (18,418)	\$ (34,209)	\$ (74,162)	\$ (69,311)
Alexander's:	32.4%				
Equity in net income		\$ 5,552	\$ 4,299	\$ 15,583	\$ 12,785
Management, leasing and development fees		1,640	1,676	4,888	5,017
		7,192	5,975	20,471	17,802
India real estate ventures	4.1%-36.5%	(262)	(1,449)	(2,440)	(2,630)

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Partially owned office buildings (1)	Various	18	38	(1,387)	(1,586)
Other investments (2)	Various	(14,193)	(3,111)	(19,908)	(8,626)
LNR (see page 14 for details):	n/a				
Equity in net income		-	-	-	45,962
Impairment loss		-	-	-	(27,231)
		-	-	-	18,731
		\$ (7,245)	\$ 1,453	\$ (3,264)	\$ 23,691

(1) Includes interests in 280 Park Avenue, 650 Madison Avenue, One Park Avenue, 666 Fifth Avenue (Office), 330 Madison Avenue and others.

(2) Includes interests in Independence Plaza, Monmouth Mall, 85 10th Avenue, Fashion Center Mall, 50-70 West 93rd Street and others. In the third quarter of 2014, we recognized a \$10,263 non-cash charge, comprised of a \$5,959 impairment loss and a \$4,304 loan loss reserve, on our equity and debt investments in Suffolk Downs.

VORNADO REALTY TRUST

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

(UNAUDITED)

8. Investments in Partially Owned Entities – continued

Below is a summary of the debt of our partially owned entities as of September 30, 2014 and December 31, 2013, none of which is recourse to us.

(Amounts in thousands)	Percentage Ownership		Interest Rate at September 30, 2014	100% of Partially Owned Entities' Debt at	
	at September 30, 2014	Maturity		September 30, 2014	December 31, 2013
Toys:					
Notes, loans and mortgages payable	32.7%	2014-2021	6.72%	\$ 5,385,461	\$ 5,702,247
Alexander's:					
Mortgages payable	32.4%	2015-2021	2.58%	\$ 1,033,541	\$ 1,049,959
India real estate ventures:					
TCG Urban Infrastructure Holdings mortgages payable	25.0%	2014-2026	13.24%	\$ 190,453	\$ 199,021
Partially owned office buildings ⁽¹⁾	Various	2014-2023	5.71%	\$ 3,657,837	\$ 3,622,759
Other ⁽²⁾	Various	2014-2025	4.56%	\$ 1,696,974	\$ 1,709,509
(1)	Includes 280 Park Avenue, 650 Madison Avenue, One Park Avenue, 666 Fifth Avenue (Office), 330 Madison Avenue and others.				
(2)	Includes Independence Plaza, Monmouth Mall, Fashion Center Mall, 50-70 West 93rd Street and others.				

Based on our ownership interest in the partially owned entities above, our pro rata share of the debt of these partially owned entities was \$4,156,658,000 and \$4,189,403,000 at September 30, 2014 and December 31, 2013, respectively.

VORNADO REALTY TRUST

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

(UNAUDITED)

9. Dispositions

Discontinued Operations

On February 24, 2014, we completed the sale of Broadway Mall in Hicksville, Long Island, New York, for \$94,000,000. The sale resulted in net proceeds of \$92,174,000 after closing costs.

On July 8, 2014, we completed the sale of Beverly Connection, a 335,000 square foot power shopping center in Los Angeles, California, for \$260,000,000, of which \$239,000,000 was cash and \$21,000,000 was 10-year mezzanine seller financing. The sale resulted in a net gain of \$44,155,000, which was recognized in the third quarter of 2014.

During the third quarter of 2014, we sold two of the 20 strip shopping centers which do not fit UE's strategy (see Note 1 – *Organization*), in separate transactions, for an aggregate of \$15,000,000 in cash, which resulted in a net gain aggregating \$13,641,000.

We have reclassified the revenues and expenses of the properties discussed above to “income from discontinued operations” and the related assets and liabilities to “assets related to discontinued operations” and “liabilities related to discontinued operations” for all of the periods presented in the accompanying consolidated financial statements. The net gains resulting from the sale of these properties are included in “income from discontinued operations” on our consolidated statements of income. The tables below set forth the assets and liabilities related to discontinued operations at September 30, 2014 and December 31, 2013 and their combined results of operations for the three and nine months ended September 30, 2014 and 2013.

(Amounts in thousands)	Assets Related to		Liabilities Related to	
	Discontinued Operations as of September 30, 2014	December 31, 2013	Discontinued Operations as of September 30, 2014	December 31, 2013

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Beverly Connection	\$	-	\$ 208,458	\$	-	\$	-
Broadway Mall		-	106,164		-		13,950
Other		-	1,597		-		-
Total	\$	-	\$ 316,219	\$	-	\$	13,950

(Amounts in thousands)	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2014	2013	2014	2013
Total revenues	\$ 836	\$ 17,354	\$ 13,473	\$ 63,048
Total expenses	501	11,352	8,627	45,322
	335	6,002	4,846	17,726
Net gain on sale of Beverly Connection	44,155	-	44,155	-
Net gain on sale of Green Acres Mall	-	-	-	202,275
Net gains on sales of other real estate	13,641	18,996	13,641	84,715
Impairment losses	-	(720)	(842)	(4,727)
Income from discontinued operations	\$ 58,131	\$ 24,278	\$ 61,800	\$ 299,989

Other

On March 2, 2014, we entered into an agreement to transfer upon completion, the redeveloped Springfield Town Center, a 1,350,000 square foot mall located in Springfield, Fairfax County, Virginia, to Pennsylvania Real Estate Investment Trust (NYSE: PEI) (“PREIT”) in exchange for \$465,000,000 comprised of \$340,000,000 of cash and \$125,000,000 of PREIT operating partnership units. In connection therewith, we recorded a non-cash impairment loss of \$20,000,000 in the first quarter of 2014, which is included in “impairment losses, acquisition and transaction related costs” on our consolidated statements of income. The redevelopment was completed in October 2014 and the closing will be no later than March 31, 2015.

VORNADO REALTY TRUST

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

(UNAUDITED)

10. Identified Intangible Assets and Liabilities

The following summarizes our identified intangible assets (primarily acquired in-place and above-market leases) and liabilities (primarily acquired below-market leases) as of September 30, 2014 and December 31, 2013.

(Amounts in thousands)	Balance as of	
	September 30, 2014	December 31, 2013
Identified intangible assets:		
Gross amount	\$ 503,993	\$ 589,961
Accumulated amortization	(223,786)	(277,998)
Net	\$ 280,207	\$ 311,963
Identified intangible liabilities (included in deferred revenue):		
Gross amount	\$ 843,941	\$ 856,933
Accumulated amortization	(385,824)	(360,398)
Net	\$ 458,117	\$ 496,535

Amortization of acquired below-market leases, net of acquired above-market leases, resulted in an increase to rental income of \$10,039,000 and \$11,145,000 for the three months ended September 30, 2014 and 2013, respectively, and \$32,201,000 and \$38,322,000 for the nine months ended September 30, 2014 and 2013, 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, 2015 is as follows:

(Amounts in thousands)	
2015	\$ 40,071
2016	38,455
2017	34,890
2018	33,381
2019	30,105

Amortization of all other identified intangible assets (a component of depreciation and amortization expense) was \$6,296,000 and \$10,686,000 for the three months ended September 30, 2014 and 2013, respectively, and \$22,996,000 and \$52,997,000 for the nine months ended September 30, 2014 and 2013, 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, 2015 is as follows:

(Amounts in thousands)		
2015	\$	23,160
2016		20,195
2017		16,813
2018		12,446
2019		11,539

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 \$858,000 and \$981,000 for the three months ended September 30, 2014 and 2013, respectively, and \$2,572,000 and \$3,704,000 for the nine months ended September 30, 2014 and 2013, respectively. Estimated annual amortization of these below-market leases, net of above-market leases for each of the five succeeding years commencing January 1, 2015 is as follows:

(Amounts in thousands)		
2015	\$	3,430
2016		3,430
2017		3,430
2018		3,430
2019		3,430

VORNADO REALTY TRUST

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

(UNAUDITED)

11. Debt

On January 31, 2014, we completed a \$600,000,000 loan secured by our 220 Central Park South development site. The loan bears interest at LIBOR plus 2.75% (2.90% at September 30, 2014) and matures in January 2016, with three one-year extension options.

On April 16, 2014, we completed a \$350,000,000 refinancing of 909 Third Avenue, a 1.3 million square foot Manhattan office building. The seven-year interest only loan bears interest at 3.91% and matures in May 2021. We realized net proceeds of approximately \$145,000,000 after defeasing the existing 5.64%, \$193,000,000 mortgage, defeasance cost and other closing costs.

On June 16, 2014, we completed a green bond public offering of \$450,000,000 2.50% senior unsecured notes due June 30, 2019. The notes were sold at 99.619% of their face amount to yield 2.581%.

On July 16, 2014, we completed a \$130,000,000 financing of Las Catalinas, a 494,000 square foot mall located in the San Juan area of Puerto Rico. The 10-year fixed rate loan bears interest at 4.43% and matures in August 2024. The loan amortizes based on a 30-year schedule beginning in year six.

On August 12, 2014, we completed a \$185,000,000 financing of the Universal buildings, a 690,000 square foot, two-building office complex located in Washington, DC. The loan bears interest at LIBOR plus 1.90% (2.06% at September 30, 2014) and matures in August 2019 with two one-year extension options. The loan amortizes based on a 30-year schedule beginning in the fourth year.

On August 26, 2014, we obtained a standby commitment for up to \$500,000,000 of five-year mezzanine loan financing to fund a portion of the development expenditures at 220 Central Park South.

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On September 30, 2014, we extended one of our two \$1.25 billion unsecured revolving credit facilities from November 2015 to November 2018 with two six-month extension options. The interest rate on the extended facility was lowered from LIBOR plus 125 basis points to LIBOR plus 105 basis points and the facility fee was reduced from 25 to 20 basis points.

On October 1, 2014, we redeemed all of the \$445,000,000 principal amount of our outstanding 7.875% senior unsecured notes, which were scheduled to mature on October 1, 2039, at a redemption price of 100% of the principal amount plus accrued interest through the redemption date. In the fourth quarter of 2014, we will write off \$12,532,000 of unamortized deferred financing costs, which will be included as a component of “interest and debt expense” on our consolidated statements of income.

The following is a summary of our debt:

(Amounts in thousands)	Interest Rate at September 30, 2014	Balance at	
		September 30, 2014	December 31, 2013
Mortgages Payable:			
Fixed rate	4.47%	\$ 7,723,956	\$ 7,563,133
Variable rate	2.29%	1,549,256	768,860
	4.11%	\$ 9,273,212	\$ 8,331,993
Unsecured Debt:			
Senior unsecured notes	4.88%	\$ 1,791,987	\$ 1,350,855
Revolving credit facility debt	1.30%	88,138	295,870
	4.71%	\$ 1,880,125	\$ 1,646,725

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VORNADO REALTY TRUST

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

(UNAUDITED)

12. 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, 2012	\$ 944,152
Net income	28,960
Other comprehensive income	5,982
Distributions	(25,827)
Redemption of Class A units for common shares, at redemption value	(19,627)
Adjustments to carry redeemable Class A units at redemption value	43,709
Redemption of Series D-15 redeemable units	(36,900)
Other, net	10,649
Balance at September 30, 2013	\$ 951,098
Balance at December 31, 2013	\$ 1,003,620
Net income	16,552
Other comprehensive loss	(109)
Distributions	(25,166)
Redemption of Class A units for common shares, at redemption value	(22,668)
Adjustments to carry redeemable Class A units at redemption value	144,231
Other, net	23,592
Balance at September 30, 2014	\$ 1,140,052

As of September 30, 2014 and December 31, 2013, the aggregate redemption value of redeemable Class A units was \$1,139,052,000 and \$1,002,620,000, 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 September 30, 2014 and December 31, 2013.

VORNADO REALTY TRUST

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

(UNAUDITED)

13. Accumulated Other Comprehensive Income (“AOCI”)

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

(Amounts in thousands)	For the Three Months Ended September 30, 2014				
	Total	Securities available- for-sale	Pro rata share of nonconsolidated subsidiaries' OCI	Interest rate swap	Other
Balance as of June 30, 2014	\$ 92,221	\$ 134,312	\$ (5,624)	\$ (30,817)	\$ (5,650)
OCI before reclassifications	(22,641)	(22,764)	(6,028)	4,781	1,370
Amounts reclassified from AOCI	-	-	-	-	-
Net current period OCI	(22,641)	(22,764)	(6,028)	4,781	1,370
Balance as of September 30, 2014	\$ 69,580	\$ 111,548	\$ (11,652)	\$ (26,036)	\$ (4,280)

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

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

For the Nine Months Ended September 30, 2014
Securities **Interest**

(Amounts in thousands)	Total	available- for-sale	Pro rata share of nonconsolidated subsidiaries' OCI	rate swap	Other
Balance as of December 31, 2013	\$ 71,537	\$ 119,309	\$ (11,501)	\$ (31,882)	\$ (4,389)
OCI before reclassifications	(1,957)	(7,761)	(151)	5,846	109
Amounts reclassified from AOCI	-	-	-	-	-
Net current period OCI	(1,957)	(7,761)	(151)	5,846	109
Balance as of September 30, 2014	\$ 69,580	\$ 111,548	\$ (11,652)	\$ (26,036)	\$ (4,280)

For the Nine Months Ended September 30, 2013

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

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

VORNADO REALTY TRUST

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

(UNAUDITED)

14. Variable Interest Entities (“VIEs”)

At September 30, 2014, we have unconsolidated VIEs comprised of our investments in the entities that own One Park Avenue, Independence Plaza and the Warner Building, and at December 31, 2013, our unconsolidated VIEs comprised of our investments in the entities that own Independence Plaza and the Warner Building. 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 September 30, 2014 and December 31, 2013, the net carrying amounts of our investment in these entities were \$284,440,000 and \$152,929,000, respectively, and our maximum exposure to loss in these entities is limited to our investment. We did not have any consolidated VIEs as of September 30, 2014 and December 31, 2013.

15. Fair Value Measurements

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

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

Financial assets and liabilities that are measured at fair value 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) interest rate swaps and (v) mandatorily redeemable instruments (Series G-1 through G-4 convertible preferred units and Series D-13 cumulative redeemable preferred units). The tables below aggregate the fair values of these financial assets and liabilities by their levels in the fair value hierarchy at September 30, 2014 and December 31, 2013, respectively.

(Amounts in thousands)	Total	As of September 30, 2014		
		Level 1	Level 2	Level 3
Marketable securities	\$ 184,154	\$ 184,154	\$ -	\$ -
Real Estate Fund investments (75% of which is attributable to noncontrolling interests)	495,392	-	-	495,392
Deferred compensation plan assets (included in other assets)	113,549	50,366	-	63,183
Total assets	\$ 793,095	\$ 234,520	\$ -	\$ 558,575
Mandatorily redeemable instruments (included in other liabilities)	\$ 55,096	\$ 55,096	\$ -	\$ -
Interest rate swap (included in other liabilities)	26,036	-	26,036	-
Total liabilities	\$ 81,132	\$ 55,096	\$ 26,036	\$ -
(Amounts in thousands)	Total	As of December 31, 2013		
		Level 1	Level 2	Level 3
Marketable securities	\$ 191,917	\$ 191,917	\$ -	\$ -
Real Estate Fund investments (75% of which is attributable to noncontrolling interests)	667,710	-	-	667,710
Deferred compensation plan assets (included in other assets)	116,515	47,733	-	68,782
Total assets	\$ 976,142	\$ 239,650	\$ -	\$ 736,492
Mandatorily redeemable instruments (included in other liabilities)	\$ 55,097	\$ 55,097	\$ -	\$ -
Interest rate swap (included in other liabilities)	31,882	-	31,882	-
Total liabilities	\$ 86,979	\$ 55,097	\$ 31,882	\$ -

VORNADO REALTY TRUST

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

(UNAUDITED)

15. Fair Value Measurements – continued

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

Real Estate Fund Investments

At September 30, 2014, our Real Estate Fund had seven investments with an aggregate fair value of \$495,392,000, or \$158,317,000 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 0.5 to 5.8 years. Cash flows are derived from property rental revenue (base rents plus reimbursements) less operating expenses, real estate taxes and capital and other costs, plus projected sales proceeds in the year of exit. Property rental revenue is based on leases currently in place and our estimates for future leasing activity, which are based on current market rents for similar space plus a projected growth factor. Similarly, estimated operating expenses and real estate taxes are based on amounts incurred in the current period plus a projected growth factor for future periods. Anticipated sales proceeds at the end of an investment's expected holding period are determined based on the net cash flow of the investment in the year of exit, divided by a terminal capitalization rate, less estimated selling costs.

The fair value of each property is calculated by discounting the future cash flows (including the projected sales proceeds), using an appropriate discount rate and then reduced by the property's outstanding debt, if any, to determine the fair value of the equity in each investment. Significant unobservable quantitative inputs used in determining the fair value of each investment include capitalization rates and discount rates. These rates are based on the location, type and nature of each property, and current and anticipated market conditions, which are derived from original underwriting assumptions, industry publications and from the experience of our Acquisitions and Capital Markets departments. Significant unobservable quantitative inputs in the table below were utilized in determining the fair value of these Fund investments at September 30, 2014.

Unobservable Quantitative Input	Range	Weighted Average (based on fair value of investments)
Discount rates	12.0% to 17.5%	13.7%
Terminal capitalization rates	5.0% to 6.3%	5.8%

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

The table below summarizes the changes in the fair value of Fund investments that are classified as Level 3, for the three and nine months ended September 30, 2014 and 2013.

(Amounts in thousands)	Real Estate Fund Investments For the Three Months Ended September 30,		Real Estate Fund Investments For the Nine Months Ended September 30,	
	2014	2013	2014	2013
Beginning balance	\$ 549,091	\$ 622,124	\$ 667,710	\$ 600,786
Purchases	725	7,406	3,392	38,299
Dispositions / Distributions	(74,755)	(14,184)	(307,268)	(70,848)
Net unrealized gains	18,333	12,367	55,221	59,476
Net realized gains	51,584	8,184	126,653	8,184
Previously recorded unrealized gains	(49,586)	-	(50,316)	-
Other, net	-	93	-	93
Ending balance	\$ 495,392	\$ 635,990	\$ 495,392	\$ 635,990

VORNADO REALTY TRUST

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

(UNAUDITED)

15. Fair Value Measurements – continued

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

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

The table below summarizes the changes in the fair value of Deferred Compensation Plan Assets that are classified as Level 3, for the three and nine months ended September 30, 2014 and 2013.

(Amounts in thousands)	Deferred Compensation Plan Assets For the Three Months Ended September 30,		Deferred Compensation Plan Assets For the Nine Months Ended September 30,	
	2014	2013	2014	2013
Beginning balance	\$ 64,609	\$ 66,502	\$ 68,782	\$ 62,631
Purchases	1,377	880	10,936	4,027
Sales	(4,917)	(873)	(21,296)	(5,318)
Realized and unrealized gain (loss)	927	(42)	2,901	4,094
Other, net	1,187	58	1,860	1,091
Ending balance	\$ 63,183	\$ 66,525	\$ 63,183	\$ 66,525

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, our investment in Suffolk Downs and our investment in Toys that were written-down to estimated fair value at September 30, 2014 or at December 31, 2013. The fair value of our real estate assets and our investment in Suffolk Downs was 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. In determining the fair value of our investment in Toys, we considered, among other inputs, a December 31, 2013 third-party valuation of Toys and Toys' historical results, financial forecasts and business outlook. Our determination of the fair value of our investment in Toys included consideration of the following widely-used valuation methodologies: (i) market multiple methodology, that considered comparable publicly traded retail companies and a range of EBITDA multiples from 5.75x to 6.5x, (ii) comparable sales transactions methodology, that considered sales of retailers ranging in size from \$150 million to \$3 billion, (iii) a discounted cash flow methodology, that utilized five-year financial projections and assumed a terminal EBITDA multiple of 5.75x, a 10% discount rate and a 38% tax rate, and (iv) a Black-Scholes valuation analysis, that assumed one, two and three year time-to-expiration periods and 24% to 29% volatility factors. Generally, we consider a number of valuation techniques when measuring fair values but in certain circumstances, a single valuation technique may be appropriate. The tables below aggregate the fair values of these assets by their levels in the fair value hierarchy.

	As of September 30, 2014			
(Amounts in thousands)	Total	Level 1	Level 2	Level 3
Investment in Suffolk Downs	\$ 1,328	\$ -	\$ -	\$ 1,328
		As of December 31, 2013		
(Amounts in thousands)	Total	Level 1	Level 2	Level 3
Real estate assets	\$ 354,351	\$ -	\$ -	\$ 354,351
Investment in Toys "R" Us	83,224	-	-	83,224
Total assets	\$ 437,575	\$ -	\$ -	\$ 437,575

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

(UNAUDITED)

15. Fair Value Measurements – continued

Financial Assets and Liabilities not Measured at Fair Value

Financial assets and liabilities that are not measured at fair value on our consolidated balance sheets include cash equivalents (primarily money market funds, which invest in obligations of the United States government), mortgage and mezzanine loans receivable and our secured and unsecured debt. Estimates of the fair value of these instruments are determined by the standard practice of modeling the contractual cash flows required under the instrument and discounting them back to their present value at the appropriate current risk adjusted interest rate, which is provided by a third-party specialist. For floating rate debt, we use forward rates derived from observable market yield curves to project the expected cash flows we would be required to make under the instrument. The fair value of cash equivalents and borrowings under our revolving credit facility is classified as Level 1, and the fair value of our mortgage and mezzanine loans receivable is classified as Level 3. The fair value of our secured and unsecured debt are classified as Level 2. The table below summarizes the carrying amounts and fair value of these financial instruments as of September 30, 2014 and December 31, 2013.

(Amounts in thousands)	As of September 30, 2014		As of December 31, 2013	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Cash equivalents	\$ 1,361,305	\$ 1,361,000	\$ 295,000	\$ 295,000
Mortgage and mezzanine loans receivable	17,085	17,000	170,972	171,000
	\$ 1,378,390	\$ 1,378,000	\$ 465,972	\$ 466,000
Debt:				
Mortgages payable	\$ 9,273,212	\$ 9,192,000	\$ 8,331,993	\$ 8,104,000
Senior unsecured notes	1,791,987	1,840,000	1,350,855	1,402,000
Revolving credit facility debt	88,138	88,000	295,870	296,000
	\$ 11,153,337	\$ 11,120,000	\$ 9,978,718	\$ 9,802,000

16. Incentive Compensation

Our 2010 Omnibus Share Plan (the “Plan”) provides for grants of incentive and non-qualified stock options, restricted stock, restricted Operating Partnership units and out-performance plan awards to certain of our employees and officers. We account for all stock-based compensation in accordance with ASC 718, *Compensation – Stock Compensation*. Stock-based compensation expense was \$8,315,000 and \$9,201,000 in the three months ended September 30, 2014 and 2013, respectively and \$28,389,000 and \$25,796,000 in the nine months ended September 30, 2014 and 2013, respectively.

On January 10, 2014, the Compensation Committee approved the 2014 Outperformance Plan, a multi-year, performance-based equity compensation plan and related form of award agreement (the “2014 OPP”). Under the 2014 OPP, participants have the opportunity to earn compensation payable in the form of operating partnership units during a three-year performance measurement period, if and only if we outperform a predetermined total shareholder return (“TSR”) and/or outperform the market with respect to relative TSR. Awards under the 2014 OPP may be earned if we (i) achieve a TSR level greater than 7% per annum, or 21% over the three-year performance measurement period (the “Absolute Component”), and/or (ii) achieve a TSR above that of the SNL US REIT Index (the “Index”) over a three-year performance measurement period (the “Relative Component”). To the extent awards would be earned under the Absolute Component but we underperform the Index, such awards earned under the Absolute Component would be reduced (and potentially fully negated) based on the degree to which we underperform the Index. In certain circumstances, in the event we outperform the Index but awards would not otherwise be earned under the Absolute Component, awards may be increased under the Relative Component. To the extent awards would otherwise be earned under the Relative Component but we fail to achieve at least a 6% per annum absolute TSR, such awards earned under the Relative Component would be reduced based on our absolute TSR, with no awards being earned in the event our TSR during the applicable measurement period is 0% or negative, irrespective of the degree to which we may outperform the Index. If the designated performance objectives are achieved, OPP Units are also subject to time-based vesting requirements. Awards earned under the 2014 OPP vest 33% in year three, 33% in year four and 34% in year five. Dividends on awards earned accrue during the performance measurement period. In addition, our executive officers (for the purposes of Section 16 of the Exchange Act) are required to hold any earned OPP awards (or related equity) for at least one year following vesting.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

(UNAUDITED)

17. Fee and Other Income

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

(Amounts in thousands)	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2014	2013	2014	2013
BMS cleaning fees	\$ 22,467	\$ 15,898	\$ 63,618	\$ 49,071
Signage revenue	7,698	8,738	25,889	23,566
Management and leasing fees	4,662	7,977	17,027	19,661
Lease termination fees ⁽¹⁾	3,764	20,344	12,102	87,353
Other income	7,820	7,892	23,982	25,872
	\$ 46,411	\$ 60,849	\$ 142,618	\$ 205,523

- (1) The three and nine months ended September 30, 2013 includes a \$19,500 termination fee income from a tenant at 1290 Avenue of the Americas. The nine months ended September 30, 2013 also includes \$59,599 of income pursuant to a settlement agreement with Stop & Shop.

Management and leasing fees include management fees from Interstate Properties, a related party, of \$132,000 and \$134,000 for the three months ended September 30, 2014 and 2013, respectively, and \$397,000 and \$467,000 for the nine months ended September 30, 2014 and 2013, respectively. The above table excludes fee income from partially owned entities, which is typically included in "(loss) income from partially owned entities" (see Note 8 – *Investments in Partially Owned Entities*).

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

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

(Amounts in thousands)	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2014	2013	2014	2013
	\$ 3,200	\$ 2,804	\$ 9,504	\$ 8,344

Dividends and interest on marketable securities				
Mark-to-market of investments in our deferred compensation plan ⁽¹⁾	1,352	269	8,132	6,207
Interest on mezzanine loans receivable	404	4,766	3,524	14,783
Loss from the mark-to-market of J.C. Penney derivative position	-	(20,012)	-	(33,487)
Non-cash impairment loss on J.C. Penney common shares	-	-	-	(39,487)
Income from prepayment penalties in connection with the repayment of a mezzanine loan receivable	-	-	-	5,267
Other, net	2,646	1,898	7,770	5,438
	\$ 7,602	\$ (10,275)	\$ 28,930	\$ (32,935)

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

19. Interest and Debt Expense

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

(Amounts in thousands)	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2014	2013	2014	2013
Interest expense	\$ 124,163	125,256	\$ 367,899	\$ 373,619
Amortization of deferred financing costs	7,292	4,952	20,231	15,084
Capitalized interest	(16,335)	(10,532)	(46,517)	(28,024)
	\$ 115,120	\$ 119,676	\$ 341,613	\$ 360,679

VORNADO REALTY TRUST

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

(UNAUDITED)

20. Income Per Share

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

(Amounts in thousands, except per share amounts)	For the Three Months		For the Nine Months	
	Ended September 30, 2014	2013	Ended September 30, 2014	2013
Numerator:				
Income from continuing operations, net of income attributable				
to noncontrolling interests	\$ 96,725	\$ 82,959	\$ 273,015	\$ 243,857
Income from discontinued operations, net of income attributable				
to noncontrolling interests	54,799	20,415	58,234	280,633
Net income attributable to Vornado	151,524	103,374	331,249	524,490
Preferred share dividends	(20,365)	(20,369)	(61,099)	(62,439)
Preferred unit and share redemptions	-	-	-	(1,130)
Net income attributable to common shareholders	131,159	83,005	270,150	460,921
Earnings allocated to unvested participating securities	(19)	(24)	(70)	(97)
Numerator for basic income per share	131,140	82,981	270,080	460,824
Impact of assumed conversions:				
Convertible preferred share dividends	23	-	49	54
Numerator for diluted income per share	\$ 131,163	\$ 82,981	\$ 270,129	\$ 460,878
Denominator:				
	187,671	186,969	187,503	186,885

Denominator for basic income per share – weighted average shares				
Effect of dilutive securities ⁽¹⁾ :				
Employee stock options and restricted share awards	1,099	755	1,046	746
Convertible preferred shares	42	-	43	48
Denominator for diluted income per share – weighted average shares and assumed conversions	188,812	187,724	188,592	187,679
INCOME PER COMMON SHARE – BASIC:				
Income from continuing operations, net	\$ 0.41	\$ 0.33	\$ 1.13	\$ 0.97
Income from discontinued operations, net	0.29	0.11	0.31	1.50
Net income per common share	\$ 0.70	\$ 0.44	\$ 1.44	\$ 2.47
INCOME PER COMMON SHARE – DILUTED:				
Income from continuing operations, net	\$ 0.40	\$ 0.33	\$ 1.12	\$ 0.96
Income from discontinued operations, net	0.29	0.11	0.31	1.50
Net income per common share	\$ 0.69	\$ 0.44	\$ 1.43	\$ 2.46
(1)	The effect of dilutive securities in the three months ended September 30, 2014 and 2013 excludes an aggregate of 11,245 and 12,002 weighted average common share equivalents, respectively, and 11,257 and 11,890 weighted average common share equivalents in the nine months ended September 30, 2014 and 2013, respectively, as their effect was anti-dilutive.			

VORNADO REALTY TRUST

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

(UNAUDITED)

21. Commitments and Contingencies

Insurance

We maintain general liability insurance with limits of \$300,000,000 per occurrence and all risk property and rental value insurance with limits of \$2.0 billion per occurrence, with sub-limits for certain perils such as floods. Our California properties have earthquake insurance with coverage of \$180,000,000 per occurrence, subject to a deductible in the amount of 5% of the value of the affected property, up to a \$180,000,000 annual aggregate. We maintain coverage for terrorism acts with limits of \$4.0 billion per occurrence and in the aggregate, including terrorism involving nuclear, biological, chemical and radiological (“NBCR”) terrorism events, as defined by the Terrorism Risk Insurance Program Reauthorization Act, which expires in December 2014.

Penn Plaza Insurance Company, LLC (“PPIC”), our wholly owned consolidated subsidiary, acts as a re-insurer with respect to a portion of all risk property and rental value insurance and a portion of our earthquake insurance coverage, and as a direct insurer for coverage for NBCR acts. Coverage for acts of terrorism (excluding NBCR acts) is fully reinsured by third party insurance companies and the federal government with no direct exposure to PPIC. For NBCR acts, PPIC is responsible for a deductible of \$2,150,000 and 15% of the balance of a covered loss and the federal government is responsible for the remaining 85% of a covered loss. We are ultimately responsible for any loss incurred by PPIC.

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

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

Other Commitments and Contingencies

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

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

Our mortgage loans are non-recourse to us. However, in certain cases we have provided guarantees or master leased tenant space. These guarantees and master leases terminate either upon the satisfaction of specified circumstances or repayment of the underlying loans. As of September 30, 2014, the aggregate dollar amount of these guarantees and master leases is approximately \$360,000,000.

At September 30, 2014, \$39,947,000 of letters of credit were outstanding under one of our revolving credit facilities. Our revolving credit facilities contain financial covenants that require us to maintain minimum interest coverage and maximum debt to market capitalization ratios, and provide for higher interest rates in the event of a decline in our ratings below Baa3/BBB. Our revolving credit facilities also contain customary conditions precedent to borrowing, including representations and warranties, and also contain customary events of default that could give rise to accelerated repayment, including such items as failure to pay interest or principal.

As of September 30, 2014, we expect to fund additional capital to certain of our partially owned entities aggregating approximately \$111,000,000.

VORNADO REALTY TRUST

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

(UNAUDITED)

22. Subsequent Events

On October 27, 2014, we completed a \$140,000,000 financing of 655 Fifth Avenue, a 57,500 square foot retail and office property. The loan is interest only at LIBOR plus 1.40% and matures in October 2019 with two one-year extension options.

On October 31, 2014, we entered into an agreement to sell 1740 Broadway, a 601,000 square foot office building in Manhattan for approximately \$605,000,000. The sale will result in net proceeds of approximately \$585,000,000, after closing costs, and result in a financial statement gain of approximately \$443,000,000. The tax gain will be approximately \$483,000,000, which will be deferred in like-kind exchanges, primarily for the St. Regis Fifth Avenue retail (see Note 4 – *Acquisitions*). The sale is subject to customary closing conditions and is expected to be completed in the fourth quarter of 2014.

VORNADO REALTY TRUST

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

(UNAUDITED)

23. Segment Information

Below is a summary of net income and a reconciliation of net income to EBITDA⁽¹⁾ by segment for the three and nine months ended September 30, 2014 and 2013.

(Amounts in thousands)

	For the Three Months Ended September 30, 2014					
	Total	New York	Washington, DC	Retail Properties	Toys	Other
Total revenues	\$ 670,909	\$ 394,579	\$ 133,541	\$ 82,442	\$ -	\$ 60,347
Total expenses	450,310	243,314	88,375	44,466	-	74,155
Operating income (loss)	220,599	151,265	45,166	37,976	-	(13,808)
(Loss) income from partially owned entities, including Toys	(25,663)	5,810	(1,411)	371	(18,418)	(12,015)
Income from Real Estate Fund	24,160	-	-	-	-	24,160
Interest and other investment income, net	7,602	1,859	15	9	-	5,719
Interest and debt expense	(115,120)	(43,061)	(18,685)	(10,056)	-	(43,318)
Net gain on disposition of wholly owned and partially owned assets	2,665	-	-	-	-	2,665
Income (loss) before income taxes	114,243	115,873	25,085	28,300	(18,418)	(36,597)
Income tax expense	(3,177)	(802)	(130)	(525)	-	(1,720)
Income (loss) from continuing operations	111,066	115,071	24,955	27,775	(18,418)	(38,317)
Income from discontinued	58,131	-	-	57,499	-	632

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operations						
Net income (loss)	169,197	115,071	24,955	85,274	(18,418)	(37,685)
Less net income attributable to noncontrolling interests	(17,673)	(2,690)	-	(76)	-	(14,907)
Net income (loss) attributable to Vornado	151,524	112,381	24,955	85,198	(18,418)	(52,592)
Interest and debt expense ⁽²⁾	160,252	58,010	22,208	11,205	22,471	46,358
Depreciation and amortization ⁽²⁾	160,270	79,446	36,411	15,256	9,923	19,234
Income tax expense (benefit) ⁽²⁾	2,232	746	145	525	(1,536)	2,352
EBITDA ⁽¹⁾	\$ 474,278	\$ 250,583 ⁽³⁾	\$ 83,719 ⁽⁴⁾	\$ 112,184 ⁽⁵⁾	\$ 12,440	\$ 15,352 ⁽⁶⁾

(Amounts in thousands)

For the Three Months Ended September 30, 2013

	Retail					
	Washington, DC					
	Total	New York	DC	Properties	Toys	Other
Total revenues	\$ 668,989	\$ 388,747	\$ 137,604	\$ 81,439	\$ -	\$ 61,199
Total expenses	434,138	223,992	87,612	45,461	-	77,073
Operating income (loss)	234,851	164,755	49,992	35,978	-	(15,874)
(Loss) income from partially owned entities, including Toys	(32,756)	4,189	(2,003)	188	(34,209)	(921)
Income from Real Estate Fund	22,913	-	-	-	-	22,913
Interest and other investment (loss) income, net	(10,275)	1,468	17	1	-	(11,761)
Interest and debt expense	(119,676)	(42,349)	(27,246)	(10,834)	-	(39,247)
Net gain on disposition of wholly owned and partially owned assets	15,138	-	-	1,377	-	13,761
Income (loss) before income taxes	110,195	128,063	20,760	26,710	(34,209)	(31,129)
Income tax expense	(2,222)	(65)	(766)	(731)	-	(660)
Income (loss) from continuing operations	107,973	127,998	19,994	25,979	(34,209)	(31,789)
	24,278	2,883	-	21,149	-	246

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Income from discontinued operations						
Net income (loss)	132,251	130,881	19,994	47,128	(34,209)	(31,543)
Less net income attributable to noncontrolling interests	(28,877)	(6,556)	-	(2,970)	-	(19,351)
Net income (loss) attributable to Vornado	103,374	124,325	19,994	44,158	(34,209)	(50,894)
Interest and debt expense ⁽²⁾	183,116	59,344	30,717	12,119	38,435	42,501
Depreciation and amortization ⁽²⁾	172,756	67,294	35,403	17,573	32,176	20,310
Income tax (benefit) expense ⁽²⁾	(20,292)	67	828	731	(22,690)	772
EBITDA ⁽¹⁾	\$ 438,954	\$ 251,030 ⁽³⁾	\$ 86,942 ⁽⁴⁾	\$ 74,581 ⁽⁵⁾	\$ 13,712	\$ 12,689 ⁽⁶⁾
See notes on page 32.						

VORNADO REALTY TRUST

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

(UNAUDITED)

23. Segment Information – continued

(Amounts in thousands)

	For the Nine Months Ended September 30, 2014					
	Total	New York	Washington, DC	Retail Properties	Toys	Other
Total revenues	\$1,997,702	\$1,151,395	\$ 403,645	\$253,623	\$ -	\$ 189,039
Total expenses	1,383,618	716,125	265,299	173,945	-	228,249
Operating income (loss)	614,084	435,270	138,346	79,678	-	(39,210)
(Loss) income from partially owned entities, including Toys	(77,426)	16,372	(4,925)	1,250	(74,162)	(15,961)
Income from Real Estate Fund	142,418	-	-	-	-	142,418
Interest and other investment income, net	28,930	4,979	93	26	-	23,832
Interest and debt expense	(341,613)	(134,970)	(56,692)	(28,565)	-	(121,386)
Net gain on disposition of wholly owned and partially owned assets	13,205	-	-	-	-	13,205
Income (loss) before income taxes	379,598	321,651	76,822	52,389	(74,162)	2,898
Income tax expense	(8,358)	(2,997)	(46)	(1,575)	-	(3,740)
Income (loss) from continuing operations	371,240	318,654	76,776	50,814	(74,162)	(842)
Income from discontinued operations	61,800	-	-	60,993	-	807
Net income (loss)	433,040	318,654	76,776	111,807	(74,162)	(35)
Less net income attributable to	(101,791)	(7,203)	-	(114)	-	(94,474)

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noncontrolling interests						
Net income (loss) attributable to Vornado	331,249	311,451	76,776	111,693	(74,162)	(94,509)
Interest and debt expense ⁽²⁾	510,724	180,150	67,469	31,989	100,549	130,567
Depreciation and amortization ⁽²⁾	530,052	241,040	108,367	56,387	64,533	59,725
Income tax expense ⁽²⁾	21,489	3,069	88	1,575	12,106	4,651
EBITDA ⁽¹⁾	\$1,393,514	\$ 735,710 ⁽³⁾	\$ 252,700 ⁽⁴⁾	\$201,644 ⁽⁵⁾	\$103,026	\$ 100,434 ⁽⁶⁾

(Amounts in thousands)

For the Nine Months Ended September 30, 2013

	Retail					
	Total	New York	Washington, DC	Properties	Toys	Other
Total revenues	\$2,058,525	\$1,129,248	\$ 406,652	\$303,704	\$ -	\$ 218,921
Total expenses	1,362,975	700,652	258,591	140,343	-	263,389
Operating income (loss)	695,550	428,596	148,061	163,361	-	(44,468)
(Loss) income from partially owned entities, including Toys	(45,620)	14,020	(6,545)	1,512	(69,311)	14,704
Income from Real Estate Fund	73,947	-	-	-	-	73,947
Interest and other investment (loss) income, net	(32,935)	4,076	99	3	-	(37,113)
Interest and debt expense	(360,679)	(125,428)	(83,350)	(32,637)	-	(119,264)
Net (loss) gain on disposition of wholly owned and partially owned assets	(20,581)	-	-	1,377	-	(21,958)
Income (loss) before income taxes	309,682	321,264	58,265	133,616	(69,311)	(134,152)
Income tax expense	(6,172)	(1,298)	(1,949)	(1,480)	-	(1,445)
Income (loss) from continuing operations	303,510	319,966	56,316	132,136	(69,311)	(135,597)
Income (loss) from discontinued operations	299,989	8,539	-	292,279	-	(829)
Net income (loss)	603,499	328,505	56,316	424,415	(69,311)	(136,426)

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Less net income attributable to noncontrolling interests	(79,009)	(9,518)	-	(3,079)	-	(66,412)
Net income (loss) attributable to Vornado	524,490	318,987	56,316	421,336	(69,311)	(202,838)
Interest and debt expense ⁽²⁾	551,357	163,579	93,715	40,057	119,347	134,659
Depreciation and amortization ⁽²⁾	549,072	220,280	105,799	52,440	103,732	66,821
Income tax expense ⁽²⁾	18,101	1,444	2,134	1,480	10,959	2,084
EBITDA ⁽¹⁾	\$1,643,020	\$ 704,290 ⁽³⁾	\$ 257,964 ⁽⁴⁾	\$515,313 ⁽⁵⁾	\$164,727	\$ 726 ⁽⁶⁾
See notes on the following page.						

VORNADO REALTY TRUST

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

(UNAUDITED)

23. Segment Information – continued

Notes to preceding tabular information:

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

(Amounts in thousands)	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2014	2013	2014	2013
Office ^(a)	\$ 159,568	\$ 172,367	\$ 480,280	\$ 476,849
Retail	71,327	59,782	205,469	177,394
Alexander's	10,387	10,387	31,088	31,141
Hotel Pennsylvania	9,301	8,494	18,873	18,906
Total New York	\$ 250,583	\$ 251,030	\$ 735,710	\$ 704,290

- (a) The three months ended September 30, 2014 and 2013, includes \$2,140 and \$12,029, respectively, of lease termination income, net. The nine months ended September 30, 2014 and 2013, includes \$4,543 and \$17,373, respectively, of lease termination income, net.

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

(Amounts in thousands)	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2014	2013	2014	2013
Office, excluding the Skyline Properties	\$ 65,904	\$ 69,220	\$ 200,218	\$ 202,463
Skyline properties	7,698	6,841	21,270	22,546
Total Office	73,602	76,061	221,488	225,009
Residential	10,117	10,881	31,212	32,955
Total Washington, DC	\$ 83,719	\$ 86,942	\$ 252,700	\$ 257,964

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

(Amounts in thousands)	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2014	2013	2014	2013
Strip shopping centers ^(a)	\$ 97,122	\$ 59,175	\$ 178,499	\$ 264,065
Regional malls ^(b)	15,062	15,406	23,145	251,248
Total Retail properties	\$ 112,184	\$ 74,581	\$ 201,644	\$ 515,313

- (a)

The three months ended September 30, 2014 and 2013, includes \$57,796 and \$16,087, respectively, of net gains on sale of real estate. The nine months ended September 30, 2014 and 2013, includes \$57,796 and \$81,806, respectively, of net gains on sale of real estate and the nine months ended September 30, 2013 also includes \$59,599 of income pursuant to a settlement agreement with Stop & Shop.

- (b) The nine months ended September 30, 2014, includes a \$20,000 non-cash impairment loss on Springfield Town Center. The nine months ended September 30, 2013, includes a \$202,275 net gain on sale of the Green Acres Mall.

VORNADO REALTY TRUST

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

(UNAUDITED)

23. Segment Information – continued

Notes to preceding tabular information - continued:

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

(Amounts in thousands)	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2014	2013	2014	2013
Our share of Real Estate Fund:				
Income before net realized/unrealized gains	\$ 2,059	\$ 2,086	\$ 6,676	\$ 5,737
Net realized gains on exited investments	12,896	2,046	31,663	2,046
Previously recorded unrealized gains on exited investments	(12,397)	-	(12,579)	-
Net unrealized gains on held investments	4,583	3,092	13,805	14,869
Carried interest	8,431	267	21,636	11,974
Total	15,572	7,491	61,201	34,626
The Mart and trade shows	19,497	14,925	61,038	54,232
555 California Street	11,994	10,720	35,566	32,371
India real estate ventures	2,651	695	4,574	4,708
LNR ^(a)	-	-	-	20,443
Other investments	4,618	5,330	13,825	21,138
	54,332	39,161	176,204	167,518
Corporate general and administrative expenses ^(b)	(22,948)	(23,467)	(71,952)	(71,054)
Investment income and other, net ^(b)	6,659	11,108	22,764	39,153
Suffolk Downs impairment loss and loan loss reserve	(10,263)	-	(10,263)	-
Acquisition and transaction related costs ^(c)	(7,105)	(2,818)	(12,972)	(6,769)
Net gain on sale of residential condominiums and a land parcel	2,665	134	13,205	1,139
Net gain on sale of marketable securities	-	31,741	-	31,741
Loss from the mark-to-market of J.C. Penney derivative position	-	(20,012)	-	(33,487)
Loss on sale of J.C. Penney common shares	-	(18,114)	-	(54,914)
Non-cash impairment loss on J.C. Penney common shares	-	-	-	(39,487)
Severance costs (primarily reduction-in-force at the Mart)	-	-	-	(4,154)

Net income attributable to noncontrolling interests in

the Operating Partnership	(7,975)	(5,032)	(16,514)	(27,814)
Preferred unit distributions of the Operating Partnership	(13)	(12)	(38)	(1,146)
	\$ 15,352	\$ 12,689	\$ 100,434	\$ 726

(a) On April 19, 2013, LNR was sold for \$1.053 billion.

(b) The amounts in these captions (for this table only) exclude income/expense from the mark-to-market of our deferred compensation plan of \$1,352 and \$269 for the three months ended September 30, 2014 and 2013, respectively, and \$8,132 and \$6,207 for the nine months ended September 30, 2014 and 2013, respectively.

(c) The three and nine months ended September 30, 2014, includes \$5,828 and \$9,343, respectively, of transaction costs related to the spin-off of our strip shopping centers and malls (see Note 1 - *Organization*).

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

Shareholders and Board of Trustees

Vornado Realty Trust

New York, New York

We have reviewed the accompanying consolidated balance sheet of Vornado Realty Trust (the “Company”) as of September 30, 2014, and the related consolidated statements of income and comprehensive income for the three-month and nine-month periods ended September 30, 2014 and 2013 and changes in equity and cash flows for the nine-month periods ended September 30, 2014 and 2013. These interim financial statements are the responsibility of the Company’s management.

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

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

We have previously audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheet of Vornado Realty Trust as of December 31, 2013, and the related consolidated statements of income, comprehensive income, changes in equity, and cash flows for the year then ended (not presented herein); and in our report dated February 24, 2014, we expressed an unqualified opinion on those consolidated financial statements. In our opinion, the information set forth in the accompanying consolidated balance sheet as of December 31, 2013 is fairly stated, in all material respects, in relation to the consolidated balance sheet from which it has been derived.

/s/ DELOITTE & TOUCHE LLP

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

Parsippany, New Jersey

November 3, 2014

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

Certain statements contained in this Quarterly Report constitute forward looking statements as such term is defined in Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. Forward-looking statements are not guarantees of performance. They represent our intentions, plans, expectations and beliefs and are subject to numerous assumptions, risks and uncertainties. Our future results, financial condition and business may differ materially from those expressed in these forward-looking statements. You can find many of these statements by looking for words such as "approximates," "believes," "expects," "anticipates," "estimates," "intends," "plans," "would," "may" or other similar expressions in this Quarterly Report on Form 10-Q. Many of the factors that will determine the outcome of these and our other forward-looking statements are beyond our ability to control or predict. For further discussion of factors that could materially affect the outcome of our forward-looking statements, see "Item 1A. Risk Factors" in our Annual Report on Form 10-K, as amended, for the year ended December 31, 2013. For these statements, we claim the protection of the safe harbor for forward-looking statements contained in the Private Securities Litigation Reform Act of 1995. You are cautioned not to place undue reliance on our forward-looking statements, which speak only as of the date of this Quarterly Report on Form 10-Q or the date of any document incorporated by reference. All subsequent written and oral forward-looking statements attributable to us or any person acting on our behalf are expressly qualified in their entirety by the cautionary statements contained or referred to in this section. We do not undertake any obligation to release publicly any revisions to our forward-looking statements to reflect events or circumstances occurring after the date of this Quarterly Report on Form 10-Q.

Management's Discussion and Analysis of Financial Condition and Results of Operations includes a discussion of our consolidated financial statements for the three and nine months ended September 30, 2014. The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires us to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting periods. Actual results could differ from those estimates. The results of operations for the three and nine months ended September 30, 2014 are not necessarily indicative of the operating results for the full year. Certain prior year balances have been reclassified in order to conform to current year presentation.

Overview**Business Objective and Operating Strategy**

Our business objective is to maximize shareholder value, which we measure by the total return provided to our shareholders. Below is a table comparing our performance to the FTSE NAREIT Office REIT Index (“Office REIT”) and the Morgan Stanley REIT Index (“RMS”) for the following periods ended September 30, 2014.

	Vornado	Total Return⁽¹⁾ Office REIT	RMS
Three-month	(5.7%)	(5.2%)	(3.1%)
Nine-month	15.1%	11.7%	14.0%
One-year	22.5%	12.4%	13.3%
Three-year	49.7%	47.9%	58.6%
Five-year	85.6%	69.6%	109.7%
Ten-year	139.4%	89.1%	124.1%

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

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

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

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

securities in the future.

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

On April 11, 2014, we announced a plan to spin off our shopping center business, consisting of 80 strip centers, four malls and a warehouse park adjacent to our East Hanover strip center, into a new publicly traded REIT, Urban Edge Properties (“UE”), formerly Vornado Spinco. The spin-off is expected to be effectuated through a pro rata distribution of UE’s common shares to Vornado common shareholders and Vornado Realty L.P. common unitholders, and is intended to be treated as tax-free for U.S. federal income tax purposes. We expect the spin-off to be completed by the end of 2014, subject to certain conditions, including the Securities and Exchange Commission (“SEC”) declaring UE’s Form 10 registration statement effective, filing and approval of UE’s listing application with the NYSE, receipt of third party consents, and formal approval and declaration of the distribution by Vornado’s Board of Trustees. Vornado may, at any time and for any reason until the proposed transaction is complete, abandon the separation or modify or change its terms. Vornado will retain, for disposition in the near term, 20 small retail assets which do not fit UE’s strategy, and the Springfield Town Center, which is under contract for disposition (see Note 9 – *Dispositions*).

Overview – continuedQuarter Ended September 30, 2014 Financial Results Summary

Net income attributable to common shareholders for the quarter ended September 30, 2014 was \$131,159,000, or \$0.69 per diluted share, compared to \$83,005,000, or \$0.44 per diluted share for the quarter ended September 30, 2013. Net income for the quarters ended September 30, 2014 and 2013 include \$57,796,000 and \$16,087,000, respectively, of net gains on sale of real estate and \$2,546,000 of real estate impairment losses in the quarter ended September 30, 2013. In addition, the quarters ended September 30, 2014 and 2013 include certain other items that affect comparability, which are listed in the table below. The aggregate of net gains on sale of real estate, real estate impairment losses and the items in the table below, net of amounts attributable to noncontrolling interests, increased net income attributable to common shareholders for the quarter ended September 30, 2014 by \$23,250,000, or \$0.12 per diluted share, and decreased net income attributable to common shareholders for the quarter ended September 30, 2013 by \$20,564,000 or \$0.11 per diluted share.

Funds From Operations attributable to common shareholders plus assumed conversions (“FFO”) for the quarter ended September 30, 2014 was \$217,362,000, or \$1.15 per diluted share, compared to \$210,627,000, or \$1.12 per diluted share for the prior year’s quarter. FFO for the quarters ended September 30, 2014 and 2013 include certain items that affect comparability, which are listed in the table below. The aggregate of these items, net of amounts attributable to noncontrolling interests, decreased FFO by \$30,824,000, or \$0.16 per diluted share for the quarter ended September 30, 2014, and \$21,270,000, or \$0.11 per diluted share for the quarter ended September 30, 2013.

(Amounts in thousands)	For the Three Months Ended September	
	2014	2013
Items that affect comparability income (expense):		
Toys "R" Us Negative FFO	\$ (18,035)	\$ (22,343)
Impairment loss and loan loss reserve on investment in Suffolk Downs	(10,263)	-
Acquisition and transaction related costs	(7,105)	(2,818)
Net gain on sale of residential condominiums	2,665	134
FFO from discontinued operations	335	7,169
Losses from the disposition of investment in J.C. Penney	-	(38,126)
Net gain on sale of marketable securities	-	31,741
Other, net	(324)	1,377
	(32,727)	(22,866)
Noncontrolling interests' share of above adjustments	1,903	1,596

Items that affect comparability, net \$ (30,824) \$ (21,270)

The percentage increase (decrease) in same store Earnings Before Interest, Taxes, Depreciation and Amortization (“EBITDA”) and Cash basis same store EBITDA of our operating segments for the quarter ended September 30, 2014 over the quarter ended September 30, 2013 and the trailing quarter ended June 30, 2014 are summarized below.

Same Store EBITDA:

	Retail Properties			
	New York	Washington, DC	UE	Total
September 30, 2014 vs. September 30, 2013				
Same store EBITDA	4.6%	(2.7%)	1.3%	1.1%
Cash basis same store EBITDA	5.2%	(4.1%)	2.9%	1.8%
September 30, 2014 vs. June 30, 2014				
Same store EBITDA	(0.9%)	(0.6%)	0.6%	0.3%
Cash basis same store EBITDA	(1.2%)	(0.9%)	0.3%	(0.2%)

Overview – continued*Nine Months Ended September 30, 2014 Financial Results Summary*

Net income attributable to common shareholders for the nine months ended September 30, 2014 was \$270,150,000, or \$1.43 per diluted share, compared to \$460,921,000, or \$2.46 per diluted share for the nine months ended September 30, 2013. Net income for the nine months ended September 30, 2014 and 2013 include \$57,796,000 and \$284,546,000, respectively, of net gains on sale of real estate, and \$20,842,000 and \$10,823,000, respectively, of real estate impairment losses. In addition, the nine months ended September 30, 2014 and 2013 include certain items that affect comparability, which are listed in the table below. The aggregate of real estate impairment losses, net gains on sale of real estate and the items in the table below, net of amounts attributable to noncontrolling interests, decreased net income attributable to common shareholders for the nine months ended September 30, 2014 by \$45,488,000, or \$0.24 per diluted share, and increased net income attributable to common shareholders for the nine months ended September 30, 2013 by \$178,460,000, or \$0.95 per diluted share.

FFO for the nine months ended September 30, 2014 was \$684,247,000, or \$3.63 per diluted share, compared to \$647,767,000, or \$3.45 per diluted share for the nine months ended September 30, 2013. FFO for the nine months ended September 30, 2014 and 2013 include certain items that affect comparability, which are listed in the table below. The aggregate of these items, net of amounts attributable to noncontrolling interests, decreased FFO by \$66,161,000, or \$0.35 per diluted share for the nine months ended September 30, 2014 and \$35,574,000, or \$0.19 per diluted share for the nine months ended September 30, 2013.

(Amounts in thousands)	For the Nine Months Ended September 30,	
	2014	2013
Items that affect comparability income (expense):		
Toys "R" Us Negative FFO (including impairment losses of \$75,196 and \$78,542, respectively)	\$ (60,630)	\$ (30,747)
Net gain on sale of residential condominiums and a land parcel in 2014	13,205	1,139
Acquisition and transaction related costs	(12,972)	(6,769)
Impairment loss and loan loss reserve on investment in Suffolk Downs	(10,263)	-
FFO from discontinued operations, including LNR in 2013	6,316	42,179
Defeasance cost in connection with the refinancing of 909 Third Avenue	(5,589)	-

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Losses from the disposition of investment in J.C. Penney	-	(127,888)
Stop & Shop litigation settlement income	-	59,599
Net gain on sale of marketable securities	-	31,741
The Mart reduction-in-force and severance costs	-	(4,154)
Preferred unit and share redemptions	-	(1,130)
Other, net	(324)	(1,742)
	(70,257)	(37,772)
Noncontrolling interests' share of above adjustments	4,096	2,198
Items that affect comparability, net	\$ (66,161)	\$ (35,574)

The percentage increase (decrease) in same store EBITDA and Cash basis same store EBITDA of our operating segments for the nine months ended September 30, 2014 over the nine months ended September 30, 2013 is summarized below.

Same Store EBITDA:	Retail Properties			
	New York	Washington, DC	UE	Total
September 30, 2014 vs. September 30, 2013				
Same store EBITDA	5.3%	(2.4%)	1.7%	1.4%
Cash basis same store EBITDA	7.4%	(1.8%)	2.5%	2.1%

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

Overview – continued

2014 Acquisitions

On June 26, 2014, we invested an additional \$22,700,000 to increase our ownership in One Park Avenue to 55.0% from 46.5% through a joint venture with an institutional investor, who increased his ownership interest to 45.0%. The transaction was based on a property value of \$560,000,000. The property is encumbered by a \$250,000,000 interest-only mortgage loan that bears interest at 4.995% and matures in March 2016.

On July 23, 2014, a joint venture in which we are a 50.1% partner entered into a 99-year ground lease for 61 Ninth Avenue located on the Southwest corner of Ninth Avenue and 15th Street in Manhattan. The venture's current plans are to construct an office building, with retail at the base, of approximately 130,000 square feet. Total development costs are currently estimated to be approximately \$125,000,000.

On August 1, 2014, we acquired the land under our 715 Lexington Avenue retail property located on the Southeast corner of 58th Street and Lexington Avenue in Manhattan, for \$63,000,000.

On October 28, 2014, we completed the purchase of the St. Regis Fifth Avenue retail for \$700,000,000. We own approximately 75% of the joint venture which owns the property. The acquisition will be used in a like-kind exchange for income tax purposes for the sale of 1740 Broadway (see Note 22 – *Subsequent Events*). We consolidate the accounts of the venture into our consolidated financial statements from the date of acquisition. As of September 30, 2014, the venture's \$50,000,000 non-refundable deposit was included in "other assets" on our consolidated balance sheet.

2014 Dispositions

On February 24, 2014, we completed the sale of Broadway Mall in Hicksville, Long Island, New York for \$94,000,000. The sale resulted in net proceeds of \$92,174,000 after closing costs.

On March 2, 2014, we entered into an agreement to transfer upon completion, the redeveloped Springfield Town Center, a 1,350,000 square foot mall located in Springfield, Fairfax County, Virginia, to Pennsylvania Real Estate Investment Trust (NYSE: PEI) (“PREIT”) in exchange for \$465,000,000 comprised of \$340,000,000 of cash and \$125,000,000 of PREIT operating partnership units. In connection therewith, we recorded a non-cash impairment loss of \$20,000,000 in the first quarter of 2014, which is included in “impairment losses, acquisition and transaction related costs” on our consolidated statements of income. The redevelopment was completed in October 2014 and the closing will be no later than March 31, 2015.

On July 8, 2014, we completed the sale of Beverly Connection, a 335,000 square foot power shopping center in Los Angeles, California, for \$260,000,000, of which \$239,000,000 was cash and \$21,000,000 was 10-year mezzanine seller financing. The sale resulted in a net gain of approximately \$44,155,000, which was recognized in the third quarter of 2014.

During the third quarter of 2014, we sold two of the 20 strip shopping centers which do not fit UE's strategy (see Note 1 – *Organization*), in separate transactions, for an aggregate of \$15,000,000 in cash, which resulted in a net gain aggregating \$13,641,000.

On October 31, 2014, we entered into an agreement to sell 1740 Broadway, a 601,000 square foot office building in Manhattan for approximately \$605,000,000. The sale will result in net proceeds of approximately \$585,000,000, after closing costs, and result in a financial statement gain of approximately \$443,000,000. The tax gain will be approximately \$483,000,000, which will be deferred in like-kind exchanges, primarily for the St. Regis Fifth Avenue retail (see Note 4 – *Acquisitions*). The sale is subject to customary closing conditions and is expected to be completed in the fourth quarter of 2014.

Overview – continued

2014 Financings

On January 31, 2014, we completed a \$600,000,000 loan secured by our 220 Central Park South development site. The loan bears interest at LIBOR plus 2.75% (2.90% at September 30, 2014) and matures in January 2016, with three one-year extension options.

On April 16, 2014, we completed a \$350,000,000 refinancing of 909 Third Avenue, a 1.3 million square foot Manhattan office building. The seven-year interest only loan bears interest at 3.91% and matures in May 2021. We realized net proceeds of approximately \$145,000,000 after defeasing the existing 5.64%, \$193,000,000 mortgage, defeasance cost and other closing costs.

On June 16, 2014, we completed a green bond public offering of \$450,000,000 2.50% senior unsecured notes due June 30, 2019. The notes were sold at 99.619% of their face amount to yield 2.581%.

On July 16, 2014, we completed a \$130,000,000 financing of Las Catalinas, a 494,000 square foot mall located in the San Juan area of Puerto Rico. The 10-year fixed rate loan bears interest at 4.43% and matures in August 2024. The loan amortizes based on a 30-year schedule beginning in year six.

On August 12, 2014, we completed a \$185,000,000 financing of the Universal buildings, a 690,000 square foot, two-building office complex located in Washington, DC. The loan bears interest at LIBOR plus 1.90% (2.06% at September 30, 2014) and matures in August 2019 with two one-year extension options. The loan amortizes based on a 30-year schedule beginning in the fourth year.

On August 26, 2014, we obtained a standby commitment for up to \$500,000,000 of five-year mezzanine loan financing to fund a portion of the development expenditures at 220 Central Park South.

On September 30, 2014, we extended one of our two \$1.25 billion unsecured revolving credit facilities from November 2015 to November 2018 with two six-month extension options. The interest rate on the extended facility was lowered from LIBOR plus 125 basis points to LIBOR plus 105 basis points and the facility fee was reduced from

25 to 20 points.

On October 1, 2014, we redeemed all of the \$445,000,000 principal amount of our outstanding 7.875% senior unsecured notes, which were scheduled to mature on October 1, 2039, at a redemption price of 100% of the principal amount plus accrued interest through the redemption date. In the fourth quarter of 2014, we will write off \$12,532,000 of unamortized deferred financing costs, which will be included as a component of “interest and debt expense” on our consolidated statements of income.

On October 27, 2014, we completed a \$140,000,000 financing of 655 Fifth Avenue, a 57,500 square foot retail and office property. The loan is interest only at LIBOR plus 1.40% and matures in October 2019 with two one-year extension options.

Vornado Capital Partners Real Estate Fund (the “Fund”)

On June 26, 2014, the Fund sold its 64.7% interest in One Park Avenue to a newly formed joint venture that we and an institutional investor own 55% and 45%, respectively. This transaction was based on a property value of \$560,000,000. From the inception of this investment through its disposition, the Fund realized a \$75,529,000 net gain.

On August 21, 2014, the Fund and its 50% joint venture partner completed the sale of The Shops at Georgetown Park, a 305,000 square foot retail property, for \$272,500,000. From the inception of this investment through its disposition, the Fund realized a \$51,124,000 net gain.

Overview – continued

Recently Issued Accounting Literature

In June 2013, the Financial Accounting Standards Board (“FASB”) issued an update (“ASU 2013-08”) to Accounting Standards Codification (“ASC”) Topic 946, *Financial Services - Investment Companies* (“Topic 946”). ASU 2013-08 amends the guidance in Topic 946 for determining whether an entity qualifies as an investment company and requires certain additional disclosures. ASU 2013-08 is effective for interim and annual reporting periods in fiscal years that begin after December 15, 2013. The adoption of this update as of January 1, 2014, did not have any impact on our real estate fund or our consolidated financial statements.

In April 2014, the 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 begin after December 15, 2014. We are currently evaluating the impact of ASU 2014-08 on our consolidated financial statements.

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, 2016. We are currently evaluating the impact of the adoption of ASU 2014-09 on our consolidated financial statements.

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.

Critical Accounting Policies

A summary of our critical accounting policies is included in our Annual Report on Form 10-K, as amended, for the year ended December 31, 2013 in Management's Discussion and Analysis of Financial Condition. There have been no significant changes to our policies during 2014.

Overview - continued**Leasing Activity:**

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

(Square feet in thousands)	New York		Washington,	Retail Properties	
	Office	Retail	DC Office	Strips	Malls
Quarter Ended September 30, 2014					
Total square feet leased	556	33	450	243	25
Our share of square feet leased:	483	29	377	243	19
Initial rent ⁽¹⁾	\$ 68.44	\$ 168.22	\$ 38.32	\$ 17.66	\$ 42.03
Weighted average lease term (years)	9.7	11.2	7.1	9.0	5.7
Second generation relet space:					
Square feet	243	15	193	31	2
Cash basis:					
Initial rent ⁽¹⁾	\$ 70.88	\$ 238.45	\$ 39.30	\$ 27.19	\$ 86.42
Prior escalated rent	\$ 60.13	\$ 168.14	\$ 42.41	\$ 25.22	\$ 70.11
Percentage increase (decrease)	17.9%	41.8%	(7.3%)	7.8%	23.3%
GAAP basis:					
Straight-line rent ⁽²⁾	\$ 69.12	\$ 247.02	\$ 39.07	\$ 27.89	\$ 86.77
Prior straight-line rent	\$ 61.40	\$ 161.01	\$ 40.15	\$ 24.74	\$ 65.89
Percentage increase (decrease)	12.6%	53.4%	(2.7%)	12.7%	31.7%
Tenant improvements and leasing commissions:					
Per square foot	\$ 82.95	\$ 18.90	\$ 34.33	\$ 28.31 ⁽³⁾	\$ 31.04 ⁽⁴⁾
Per square foot per annum	\$ 8.55	\$ 1.69	\$ 4.84	\$ 3.15 ⁽³⁾	\$ 5.45 ⁽⁴⁾
	12.5%	1.0%	12.6%	17.8% ⁽³⁾	13.0% ⁽⁴⁾

Percentage of initial
rent

**Nine Months Ended September
30, 2014:**

Total square feet leased	2,726	68	1,159 ⁽⁵⁾	707	104
Our share of square feet leased:	2,321	63	1,055 ⁽⁵⁾	707	91
Initial rent ⁽¹⁾	\$ 66.78	\$ 259.92	\$ 39.57	\$ 18.86	\$ 28.70
Weighted average lease term (years)	10.9	10.9	7.5	7.0	5.2
Second generation relet space:					
Square feet	1,817	47	660	366	55
Cash basis:					
Initial rent ⁽¹⁾	\$ 68.14	\$ 318.17	\$ 39.93	\$ 21.38	\$ 24.30
Prior escalated rent	\$ 60.47	\$ 236.71	\$ 42.56	\$ 20.19	\$ 22.66
Percentage increase (decrease)	12.7%	34.4%	(6.2%)	5.9%	7.2%
GAAP basis:					
Straight-line rent ⁽²⁾	\$ 67.29	\$ 353.95	\$ 38.76	\$ 21.75	\$ 24.71
Prior straight-line rent	\$ 57.12	\$ 233.53	\$ 39.20	\$ 19.50	\$ 22.46
Percentage increase (decrease)	17.8%	51.6%	(1.1%)	11.5%	10.0%
Tenant improvements and leasing commissions:					
Per square foot	\$ 74.65	\$ 56.44	\$ 38.14	\$ 11.53	\$ 9.32
Per square foot per annum	\$ 6.85	\$ 5.18	\$ 5.09	\$ 1.65	\$ 1.79
Percentage of initial rent	10.3%	2.0%	12.9%	8.7%	6.2%
(1)	Represents the cash basis weighted average starting rent per square foot, which is generally indicative of market rents. Most leases include free rent and periodic step-ups in rent which are not included in the initial cash basis rent per square foot but are included in the GAAP basis straight-line rent per square foot.				
(2)	Represents the GAAP basis weighted average rent per square foot that is recognized over the term of the respective leases, and includes the effect of free rent and periodic step-ups in rent.				
(3)	Excluding tenant improvements and leasing commissions for a 58,652 square foot lease at our Kearny strip shopping center, the tenant improvements and leasing commissions per square foot were \$3.12 instead of \$28.31, \$0.45 per square foot per annum instead of \$3.15 per square foot per annum and 2.5% of initial rent instead of 17.8% of initial rent.				
(4)	Represents tenant improvements and leasing commissions for a 6,914 square foot lease at our Las Catalinas shopping mall. There were no other tenant improvements and leasing commissions during the quarter ended September 30, 2014.				
(5)	Excludes (i) 165 square feet leased to WeWork that will be redeveloped into rental residential apartments (see page 69), and (ii) 71 square feet of retail space that was leased at an initial rent of \$47.06 per square foot.				

Overview – continued

Square footage (in service) and Occupancy as of September 30, 2014:

(Square feet in thousands)	Number of Properties	Square Feet (in service)		Occupancy %
		Total Portfolio	Our Share	
New York:				
Office	32	19,922	16,660	96.6%
Retail	56	2,370	2,186	96.9%
Alexander's	6	2,178	706	99.7%
Hotel Pennsylvania	1	1,400	1,400	
Residential - 1,655 units	4	1,523	762	94.7%
		27,393	21,714	96.7%
Washington, DC:				
Office, excluding the Skyline Properties	51	13,340	11,021	87.1%
Skyline Properties	8	2,648	2,648	53.2%
Total Office	59	15,988	13,669	80.5%
Residential - 2,414 units	7	2,597	2,455	97.0%
Other	6	381	381	100.0%
		18,966	16,505	83.4%
Retail Properties:				
Strip Shopping Centers	100	14,439	14,013	94.5%
Regional Malls	5	4,132	2,644	95.5%
		18,571	16,657	94.6%
Other:				
The Mart	1	3,586	3,577	96.7%
555 California Street	3	1,799	1,259	96.8%
Primarily Warehouses	5	971	971	45.6%
		6,356	5,807	
Total square feet at September 30, 2014		71,286	60,683	

Overview - continued**Square footage (in service) and Occupancy as of December 31, 2013:**

(Square feet in thousands)	Number of properties	Square Feet (in service)		Occupancy %
		Total Portfolio	Our Share	
New York:				
Office	31	19,799	16,358	96.6%
Retail	55	2,389	2,166	97.4%
Alexander's	6	2,178	706	99.4%
Hotel Pennsylvania	1	1,400	1,400	
Residential - 1,655 units	4	1,523	762	94.8%
		27,289	21,392	96.8%
Washington, DC:				
Office, excluding the Skyline Properties	51	13,581	11,151	85.4%
Skyline Properties	8	2,652	2,652	60.8%
Total Office	59	16,233	13,803	80.7%
Residential - 2,405 units	7	2,588	2,446	96.3%
Other	5	379	379	100.0%
		19,200	16,628	83.4%
Retail Properties:				
Strip Shopping Centers	101	14,490	14,111	94.7%
Regional Malls	5	4,135	2,646	95.9%
		18,625	16,757	94.9%
Other:				
The Mart	2	3,703	3,694	96.3%
555 California Street	3	1,795	1,257	94.5%
Primarily Warehouses	5	971	971	45.6%
		6,469	5,922	
Total square feet at December 31, 2013		71,583	60,699	

Overview - continued**Washington, DC Segment**

We estimate that 2014 EBITDA from continuing operations will be between \$5,000,000 and \$10,000,000 lower than 2013 EBITDA, due to the effects of Base Realignment and Closure (“BRAC”) related move-outs and the sluggish leasing environment in the Washington, DC / Northern Virginia area. EBITDA from continuing operations for the nine months ended September 30, 2014, was lower than the prior year’s nine months by \$5,264,000, which was offset by an interest expense reduction of \$18,318,000 from the restructuring of the Skyline properties mortgage loan in October 2013. As a result of this and other items, the overall earnings in the nine months ended September 30, 2014 were higher than the prior year’s nine months.

Of the 2,395,000 square feet subject to the effects of the BRAC statute, 393,000 square feet has been taken out of service for redevelopment and 952,000 square feet has been leased. The table below summarizes the status of the BRAC space as of September 30, 2014.

	Rent Per		Square Feet		
	Square Foot	Total	Crystal City	Skyline	Rosslyn
Resolved:					
Relet as of September 30, 2014	\$ 37.97	952,000	591,000	281,000	80,000
Taken out of service for redevelopment		393,000	393,000	-	-
		1,345,000	984,000	281,000	80,000
To Be Resolved:					
Vacated as of September 30, 2014	36.41	835,000	367,000	402,000	66,000
Expiring in:					
2014	39.54	26,000	-	26,000	-
2015	36.76	189,000	88,000	101,000	-
		1,050,000	455,000	529,000	66,000
Total square feet subject to BRAC		2,395,000	1,439,000	810,000	146,000

Net Income and EBITDA by Segment for the Three Months Ended September 30, 2014 and 2013

Below is a summary of net income and a reconciliation of net income to EBITDA⁽¹⁾ by segment for the three months ended September 30, 2014 and 2013.

(Amounts in thousands)

	For the Three Months Ended September 30, 2014					
	Total	New York	Washington, DC	Retail Properties	Toys	Other
Total revenues	\$ 670,909	\$ 394,579	\$ 133,541	\$ 82,442	\$ -	\$ 60,347
Total expenses	450,310	243,314	88,375	44,466	-	74,155
Operating income (loss)	220,599	151,265	45,166	37,976	-	(13,808)
(Loss) income from partially owned entities, including Toys	(25,663)	5,810	(1,411)	371	(18,418)	(12,015)
Income from Real Estate Fund	24,160	-	-	-	-	24,160
Interest and other investment income, net	7,602	1,859	15	9	-	5,719
Interest and debt expense	(115,120)	(43,061)	(18,685)	(10,056)	-	(43,318)
Net gain on disposition of wholly owned and partially owned assets	2,665	-	-	-	-	2,665
Income (loss) before income taxes	114,243	115,873	25,085	28,300	(18,418)	(36,597)
Income tax expense	(3,177)	(802)	(130)	(525)	-	(1,720)
Income (loss) from continuing operations	111,066	115,071	24,955	27,775	(18,418)	(38,317)
Income from discontinued operations	58,131	-	-	57,499	-	632
Net income (loss)	169,197	115,071	24,955	85,274	(18,418)	(37,685)
Less net income attributable to noncontrolling interests	(17,673)	(2,690)	-	(76)	-	(14,907)
Net income (loss) attributable to Vornado	151,524	112,381	24,955	85,198	(18,418)	(52,592)
	160,252	58,010	22,208	11,205	22,471	46,358

Interest and debt expense ⁽²⁾						
Depreciation and amortization ⁽²⁾	160,270	79,446	36,411	15,256	9,923	19,234
Income tax expense (benefit) ⁽²⁾	2,232	746	145	525	(1,536)	2,352
EBITDA ⁽¹⁾	\$ 474,278	\$ 250,583 ⁽³⁾	\$ 83,719 ⁽⁴⁾	\$ 112,184 ⁽⁵⁾	\$ 12,440	\$ 15,352 ⁽⁶⁾

(Amounts in thousands)

For the Three Months Ended September 30, 2013

	Retail					
	Total	New York	Washington, DC	Properties	Toys	Other
Total revenues	\$ 668,989	\$ 388,747	\$ 137,604	\$ 81,439	\$ -	\$ 61,199
Total expenses	434,138	223,992	87,612	45,461	-	77,073
Operating income (loss)	234,851	164,755	49,992	35,978	-	(15,874)
(Loss) income from partially owned entities, including Toys	(32,756)	4,189	(2,003)	188	(34,209)	(921)
Income from Real Estate Fund	22,913	-	-	-	-	22,913
Interest and other investment (loss) income, net	(10,275)	1,468	17	1	-	(11,761)
Interest and debt expense	(119,676)	(42,349)	(27,246)	(10,834)	-	(39,247)
Net gain on disposition of wholly owned and partially owned assets	15,138	-	-	1,377	-	13,761
Income (loss) before income taxes	110,195	128,063	20,760	26,710	(34,209)	(31,129)
Income tax expense	(2,222)	(65)	(766)	(731)	-	(660)
Income (loss) from continuing operations	107,973	127,998	19,994	25,979	(34,209)	(31,789)
Income from discontinued operations	24,278	2,883	-	21,149	-	246
Net income (loss)	132,251	130,881	19,994	47,128	(34,209)	(31,543)
Less net income attributable to noncontrolling interests	(28,877)	(6,556)	-	(2,970)	-	(19,351)
Net income (loss) attributable to	103,374	124,325	19,994	44,158	(34,209)	(50,894)

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Vornado						
Interest and debt expense ⁽²⁾	183,116	59,344	30,717	12,119	38,435	42,501
Depreciation and amortization ⁽²⁾	172,756	67,294	35,403	17,573	32,176	20,310
Income tax (benefit) expense ⁽²⁾	(20,292)	67	828	731	(22,690)	772
EBITDA ⁽¹⁾	\$ 438,954	\$ 251,030 ⁽³⁾	\$ 86,942 ⁽⁴⁾	\$ 74,581 ⁽⁵⁾	\$ 13,712	\$ 12,689 ⁽⁶⁾

See notes on the following page.

Net Income and EBITDA by Segment for the Three Months Ended September 30, 2014 and 2013 - continued**Notes to preceding tabular information:**

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

(Amounts in thousands)	For the Three Months Ended September 30,	
	2014	2013
Office ^(a)	\$ 159,568	\$ 172,367
Retail	71,327	59,782
Alexander's	10,387	10,387
Hotel Pennsylvania	9,301	8,494
Total New York	\$ 250,583	\$ 251,030

- (a) Includes \$12,121 of termination fee income, net, from a tenant at 1290 Avenue of the Americas and \$2,368 from discontinued operations in the three months ended September 30, 2013. Excluding these items, EBITDA for the three months ended September 30, 2013 was \$157,878.

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

(Amounts in thousands)	For the Three Months Ended September 30,	
	2014	2013
Office, excluding the Skyline Properties	\$ 65,904	\$ 69,220
Skyline properties	7,698	6,841
Total Office	73,602	76,061
Residential	10,117	10,881
Total Washington, DC	\$ 83,719	\$ 86,942

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

(Amounts in thousands)	For the Three Months Ended September 30,	
	2014	2013
Strip shopping centers ^(a)	\$ 97,122	\$ 59,175
Regional malls ^(b)	15,062	15,406
Total Retail properties	\$ 112,184	\$ 74,581

- (a) Includes discontinued operations and other gains and losses that affect comparability, aggregating \$57,676 and \$19,352 for the three months ended September 30, 2014 and 2013, respectively. Excluding these items, EBITDA was \$39,446 and \$39,823, respectively.

- (b) Includes discontinued operations and other gains and losses that affect comparability, aggregating to a loss of \$177 and income of \$2,140 for the three months ended September 30, 2014 and 2013, respectively. Excluding these items, EBITDA was \$15,239 and \$13,266, respectively.

Net Income and EBITDA by Segment for the Three Months Ended September 30, 2014 and 2013 - continued**Notes to preceding tabular information - continued:**

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

(Amounts in thousands)	For the Three Months Ended September 30,	
	2014	2013
Our share of Real Estate Fund:		
Income before net realized/unrealized gains	\$ 2,059	\$ 2,086
Net realized gains on exited investments	12,896	2,046
Previously recorded unrealized gains on exited investments	(12,397)	-
Net unrealized gains on held investments	4,583	3,092
Carried interest	8,431	267
Total	15,572	7,491
The Mart and trade shows	19,497	14,925
555 California Street	11,994	10,720
India real estate ventures	2,651	695
Other investments	4,618	5,330
	54,332	39,161
Corporate general and administrative expenses ^(a)	(22,948)	(23,467)
Investment income and other, net ^(a)	6,659	11,108
Impairment loss and loan loss reserve on investment in Suffolk Downs	(10,263)	-
Acquisition and transaction related costs ^(b)	(7,105)	(2,818)
Net gain on sale of residential condominiums and a land parcel	2,665	134
Net gain on sale of marketable securities	-	31,741
Loss from the mark-to-market of J.C. Penney derivative position	-	(20,012)
Loss on sale of J.C. Penney common shares	-	(18,114)
Net income attributable to noncontrolling interests in the Operating Partnership	(7,975)	(5,032)
Preferred unit distributions of the Operating Partnership	(13)	(12)
	\$ 15,352	\$ 12,689

(a) The amounts in these captions (for this table only) exclude income/expense from the mark-to-market of our deferred compensation plan of \$1,352 and \$269 for the three months ended September 30, 2014 and 2013, respectively.

(b) The three months ended September 30, 2014, includes \$5,828 of transaction costs related to the spin-off of our strip shopping centers and malls.

EBITDA by Region

Below is a summary of the percentages of EBITDA by geographic region (excluding discontinued operations, other gains and losses that affect comparability and our Toys and Other Segments).

Region:	For the Three Months Ended September 30,	
	2014	2013
New York City metropolitan area	75%	74%
Washington, DC / Northern Virginia metropolitan area	22%	23%
Puerto Rico	1%	1%
Other geographies	2%	2%
	100%	100%

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Results of Operations – Three Months Ended September 30, 2014 Compared to September 30, 2013**Revenues**

Our revenues, which consist primarily of property rentals (including hotel and trade show revenues), tenant expense reimbursements, and fee and other income, were \$670,909,000 in the three months ended September 30, 2014, compared to \$668,989,000 in the prior year's quarter, an increase of \$1,920,000.

(Amounts in thousands)

Increase (Decrease) due to:	Total	New York	Washington, DC	Retail Properties	Other
Property rentals:					
Acquisitions and other Properties taken out of / placed into service for redevelopment	\$ 3,565	\$ 4,822	\$ (1,388)	\$ (65)	\$ 196
Hotel Pennsylvania	(3,366)	(1,221)	(497)	426	(2,074)
Trade Shows	1,009	1,009	-	-	-
Same store operations	1,714	-	-	-	1,714
	13,813	8,473	1,485	988	2,867
	16,735	13,083	(400)	1,349	2,703
Tenant expense reimbursements:					
Acquisitions and other Properties placed into / taken out of service for redevelopment	624	311	286	(4)	31
Same store operations	(814)	(530)	43	(165)	(162)
	4,706	5,287	(890)	(446)	755
	4,516	5,068	(561)	(615)	624
Cleveland Medical Mart development project	(4,893) ⁽¹⁾	-	-	-	(4,893) ⁽¹⁾
Fee and other income:					
BMS cleaning fees	6,569	6,075	-	-	494 ⁽²⁾
Signage revenue	(1,040)	(1,040)	-	-	-
Management and leasing fees	(3,315)	(1,203)	(2,199)	25	62
Lease termination fees	(16,579)	(16,387) ⁽³⁾	(659)	464	3
Other income	(73)	236	(244)	(220)	155
	(14,438)	(12,319)	(3,102)	269	714

Total increase (decrease) in revenues	\$ 1,920	\$ 5,832	\$ (4,063)	\$ 1,003	\$ (852)
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- (1) Due to completion of the project. This decrease in revenue is substantially offset by a decrease in development costs expensed in the period. See note (3) on page 50.
- (2) Represents the change in the elimination of intercompany fees from operating segments upon consolidation. See note (2) on page 50.
- (3) Primarily due to a \$19,500 termination fee from a tenant at 1290 Avenue of the Americas recognized during the third quarter of 2013.

Results of Operations – Three Months Ended September 30, 2014 Compared to September 30, 2013 - continuedExpenses

Our expenses, which consist primarily of operating (including hotel and trade show expenses), depreciation and amortization and general and administrative expenses, were \$450,310,000 in the three months ended September 30, 2014, compared to \$434,138,000 in the prior year's quarter, an increase of \$16,172,000.

(Amounts in thousands)

Increase (decrease) due to:	Total	New York	Washington, DC	Retail Properties	Other
Operating:					
Acquisitions and other Properties taken out of / placed into service for redevelopment	\$ (928)	\$ (897)	\$ 45	\$ (22)	\$ (54)
Non-reimbursable expenses, including bad debt reserves	(3,234)	(1,545)	(200)	199	(1,688)
Hotel Pennsylvania	1,734	2,049	-	-	(315)
Trade Shows	250	250	-	-	-
BMS expenses	339	-	-	-	339
Same store operations	4,605	3,847	-	-	758 (2)
	3,908	7,105	(352)	(613)	(2,232)
	6,674	10,809	(507)	(436)	(3,192)
Depreciation and amortization:					
Acquisitions and other Properties placed into / taken out of service for redevelopment	1,960	1,961	-	(1)	-
Same store operations	1,767	3,464	(215)	(790)	(692)
	4,362	1,933	1,718	309	402
	8,089	7,358	1,503	(482)	(290)
General and administrative:					
Mark-to-market of deferred compensation plan liability ⁽¹⁾	1,143	-	-	-	1,143
Same store operations	(782)	1,155	(233)	(77)	(1,627)

Revenues

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	361	1,155	(233)	(77)	(484)
Cleveland Medical Mart development project	(3,239) ⁽³⁾	-	-	-	(3,239) ⁽³⁾
Acquisition and transaction related costs	4,287	-	-	-	4,287
Total increase (decrease) in expenses	\$ 16,172	\$ 19,322	\$ 763	\$ (995)	\$ (2,918)

- (1) This decrease in expense is entirely offset by a corresponding decrease in income from the mark-to-market of the deferred compensation plan assets, a component of “interest and other investment income (loss), net” on our consolidated statements of income.
- (2) Represents the change in the elimination of intercompany fees from operating segments upon consolidation. See note (2) on page 49.
- (3) Due to the completion of the project. This decrease in expense is offset by the decrease in development revenue in the period. See note (1) on page 49.

Results of Operations – Three Months Ended September 30, 2014 Compared to September 30, 2013 - continued(Loss) Applicable to Toys

In the three months ended September 30, 2014, we recognized a net loss of \$18,418,000 from our investment in Toys, comprised of \$20,357,000 for our share of Toys' net loss, partially offset by \$1,939,000 of management fees earned and received.

In the three months ended September 30, 2013, we recognized a net loss of \$34,209,000 from our investment in Toys, comprised of \$36,056,000 for our share of Toys' net loss, partially offset by \$1,847,000 of management fees earned and received.

(Loss) Income from Partially Owned Entities

Summarized below are the components of (loss) income from partially owned entities for the three months ended September 30, 2014 and 2013.

(Amounts in thousands)	Percentage Ownership at September 30, 2014	For the Three Months Ended September 30,	
		2014	2013
Equity in Net (Loss) Income:			
Alexander's	32.4%	\$ 7,192	\$ 5,975
India real estate ventures	4.1%-36.5%	(262)	(1,449)
Partially owned office buildings ⁽¹⁾	Various	18	38
Other investments ⁽²⁾	Various	(14,193)	(3,111)
		\$ (7,245)	\$ 1,453

(1) Includes interests in 280 Park Avenue, 650 Madison Avenue, One Park Avenue, 666 Fifth Avenue (Office), 330 Madison Avenue and others.

(2) Includes interests in Independence Plaza, Monmouth Mall, 85 10th Avenue, Fashion Center Mall, 50-70 West 93rd Street and others. The three months ended September 30, 2014 includes a \$10,263 non-cash impairment loss and loan loss reserve on our equity and debt investments in Suffolk Downs race track and adjacent land.

Income from Real Estate Fund

Below are the components of the income from our Real Estate Fund for the three months ended September 30, 2014 and 2013.

(Amounts in thousands)	For the Three Months Ended September 30,	
	2014	2013
Net investment income	\$ 3,829	\$ 2,362
Net realized gains on exited investments	51,584	8,184
Previously recorded unrealized gains on exited investments	(49,586)	-
Net unrealized gains on held investments	18,333	12,367
Income from Real Estate Fund	24,160	22,913
Less income attributable to noncontrolling interests	(8,588)	(15,422)
Income from Real Estate Fund attributable to Vornado ⁽¹⁾	\$ 15,572	\$ 7,491

- (1) Excludes management, leasing and development fees of \$759 and \$770 for the three months ended September 30, 2014 and 2013, respectively, which are included as a component of "fee and other income" on our consolidated statements of income.

Results of Operations – Three Months Ended September 30, 2014 Compared to September 30, 2013 - continuedInterest and Other Investment Income (Loss), net

Interest and other investment income (loss), net was income of \$7,602,000 in the three months ended September 30, 2014, compared to a loss of \$10,275,000 in the prior year's quarter, an increase in income of \$17,877,000. This increase resulted from:

(Amounts in thousands)

J.C. Penney derivative position mark-to-market loss in 2013	\$ 20,012
Lower interest on mezzanine loans receivable in the current year	(4,362)
Increase in the value of investments in our deferred compensation plan (offset by a corresponding increase in the liability for plan assets in general and administrative expenses)	1,083
Other, net	1,144
	\$ 17,877

Interest and Debt Expense

Interest and debt expense was \$115,120,000 in the three months ended September 30, 2014, compared to \$119,676,000 in the prior year's quarter, a decrease of \$4,556,000. This decrease was primarily due to (i) \$5,803,000 of higher capitalized interest in the current year's quarter and (ii) \$6,314,000 of interest savings from the restructuring of the Skyline properties mortgage loan in October 2013, partially offset by (iii) \$3,522,000 of interest expense from the \$600,000,000 financing of our 220 Central Park South development site in January 2014 and (iv) \$2,899,000 of interest expense from the issuance of \$450,000,000 of senior unsecured notes in June 2014.

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

In the three months ended September 30, 2014, we recognized net gains of \$2,665,000 from the sale of residential condominiums. In the three months ended September 30, 2013, we recognized a \$15,138,000 net gain on disposition

of wholly owned and partially owned assets, primarily from a \$31,741,000 net gain on the sale of a marketable security, partially offset by an \$18,114,000 net loss on sale of the remaining 13,400,000 J.C. Penney common shares.

Income Tax Expense

Income tax expense was \$3,177,000 in the three months ended September 30, 2014, compared to \$2,222,000 in the prior year's quarter, an increase of \$955,000. This increase was primarily attributable to higher income from our taxable REIT subsidiaries.

Income from Discontinued Operations

We have reclassified the revenues and expenses of the properties that were sold or are currently held for sale to "income from discontinued operations" and the related assets and liabilities to "assets related to discontinued operations" and "liabilities related to discontinued operations" for all the periods presented in the accompanying financial statements. The table below sets forth the combined results of assets related to discontinued operations for the three months ended September 30, 2014 and 2013.

(Amounts in thousands)	For the Three Months Ended	
	September 30,	
	2014	2013
Total revenues	\$ 836	\$ 17,354
Total expenses	501	11,352
	335	6,002
Net gain on sale of Beverly Connection	44,155	-
Net gains on sale of other real estate	13,641	18,996
Impairment losses	-	(720)
Income from discontinued operations	\$ 58,131	\$ 24,278

Results of Operations – Three Months Ended September 30, 2014 Compared to September 30, 2013 - continued

Net Income Attributable to Noncontrolling Interests in Consolidated Subsidiaries

Net income attributable to noncontrolling interests in consolidated subsidiaries was \$9,685,000 in the three months ended September 30, 2014, compared to \$23,833,000 in the prior year's quarter, a decrease of \$14,148,000. This decrease resulted primarily from lower net income allocated to the noncontrolling interests, including noncontrolling interests of our Real Estate Fund.

Net Income Attributable to Noncontrolling Interests in the Operating Partnership

Net income attributable to noncontrolling interests in the Operating Partnership was \$7,975,000 in the three months ended September 30, 2014, compared to \$5,032,000 in the prior year's quarter, an increase of \$2,943,000. This increase resulted primarily from higher net income subject to allocation to unitholders.

Preferred Unit Distributions of the Operating Partnership

Preferred unit distributions of the Operating Partnership were \$13,000 in the three months ended September 30, 2014, compared to \$12,000 in the prior year's quarter, an increase of \$1,000.

Preferred Share Dividends

Preferred share dividends were \$20,365,000 in the three months ended September 30, 2014, compared to \$20,369,000 in the prior year's quarter, a decrease of \$4,000.

Results of Operations – Three Months Ended September 30, 2014 Compared to September 30, 2013 - continuedSame Store EBITDA

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

Below are reconciliations of EBITDA to same store EBITDA for each of our segments for the three months ended September 30, 2014, compared to the three months ended September 30, 2013.

(Amounts in thousands)	New York	Washington, DC	Retail Properties
EBITDA for the three months ended September 30, 2014	\$ 250,583	\$ 83,719	\$ 112,184
Add-back:			
Non-property level overhead expenses included above	7,986	6,454	4,163
Less EBITDA from:			
Acquisitions	(8,640)	-	-
Dispositions, including net gains on sale	-	(73)	(57,501)
Properties taken out-of-service for redevelopment	(5,897)	(994)	(1,638)
Other non-operating income	(3,078)	(421)	(4,217)
Same store EBITDA for the three months ended September 30, 2014	\$ 240,954	\$ 88,685	\$ 52,991
EBITDA for the three months ended September 30, 2013	\$ 251,030	\$ 86,942	\$ 74,581
Add-back:			
Non-property level overhead expenses included above	6,831	6,687	4,240
Less EBITDA from:			
Acquisitions	(11)	-	-
Dispositions, including net gains on sale	(2,481)	-	(21,543)
Properties taken out-of-service for redevelopment	(5,412)	(1,592)	(1,512)

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Other non-operating income	(19,543)	(914)	(3,342)
Same store EBITDA for the three months ended September 30, 2013	\$ 230,414	\$ 91,123	\$ 52,424
Increase (decrease) in same store EBITDA - Three months ended September 30, 2014 vs. September 30, 2013 ⁽¹⁾	\$ 10,540	\$ (2,438)	\$ 567
% increase (decrease) in same store EBITDA	4.6%	(2.7%)	1.1%
(1) See notes on following page			

Results of Operations – Three Months Ended September 30, 2014 Compared to September 30, 2013 - continued

Notes to preceding tabular information

New York:

The \$10,540,000 increase in New York same store EBITDA resulted primarily from increases in Retail and Office of \$5,064,000 and \$4,698,000, respectively. The Retail and Office increases resulted primarily from higher average rent per square foot, partially offset by higher operating expenses, net of reimbursements, of \$1,818,000.

Washington, DC:

The \$2,438,000 decrease in Washington, DC same store EBITDA resulted primarily from a lower leasing fee in 2014.

Retail Properties:

The \$567,000 increase in Retail Properties same store EBITDA resulted primarily from an increase in rental revenue of \$988,000, primarily due to an increase in average annual rents per square foot and same store occupancy, partially offset by an increase in operating expenses, net of reimbursements.

Reconciliation of Same Store EBITDA to Cash basis Same Store EBITDA

(Amounts in thousands)	New York	Washington, DC	Retail Properties
Same store EBITDA for the three months ended September 30, 2014	\$ 240,954	\$ 88,685	\$ 52,991
Less: Adjustments for straight line rents, amortization of acquired below-market leases, net, and other non-cash adjustments	(28,363)	(2,771)	(2,019)
Cash basis same store EBITDA for the three months ended September 30, 2014	\$ 212,591	\$ 85,914	\$ 50,972
Same store EBITDA for the three months ended September 30, 2013	\$ 230,414	\$ 91,123	\$ 52,424
Less: Adjustments for straight line rents, amortization of acquired below-market leases, net, and other non-cash adjustments	(28,345)	(1,514)	(2,329)
Cash basis same store EBITDA for the three months ended September 30, 2013	\$ 202,069	\$ 89,609	\$ 50,095
Increase (decrease) in Cash basis same store EBITDA - Three months ended September 30, 2014 vs. September 30, 2013	\$ 10,522	\$ (3,695)	\$ 877
% increase (decrease) in Cash basis same store EBITDA	5.2%	(4.1%)	1.8%

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Net Income and EBITDA by Segment for the Nine Months Ended September 30, 2014 and 2013

Below is a summary of net income and a reconciliation of net income to EBITDA⁽¹⁾ by segment for the nine months ended September 30, 2014 and 2013.

(Amounts in thousands)

	For the Nine Months Ended September 30, 2014					
	Total	New York	Washington, DC	Retail Properties	Toys	Other
Total revenues	\$ 1,997,702	\$ 1,151,395	\$ 403,645	\$ 253,623	\$ -	\$ 189,039
Total expenses	1,383,618	716,125	265,299	173,945	-	228,249
Operating income (loss)	614,084	435,270	138,346	79,678	-	(39,210)
(Loss) income from partially owned entities, including Toys	(77,426)	16,372	(4,925)	1,250	(74,162)	(15,961)
Income from Real Estate Fund	142,418	-	-	-	-	142,418
Interest and other investment income, net	28,930	4,979	93	26	-	23,832
Interest and debt expense	(341,613)	(134,970)	(56,692)	(28,565)	-	(121,386)
Net gain on disposition of wholly owned and partially owned assets	13,205	-	-	-	-	13,205
Income (loss) before income taxes	379,598	321,651	76,822	52,389	(74,162)	2,898
Income tax expense	(8,358)	(2,997)	(46)	(1,575)	-	(3,740)
Income (loss) from continuing operations	371,240	318,654	76,776	50,814	(74,162)	(842)
Income from discontinued operations	61,800	-	-	60,993	-	807
Net income (loss)	433,040	318,654	76,776	111,807	(74,162)	(35)
Less net income attributable to noncontrolling interests	(101,791)	(7,203)	-	(114)	-	(94,474)

Revenues

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Net income (loss) attributable to Vornado	331,249	311,451	76,776	111,693	(74,162)	(94,509)
Interest and debt expense ⁽²⁾	510,724	180,150	67,469	31,989	100,549	130,567
Depreciation and amortization ⁽²⁾	530,052	241,040	108,367	56,387	64,533	59,725
Income tax expense ⁽²⁾	21,489	3,069	88	1,575	12,106	4,651
EBITDA ⁽¹⁾	\$ 1,393,514	\$ 735,710 ⁽³⁾	\$ 252,700 ⁽⁴⁾	\$ 201,644 ⁽⁵⁾	\$ 103,026	\$ 100,434 ⁽⁶⁾

(Amounts in thousands)

For the Nine Months Ended September 30, 2013

	Retail					
			Washington, DC	Properties	Toys	Other
	Total	New York				
Total revenues	\$ 2,058,525	\$ 1,129,248	\$ 406,652	\$ 303,704	\$ -	\$ 218,921
Total expenses	1,362,975	700,652	258,591	140,343	-	263,389
Operating income (loss)	695,550	428,596	148,061	163,361	-	(44,468)
(Loss) income from partially owned entities, including Toys	(45,620)	14,020	(6,545)	1,512	(69,311)	14,704
Income from Real Estate Fund	73,947	-	-	-	-	73,947
Interest and other investment (loss) income, net	(32,935)	4,076	99	3	-	(37,113)
Interest and debt expense	(360,679)	(125,428)	(83,350)	(32,637)	-	(119,264)
Net (loss) gain on disposition of wholly owned and partially owned assets	(20,581)	-	-	1,377	-	(21,958)
Income (loss) before income taxes	309,682	321,264	58,265	133,616	(69,311)	(134,152)
Income tax expense	(6,172)	(1,298)	(1,949)	(1,480)	-	(1,445)
Income (loss) from continuing operations	303,510	319,966	56,316	132,136	(69,311)	(135,597)
Income (loss) from discontinued operations	299,989	8,539	-	292,279	-	(829)
Net income (loss)	603,499	328,505	56,316	424,415	(69,311)	(136,426)

Revenues

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Less net income attributable to noncontrolling interests	(79,009)	(9,518)	-	(3,079)	-	(66,412)
Net income (loss) attributable to Vornado	524,490	318,987	56,316	421,336	(69,311)	(202,838)
Interest and debt expense ⁽²⁾	551,357	163,579	93,715	40,057	119,347	134,659
Depreciation and amortization ⁽²⁾	549,072	220,280	105,799	52,440	103,732	66,821
Income tax expense ⁽²⁾	18,101	1,444	2,134	1,480	10,959	2,084
EBITDA ⁽¹⁾	\$ 1,643,020	\$ 704,290 ⁽³⁾	\$ 257,964 ⁽⁴⁾	\$ 515,313 ⁽⁵⁾	\$ 164,727	\$ 726 ⁽⁶⁾

See notes on the following page.

Net Income and EBITDA by Segment for the Nine Months Ended September 30, 2014 and 2013 - continued**Notes to preceding tabular information:**

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

(Amounts in thousands)	For the Nine Months Ended September 30,	
	2014	2013
Office ^(a)	\$ 480,280	\$ 476,849
Retail	205,469	177,394
Alexander's	31,088	31,141
Hotel Pennsylvania	18,873	18,906
Total New York	\$ 735,710	\$ 704,290

- (a) Includes \$12,121 of termination fee income, net, from a tenant at 1290 Avenue of the Americas and \$7,207 from discontinued operations in the nine months ended September 30, 2013. Excluding these items, EBITDA for the nine months ended September 30, 2013 was \$457,521.

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

(Amounts in thousands)	For the Nine Months Ended September 30,	
	2014	2013
Office, excluding the Skyline Properties	\$ 200,218	\$ 202,463
Skyline properties	21,270	22,546
Total Office	221,488	225,009
Residential	31,212	32,955
Total Washington, DC	\$ 252,700	\$ 257,964

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

(Amounts in thousands)	For the Nine Months Ended September 30,	
	2014	2013
Strip shopping centers ^(a)	\$ 178,499	\$ 264,065
Regional malls ^(b)	23,145	251,248
Total Retail properties	\$ 201,644	\$ 515,313

- (a) Includes discontinued operations and other gains and losses that affect comparability, aggregating \$62,479 and \$152,522 for the nine months ended September 30, 2014 and 2013, respectively. Excluding these items, EBITDA was \$116,020 and \$111,543, respectively.

- (b) Includes discontinued operations and other gains and losses that affect comparability, aggregating to a loss of \$20,016 and income of \$209,332 for the nine months ended September 30, 2014 and 2013, respectively. Excluding these items, EBITDA was \$43,161 and \$41,916, respectively.

Net Income and EBITDA by Segment for the Nine Months Ended September 30, 2014 and 2013 - continued**Notes to preceding tabular information - continued:**

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

(Amounts in thousands)	For the Nine Months Ended September 30,	
	2014	2013
Our share of Real Estate Fund:		
Income before net realized/unrealized gains	\$ 6,676	\$ 5,737
Net realized gains on exited investments	31,663	2,046
Previously recorded unrealized gains on exited investments	(12,579)	-
Net unrealized gains on held investments	13,805	14,869
Carried interest	21,636	11,974
Total	61,201	34,626
The Mart and trade shows	61,038	54,232
555 California Street	35,566	32,371
India real estate ventures	4,574	4,708
LNR ^(a)	-	20,443
Other investments	13,825	21,138
	176,204	167,518
Corporate general and administrative expenses ^(b)	(71,952)	(71,054)
Investment income and other, net ^(b)	22,764	39,153
Net gain on sale of residential condominiums and a land parcel	13,205	1,139
Acquisition and transaction related costs ^(c)	(12,972)	(6,769)
Impairment loss and loan loss reserve on investment in Suffolk Downs	(10,263)	-
Loss on sale of J.C. Penney common shares	-	(54,914)
Non-cash impairment loss on J.C. Penney common shares	-	(39,487)
Loss from the mark-to-market of J.C. Penney derivative position	-	(33,487)
Net gain on sale of marketable securities	-	31,741
Severance costs (primarily reduction-in-force at the Mart)	-	(4,154)
Net income attributable to noncontrolling interests in the Operating Partnership	(16,514)	(27,814)
Preferred unit distributions of the Operating Partnership	(38)	(1,146)
	\$ 100,434	\$ 726

(a) On April 19, 2013, LNR was sold for \$1.053 billion.

(b) The amounts in these captions (for this table only) exclude income/expense from the mark-to-market of our deferred compensation plan of \$8,132 and \$6,207 for the nine months ended September 30, 2014 and 2013, respectively.

(c) The nine months ended September 30, 2014, includes \$9,343 of transaction costs related to the spin-off of our strip shopping centers and malls.

EBITDA by Region

Below is a summary of the percentages of EBITDA by geographic region (excluding discontinued operations, other gains and losses that affect comparability and our Toys and Other Segments).

Region:	For the Nine Months Ended September 30,	
	2014	2013
New York City metropolitan area	74%	73%
Washington, DC / Northern Virginia metropolitan area	23%	24%
Puerto Rico	2%	2%
Other geographies	1%	1%
	100%	100%

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Results of Operations – Nine Months Ended September 30, 2014 Compared to September 30, 2013Revenues

Our revenues, which consist primarily of property rentals (including hotel and trade show revenues), tenant expense reimbursements, and fee and other income, were \$1,997,702,000 for the nine months ended September 30, 2014, compared to \$2,058,525,000 in the prior year's nine months, a decrease of \$60,823,000. This decrease was primarily attributable to income in the prior year of \$59,599,000 pursuant to a settlement agreement with Stop & Shop, \$34,026,000 related to the Cleveland Medical Mart development project and \$23,992,000 from the deconsolidation of Independence Plaza. Excluding these items, revenues increased by \$56,794,000 from the prior year's nine months. Below are the details of the (decrease) increase by segment:

(Amounts in thousands)

(Decrease) increase due to:	Total	New York	Washington, DC	Retail Properties	Other
Property rentals:					
Acquisitions and other	\$ 11,916	\$ 15,152	\$ (844)	\$ (1,113)	\$ (1,279)
Deconsolidation of Independence Plaza	(23,992)	(23,992)	-	-	-
Properties taken out of / placed into service for redevelopment	(10,017)	(3,156)	(1,163)	676	(6,374)
Hotel Pennsylvania	1,220	1,220	-	-	-
Trade Shows	2,525	-	-	-	2,525
Same store operations	35,430	25,528	(2,567)	3,248	9,221
	17,082	14,752	(4,574)	2,811	4,093
Tenant expense reimbursements:					
Acquisitions and other	(55)	(29)	204	(36)	(194)
Properties placed into / taken out of service for redevelopment	(2,103)	(1,603)	86	(69)	(517)
Same store operations	21,184	12,197	(125)	6,614	2,498
	19,026	10,565	165	6,509	1,787
Cleveland Medical Mart development project	(34,026)(1)	-	-	-	(34,026)(1)
Fee and other income:					
BMS cleaning fees	14,547	14,956	-	-	(409)(2)

Revenues

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Signage revenue	2,323	2,323	-	-	-
Management and leasing fees	(2,634)	(236)	(2,450)	(2)	54
Lease termination fees	(75,250)	(18,312) ⁽³⁾	2,536	(59,117) ⁽⁴⁾	(357)
Other income	(1,891)	(1,901)	1,316	(282)	(1,024)
	(62,905)	(3,170)	1,402	(59,401)	(1,736)
Total (decrease) increase in revenues	\$ (60,823)	\$ 22,147	\$ (3,007)	\$ (50,081)	\$ (29,882)

- (1) Due to the completion of the project. This decrease in revenue is substantially offset by a decrease in development costs expensed in the period. See note (3) on page 60.
- (2) Represents the change in the elimination of intercompany fees from operating segments upon consolidation. See note (2) on page 60.
- (3) Primarily due to a \$19,500 termination fee from a tenant at 1290 Avenue of the Americas recognized in the third quarter of 2013.
- (4) Results primarily from \$59,599 of income recognized in the first quarter of 2013 pursuant to a settlement agreement with Stop & Shop.

Results of Operations – Nine Months Ended September 30, 2014 Compared to September 30, 2013 - continuedExpenses

Our expenses, which consist primarily of operating (including hotel and trade show expenses), depreciation and amortization and general and administrative expenses, were \$1,383,618,000 for the nine months ended September 30, 2014, compared to \$1,362,975,000 in the prior year's nine months, an increase of \$20,643,000. Excluding expenses of \$20,000,000 for a non-cash impairment loss on the Springfield Town Center in 2014, \$29,764,000 related to the Cleveland Medical Mart development project in 2013 and \$25,899,000 from the deconsolidation of Independence Plaza, expenses increased by \$56,306,000 from the prior year's nine months. Below are the details of the increase (decrease) by segment:

(Amounts in thousands)

Increase (decrease) due to:	Total	New York	Retail		
			Washington, DC	Properties	Other
Operating:					
Acquisitions and other	\$ (2,156)	\$ (572)	\$ 8	\$ (155)	\$ (1,437)
Deconsolidation of Independence Plaza	(9,592)	(9,592)	-	-	-
Properties taken out of / placed into service for redevelopment	(10,892)	(5,007)	(380)	(422)	(5,083)
Non-reimbursable expenses, including bad debt reserves	(813)	1,300	-	(825)	(1,288)
Hotel Pennsylvania	1,458	1,458	-	-	-
Trade Shows	554	-	-	-	554
BMS expenses	8,566	8,975	-	-	(409) ⁽²⁾
Same store operations	29,388	18,090	3,278	7,241	779
	16,513	14,652	2,906	5,839	(6,884)
Depreciation and amortization:					
Acquisitions and other	6,368	6,489	-	(110)	(11)
Deconsolidation of Independence Plaza	(16,307)	(16,307)	-	-	-
Properties placed into / taken out of service for redevelopment	25,806	20,856	(366)	7,544	(2,228)
Same store operations	(3,578)	(10,753)	3,907	2,224	1,044

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	12,289	285	3,541	9,658	(1,195)
General and administrative:					
Mark-to-market of deferred compensation plan liability ⁽¹⁾	1,985	-	-	-	1,985
Severance costs (primarily reduction in force at the Mart)	(4,154)	-	-	-	(4,154)
Same store operations	(2,429)	536	261	(1,895)	(1,331)
	(4,598)	536	261	(1,895)	(3,500)
Cleveland Medical Mart development project	(29,764) ⁽³⁾	-	-	-	(29,764) ⁽³⁾
Impairment losses, acquisition and transaction related costs	26,203	-	-	20,000 ⁽⁴⁾	6,203
Total increase (decrease) in expenses	\$ 20,643	\$ 15,473	\$ 6,708	\$ 33,602	\$ (35,140)

- (1) This increase in expense is entirely offset by a corresponding increase in income from the mark-to-market of the deferred compensation plan assets, a component of “interest and other investment income (loss), net” on our consolidated statements of income.
- (2) Represents the change in the elimination of intercompany fees from operating segments upon consolidation. See note (2) on page 59.
- (3) Due to the completion of the project. This decrease in expense is offset by the decrease in development revenue in the period. See note (1) on page 59.
- (4) Represents a non-cash impairment loss on the Springfield Town Center in the first quarter of 2014.

Results of Operations – Nine Months Ended September 30, 2014 Compared to September 30, 2013 - continued(Loss) Applicable to Toys

In the nine months ended September 30, 2014, we recognized a net loss of \$74,162,000 from our investment in Toys, comprised of (i) \$4,691,000 for our share of Toys' net loss and a (ii) \$75,196,000 non-cash impairment loss, partially offset by (iii) \$5,725,000 of management fees earned and received.

In the nine months ended September 30, 2013, we recognized a net loss of \$69,311,000 from our investment in Toys, comprised of (i) \$3,778,000 for our share of Toys' equity in earnings and (ii) \$5,453,000 of management fees earned and received, partially offset by (iii) a \$78,542,000 non-cash impairment loss.

(Loss) Income from Partially Owned Entities

Summarized below are the components of (loss) income from partially owned entities for the nine months ended September 30, 2014 and 2013.

(Amounts in thousands)	Percentage Ownership at September 30, 2014	For the Nine Months Ended September 30,	
		2014	2013
Equity in Net (Loss) Income:			
Alexander's	32.4%	\$ 20,471	\$ 17,802
India real estate ventures	4.1%-36.5%	(2,440)	(2,630)
Partially owned office buildings ⁽¹⁾	Various	(1,387)	(1,586)
Other investments ⁽²⁾	Various	(19,908)	(8,626)
LNR ⁽³⁾	n/a	-	18,731
		\$ (3,264)	\$ 23,691

(1) Includes interests in 280 Park Avenue, 650 Madison Avenue, One Park Avenue, 666 Fifth Avenue (Office), 330 Madison Avenue and others.

(2) Includes interests in Independence Plaza, Monmouth Mall, 85 10th Avenue, Fashion Center Mall, 50-70 West 93rd Street and others. In the third quarter of 2014, we recognized a \$10,263 non-cash impairment loss and loan loss reserve on our equity and debt investments in Suffolk Downs race track and adjacent land.

(3) On April 19, 2013, LNR was sold for \$1.053 billion.

Results of Operations – Nine Months Ended September 30, 2014 Compared to September 30, 2013 - continuedIncome from Real Estate Fund

Below are the components of the income from our Real Estate Fund for the nine months ended September 30, 2014 and 2013.

(Amounts in thousands)	For the Nine Months Ended September 30,	
	2014	2013
Net investment income	\$ 10,860	\$ 6,287
Net realized gains on exited investments	126,653	8,184
Previously recorded unrealized gains on exited investments	(50,316)	-
Net unrealized gains on held investments	55,221	59,476
Income from Real Estate Fund	142,418	73,947
Less income attributable to noncontrolling interests	(81,217)	(39,321)
Income from Real Estate Fund attributable to Vornado ⁽¹⁾	\$ 61,201	\$ 34,626

(1) Excludes management, leasing and development fees of \$2,208 and \$2,446 for the nine months ended September 30, 2014 and 2013, respectively, which are included as a component of "fee and other income" on our consolidated statements of income.

Interest and Other Investment Income (Loss), net

Interest and other investment income (loss), net was income of \$28,930,000 in the nine months ended September 30, 2014, compared to a loss of \$32,935,000 in the prior year's nine months, an increase in income of \$61,865,000. This increase resulted from:

(Amounts in thousands)	
J.C. Penney derivative position mark-to-market loss in 2013	\$ 72,974
Lower interest on mezzanine loans receivable in the current year	(11,259)
Income from prepayment penalties in connection with the repayment of a mezzanine loan in 2013	(5,267)
Increase in the value of investments in our deferred compensation plan (offset by a corresponding	

increase in the liability for plan assets in general and administrative expenses)	1,925
Higher dividends and interest on marketable securities	1,160
Other, net	2,332
	\$ 61,865

Interest and Debt Expense

Interest and debt expense was \$341,613,000 in the nine months ended September 30, 2014, compared to \$360,679,000 in the prior year's nine months, a decrease of \$19,066,000. This decrease was primarily due to (i) \$18,493,000 of higher capitalized interest in the current year's nine months and (ii) \$18,318,000 of interest savings from the restructuring of the Skyline properties mortgage loan in October 2013, partially offset by (iii) \$5,589,000 of defeasance cost in connection with the refinancing of 909 Third Avenue, (iv) \$8,945,000 of interest expense from the \$600,000,000 financing of our 220 Central Park South development site in January 2014 and (v) \$3,367,000 of interest expense from the issuance of \$450,000,000 of senior unsecured notes in June 2014.

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

In the nine months ended September 30, 2014, we recognized a \$13,205,000 net gain on disposition of wholly owned and partially owned assets, primarily from the sale of residential condominiums and a land parcel, compared to a \$20,581,000 net loss in the prior year's nine months, primarily from a \$54,914,000 net loss on the sale of the J.C. Penney common shares, partially offset by a \$31,741,000 net gain on the sale of a marketable security.

Income Tax Expense

Income tax expense was \$8,358,000 in the nine months ended September 30, 2014, compared to \$6,172,000 in the prior year's nine months, an increase of \$2,186,000. This increase was primarily attributable to higher income from our taxable REIT subsidiaries.

Results of Operations – Nine Months Ended September 30, 2014 Compared to September 30, 2013 - continuedIncome from Discontinued Operations

We have reclassified the revenues and expenses of the properties that were sold or are currently held for sale to “income from discontinued operations” and the related assets and liabilities to “assets related to discontinued operations” and “liabilities related to discontinued operations” for all the periods presented in the accompanying financial statements. The table below sets forth the combined results of assets related to discontinued operations for the nine months ended September 30, 2014 and 2013.

(Amounts in thousands)	For the Nine Months Ended September 30,	
	2014	2013
Total revenues	\$ 13,473	\$ 63,048
Total expenses	8,627	45,322
	4,846	17,726
Net gain on sale of Beverly Connection	44,155	-
Net gain on sale of Green Acres Mall	-	202,275
Net gains on sales of other real estate	13,641	84,715
Impairment losses	(842)	(4,727)
Income from discontinued operations	\$ 61,800	\$ 299,989

Net Income Attributable to Noncontrolling Interests in Consolidated Subsidiaries

Net income attributable to noncontrolling interests in consolidated subsidiaries was \$85,239,000 in the nine months ended September 30, 2014, compared to \$50,049,000 in the prior year’s nine months, an increase of \$35,190,000. This increase resulted primarily from higher net income allocated to the noncontrolling interests, including noncontrolling interests of our Real Estate Fund.

Net Income Attributable to Noncontrolling Interests in the Operating Partnership

Net income attributable to noncontrolling interests in the Operating Partnership was \$16,514,000 in the nine months ended September 30, 2014, compared to \$27,814,000 in the prior year’s nine months, a decrease of \$11,300,000. This decrease resulted primarily from lower net income subject to allocation to unitholders.

Preferred Unit Distributions of the Operating Partnership

Revenues

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Preferred unit distributions of the Operating Partnership were \$38,000 in the nine months ended September 30, 2014, compared to \$1,146,000 in the prior year's nine months, a decrease of \$1,108,000. This decrease resulted from the redemption of the 6.875% Series D-15 cumulative redeemable preferred units in May 2013.

Preferred Share Dividends

Preferred share dividends were \$61,099,000 in the nine months ended September 30, 2014, compared to \$62,439,000 in the prior year's nine months, a decrease of \$1,340,000. This decrease resulted primarily from the redemption of the 6.75% Series F and Series H cumulative redeemable preferred shares in February 2013.

Preferred Unit and Share Redemptions

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

Results of Operations – Nine Months Ended September 30, 2014 Compared to September 30, 2013 - continued**Same Store EBITDA**

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

Below are reconciliations of EBITDA to same store EBITDA for each of our segments for the nine months ended September 30, 2014, compared to nine months ended September 30, 2013.

(Amounts in thousands)	New York	Washington, DC	Retail Properties
EBITDA for the nine months ended September 30, 2014	\$ 735,710	\$ 252,700	\$ 201,644
Add-back:			
Non-property level overhead expenses included above	22,424	20,473	12,929
Less EBITDA from:			
Acquisitions	(24,213)	-	-
Dispositions, including net gains on sale	-	(73)	(62,478)
Properties taken out-of-service for redevelopment	(17,295)	(2,872)	(3,131)
Other non-operating (income) expense	(6,378)	(4,109)	9,652
Same store EBITDA for the nine months ended September 30, 2014	\$ 710,248	\$ 266,119	\$ 158,616
EBITDA for the nine months ended September 30, 2013	\$ 704,290	\$ 257,964	\$ 515,313
Add-back:			
Non-property level overhead expenses included above	21,888	20,212	14,824
Less EBITDA from:			
Acquisitions	(239)	-	-
Dispositions, including net gains on sale	(7,522)	(117)	(302,266)
Properties taken out-of-service for redevelopment	(14,744)	(4,640)	(2,094)

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Other non-operating income	(29,051)	(813)	(69,354)
Same store EBITDA for the nine months ended September 30, 2013	\$ 674,622	\$ 272,606	\$ 156,423
Increase (decrease) in same store EBITDA - Nine months ended September 30, 2014 vs. September 30, 2013 ⁽¹⁾	\$ 35,626	\$ (6,487)	\$ 2,193
% increase (decrease) in same store EBITDA	5.3%	(2.4%)	1.4%
(1) See notes on following page.			

Results of Operations – Nine Months Ended September 30, 2014 Compared to September 30, 2013 - continued

Notes to preceding tabular information

New York:

The \$35,626,000 increase in New York same store EBITDA resulted primarily from increases in Office and Retail of \$23,755,000 and \$11,953,000, respectively. The Office and Retail increases resulted primarily from higher (i) rental revenue of \$25,860,000 (primarily due to an increase in average rent per square foot), and (ii) cleaning fees and signage revenue of \$4,000,000, partially offset by (iii) higher operating expenses, net of reimbursements.

Washington, DC:

The \$6,487,000 decrease in Washington, DC same store EBITDA resulted primarily from lower management and leasing fee income of \$2,450,000 and higher operating expenses, net of reimbursements.

Retail Properties:

The \$2,193,000 increase in Retail Properties same store EBITDA resulted primarily from an increase in rental revenue of \$3,248,000, primarily due to an increase in average same store occupancy, partially offset by higher operating expenses, net of reimbursements.

Reconciliation of Same Store EBITDA to Cash basis Same Store EBITDA

(Amounts in thousands)	New York	Washington, DC	Retail Properties
Same store EBITDA for the nine months ended September 30, 2014	\$ 710,248	\$ 266,119	\$ 158,616
Less: Adjustments for straight line rents, amortization of acquired			
below-market leases, net, and other non-cash adjustments	(79,715)	(6,435)	(5,425)
Cash basis same store EBITDA for the nine months ended September 30, 2014	\$ 630,533	\$ 259,684	\$ 153,191
Same store EBITDA for the nine months ended September 30, 2013	\$ 674,622	\$ 272,606	\$ 156,423
Less: Adjustments for straight line rents, amortization of acquired			
below-market leases, net, and other non-cash adjustments	(87,603)	(8,281)	(6,387)
Cash basis same store EBITDA for the nine months ended September 30, 2013	\$ 587,019	\$ 264,325	\$ 150,036
Increase (decrease) in Cash basis same store EBITDA - Nine months ended September 30, 2014 vs. September 30, 2013	\$ 43,514	\$ (4,641)	\$ 3,155
% increase (decrease) in Cash basis same store EBITDA	7.4%	(1.8%)	2.1%

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SUPPLEMENTAL INFORMATION

Reconciliation of Net Income to EBITDA for the Three Months Ended June 30, 2014

(Amounts in thousands)	New York	Washington, DC	Retail Properties
Net income attributable to Vornado for the three months ended			
June 30, 2014	\$ 111,959	\$ 26,493	\$ 27,625
Interest and debt expense	64,072	22,463	10,433
Depreciation and amortization	74,007	35,806	15,803
Income tax expense	1,291	132	319
EBITDA for the three months ended June 30, 2014	\$ 251,329	\$ 84,894	\$ 54,180

Reconciliation of EBITDA to Same Store EBITDA – Three Months Ended September 30, 2014 compared to June 30, 2014

(Amounts in thousands)	New York	Washington, DC	Retail Properties
EBITDA for the three months ended September 30, 2014	\$ 250,583	\$ 83,719	\$ 112,184
Add-back:			
Non-property level overhead expenses included above	7,986	6,454	4,163
Less EBITDA from:			
Acquisitions	(1,850)	-	-
Dispositions, including net gains on sale Properties taken out-of-service for redevelopment	-	(73)	(57,501)
Other non-operating income	(5,897)	(994)	(1,638)
Other non-operating income	(3,078)	(421)	(4,217)
Same store EBITDA for the three months ended September 30, 2014	\$ 247,744	\$ 88,685	\$ 52,991
EBITDA for the three months ended June 30, 2014	\$ 251,329	\$ 84,894	\$ 54,180
Add-back:			
Non-property level overhead expenses included above	6,646	6,572	4,110
Less EBITDA from:			
Acquisitions	-	-	-
Dispositions, including net gains on sale	-	(2)	(2,120)

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Properties taken out-of-service for redevelopment	(6,093)	(606)	(637)
Other non-operating income	(1,862)	(1,659)	(2,684)
Same store EBITDA for the three months ended June 30, 2014	\$ 250,020	\$ 89,199	\$ 52,849
(Decrease) increase in same store EBITDA - Three months ended September 30, 2014 vs. June 30, 2014	\$ (2,276)	\$ (514)	\$ 142
% (decrease) increase in same store EBITDA	(0.9%)	(0.6%)	0.3%

SUPPLEMENTAL INFORMATION – CONTINUED

Reconciliation of Same Store EBITDA to Cash basis Same Store EBITDA – Three Months Ended September 30, 2014 Compared to June 30, 2014

(Amounts in thousands)	New York	Washington, DC	Retail Properties
Same store EBITDA for the three months ended September 30, 2014	\$ 247,744	\$ 88,685	\$ 52,991
Less: Adjustments for straight line rents, amortization of acquired below-market leases, net, and other non-cash adjustments	(31,139)	(2,771)	(2,019)
Cash basis same store EBITDA for the three months ended September 30, 2014	\$ 216,605	\$ 85,914	\$ 50,972
Same store EBITDA for the three months ended June 30, 2014	\$ 250,020	\$ 89,199	\$ 52,849
Less: Adjustments for straight line rents, amortization of acquired below-market leases, net, and other non-cash adjustments	(30,790)	(2,462)	(1,758)
Cash basis same store EBITDA for the three months ended June 30, 2014	\$ 219,230	\$ 86,737	\$ 51,091
Decrease in Cash basis same store EBITDA - Three months ended September 30, 2014 vs. June 30, 2014	\$ (2,625)	\$ (823)	\$ (119)
% decrease in Cash basis same store EBITDA	(1.2%)	(0.9%)	(0.2%)

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Liquidity and Capital Resources

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

We anticipate that cash flow from continuing operations over the next twelve months will be adequate to fund our business operations, cash distributions to unitholders of the Operating Partnership, cash dividends to shareholders, debt amortization and recurring capital expenditures. Capital requirements for development expenditures and acquisitions may require funding from borrowings and/or equity offerings.

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

Cash Flows for the Nine Months Ended September 30, 2014

Our cash and cash equivalents were \$1,683,142,000 at September 30, 2014, a \$1,099,852,000 increase over the balance at December 31, 2013. Our consolidated outstanding debt was \$11,153,337,000 at September 30, 2014, a \$1,174,619,000 increase over the balance at December 31, 2013. As of September 30, 2014 and December 31, 2013, \$88,138,000 and \$295,870,000, respectively, was outstanding under our revolving credit facilities. During the remainder of 2014 and 2015, \$0 and \$744,248,000, respectively, of our outstanding debt matures; we may refinance this maturing debt as it comes due or choose to repay it.

Cash flows provided by operating activities of \$828,569,000 was comprised of (i) net income of \$433,040,000, (ii) \$264,302,000 of non-cash adjustments, which include depreciation and amortization expense, the effect of straight-lining of rental income, equity in net loss of partially owned entities and impairment losses on real estate, (iii) proceeds from Real Estate Fund investments of \$215,676,000 and (iv) distributions of income from partially owned entities of \$42,164,000, partially offset by (v) the net change in operating assets and liabilities of \$126,613,000, including \$3,392,000 related to Real Estate Fund investments.

Net cash used in investing activities of \$197,139,000 was comprised of (i) \$368,571,000 of development costs and construction in progress, (ii) \$171,660,000 of additions to real estate, (iii) \$95,546,000 of acquisitions of real estate and other, (iv) \$91,697,000 of investments in partially owned entities, and (v) \$11,380,000 of investment in mortgage and mezzanine loans receivable and other, partially offset by (vi) \$335,489,000 of proceeds from sales of real estate and related investments, (vii) \$101,592,000 of changes in restricted cash, (viii) \$96,504,000 of proceeds from repayments of mortgage and mezzanine loans receivable and other and (ix) \$8,130,000 of capital distributions from partially owned entities.

Net cash provided by financing activities of \$468,422,000 was comprised of (i) \$1,713,285,000 of proceeds from borrowings, (ii) \$13,738,000 of proceeds received from the exercise of employee share options, and (iii) \$5,297,000 of contributions from noncontrolling interests, partially offset by (iv) \$410,724,000 of dividends paid on common shares, (v) \$343,354,000 for the repayments of borrowings, (vi) \$208,773,000 of distributions to noncontrolling interests, (vii) purchase of marketable securities in connection with the defeasance of mortgage notes payable of \$198,884,000, (viii) \$61,102,000 of dividends paid on preferred shares, (ix) \$40,424,000 of debt issuance costs and (x) \$637,000 for the repurchase of shares related to stock compensation agreements and/or related tax withholdings.

Capital Expenditures

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

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

Below is a summary of capital expenditures, leasing commissions and a reconciliation of total expenditures on an accrual basis to the cash expended in the nine months ended September 30, 2014.

(Amounts in thousands)	Total	New York	Retail		
			Washington, DC	Properties	Other
Expenditures to maintain assets	\$ 61,235	\$ 33,464	\$ 9,815	\$ 4,848	\$ 13,108
Tenant improvements	135,999	102,411	16,280	390	16,918
Leasing commissions	59,322	50,173	3,555	145	5,449
Non-recurring capital expenditures	67,016	25,038	23,428	8,456	10,094
Total capital expenditures and leasing commissions (accrual basis)	323,572	211,086	53,078	13,839	45,569
Adjustments to reconcile to cash basis:					
Expenditures in the current year applicable to prior periods	110,934	40,117	48,294	3,873	18,650
Expenditures to be made in future periods for the current period	(209,157)	(132,814)	(35,664)	(8,766)	(31,913)
Total capital expenditures and leasing commissions (cash basis)	\$ 225,349	\$ 118,389	\$ 65,708	\$ 8,946	\$ 32,306
<i>Tenant improvements and leasing commissions:</i>					
<i>Per square foot per annum</i>	\$ 5.75	\$ 6.80	\$ 5.09	\$ 1.66	\$ n/a
<i>Percentage of initial rent</i>	10.6%	9.5%	12.9%	8.3%	n/a

Development and Redevelopment Expenditures

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

On March 2, 2014, we entered into an agreement to transfer upon completion, the redeveloped Springfield Town Center, a 1,350,000 square foot mall located in Springfield, Fairfax County, Virginia, to Pennsylvania Real Estate Investment Trust (NYSE: PEI) ("PREIT") in exchange for \$465,000,000 comprised of \$340,000,000 of cash and \$125,000,000 of PREIT operating partnership units. The incremental development cost of this project was approximately \$250,000,000, of which \$202,000,000 has been expended as of September 30, 2014. The redevelopment was completed in October 2014 and the closing will be no later than March 31, 2015.

We are in the process of redeveloping and substantially expanding the existing retail space at the Marriott Marquis Times Square Hotel, including converting the below grade parking garage into retail and creating a six-story, 300 foot wide block front, dynamic LED sign, all of which is expected to be completed by the end of 2014. Upon completion of the redevelopment, the retail space will include 20,000 square feet on grade and 20,000 square feet below grade. The incremental development cost of this project is approximately \$210,000,000, of which \$136,000,000 has been expended as of September 30, 2014.

We are constructing a residential condominium tower containing 472,000 zoning square feet on our 220 Central Park South development site. The incremental development cost of this project is approximately \$1.0 billion, of which \$106,000,000 has been expended as of September 30, 2014. In January 2014, we completed a \$600,000,000 loan secured by this site. On August 26, 2014, we obtained a standby commitment for up to \$500,000,000 of five-year mezzanine loan financing to fund a portion of the development expenditures at 220 Central Park South.

We are developing The Bartlett, a 699-unit residential project in Pentagon City, which is expected to be completed in 2016. The project will include a 37,000 square foot Whole Foods Market at the base of the building. The incremental development cost of this project is approximately \$250,000,000, of which \$29,000,000 has been expended as of September 30, 2014.

We plan to redevelop an existing 165,000 square foot office building in Crystal City (2221 S. Clark Street), which we have leased to WeWork, into approximately 250 rental residential units. The incremental development cost of this project is approximately \$40,000,000. The redevelopment is expected to be completed in the second half of 2015.

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

Below is a summary of development and redevelopment expenditures incurred in the nine months ended September 30, 2014. These expenditures include interest of \$46,517,000, payroll of \$5,460,000 and other soft costs (primarily architectural and engineering fees, permits, real estate taxes and professional fees) aggregating \$46,799,000, that were capitalized in connection with the development and redevelopment of these projects.

(Amounts in thousands)	Total	New York	Retail		
			Washington, DC	Properties	Other
Springfield Town Center	\$ 92,696	\$ -	\$ -	\$ 92,696	\$ -
Marriott Marquis Times Square - retail and signage	71,566	71,566	-	-	-
220 Central Park South	54,543	-	-	-	54,543
330 West 34th Street	32,014	32,014	-	-	-
The Bartlett	20,300	-	20,300	-	-
608 Fifth Avenue	18,127	18,127	-	-	-
Wayne Towne Center	16,109	-	-	16,109	-
7 West 34th Street	9,454	9,454	-	-	-
90 Park Avenue	6,293	6,293	-	-	-
Other	47,469	13,347	23,443	5,856	4,823
	\$ 368,571	\$ 150,801	\$ 43,743	\$ 114,661	\$ 59,366

In addition to the development and redevelopment projects above, we are in the process of repositioning and re-tenanting 280 Park Avenue (49.5% owned). Our share of the incremental development cost of this project is approximately \$62,000,000, of which \$34,700,000 was expended prior to 2014, and \$16,900,000 has been expended in 2014.

We are also evaluating other development and redevelopment opportunities at certain of our properties in Manhattan, including the Hotel Pennsylvania and in Washington, including 1900 Crystal Drive, Rosslyn and Pentagon City.

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

Liquidity and Capital Resources – continued*Cash Flows for the Nine Months Ended September 30, 2013*

Our cash and cash equivalents were \$872,323,000 at September 30, 2013, an \$87,996,000 decrease over the balance at December 31, 2012. This decrease is primarily due to cash flows from financing activities, partially offset by cash flows from operating and investing activities, as discussed below.

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

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

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

Liquidity and Capital Resources – continued*Capital Expenditures in the nine months ended September 30, 2013*

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

(Amounts in thousands)	Total	New York	Washington, DC	Retail Properties	Other
Expenditures to maintain assets	\$ 39,322	\$ 20,665	\$ 9,244	\$ 3,160	\$ 6,253
Tenant improvements	117,088	67,476	32,087	11,075	6,450
Leasing commissions	42,341	31,324	8,030	1,686	1,301
Non-recurring capital expenditures	6,454	6,183	-	-	271
Total capital expenditures and leasing commissions (accrual basis)	205,205	125,648	49,361	15,921	14,275
Adjustments to reconcile to cash basis:					
Expenditures in the current year					
applicable to prior periods	111,984	43,536	22,228	4,577	41,643
Expenditures to be made in future periods for the current period	(116,655)	(68,813)	(34,191)	(12,556)	(1,095)
Total capital expenditures and leasing commissions (cash basis)	\$ 200,534	\$ 100,371	\$ 37,398	\$ 7,942	\$ 54,823
<i>Tenant improvements and leasing commissions:</i>					
<i>Per square foot per annum</i>	\$ 4.19	\$ 5.54	\$ 4.71	\$ 1.52	n/a
<i>Percentage of initial rent</i>	9.7%	8.0%	11.8%	7.9%	n/a

Development and Redevelopment Expenditures in the nine months ended September 30, 2013

Below is a summary of development and redevelopment expenditures incurred in the nine months ended September 30, 2013. These expenditures include interest of \$28,024,000, payroll of \$2,887,000 and other soft costs (primarily architectural and engineering fees, permits, real estate taxes and professional fees) aggregating \$18,293,000, that were capitalized in connection with the development and redevelopment of these projects.

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

Liquidity and Capital Resources – continued

Other Commitments and Contingencies

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

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

Our mortgage loans are non-recourse to us. However, in certain cases we have provided guarantees or master leased tenant space. These guarantees and master leases terminate either upon the satisfaction of specified circumstances or repayment of the underlying loans. As of September 30, 2014, the aggregate dollar amount of these guarantees and master leases is approximately \$360,000,000.

At September 30, 2014, \$39,947,000 of letters of credit were outstanding under one of our revolving credit facilities. Our revolving credit facilities contain financial covenants that require us to maintain minimum interest coverage and maximum debt to market capitalization ratios, and provide for higher interest rates in the event of a decline in our ratings below Baa3/BBB. Our revolving credit facilities also contain customary conditions precedent to borrowing, including representations and warranties, and also contain customary events of default that could give rise to accelerated repayment, including such items as failure to pay interest or principal.

As of September 30, 2014, we expect to fund additional capital to certain of our partially owned entities aggregating approximately \$111,000,000.

Funds From Operations (“FFO”)

FFO is computed in accordance with the definition adopted by the Board of Governors of the National Association of Real Estate Investment Trusts (“NAREIT”). NAREIT defines FFO as GAAP net income or loss adjusted to exclude net gain from sales of depreciated real estate assets, real estate impairment losses, depreciation and amortization expense from real estate assets, extraordinary items and other specified non-cash items, including the pro rata share of such adjustments of unconsolidated subsidiaries. FFO and FFO per diluted share are non-GAAP financial measures used by management, investors and analysts to facilitate meaningful comparisons of operating performance between periods and among our peers because it excludes the effect of real estate depreciation and amortization and net gains on sales, which are based on historical costs and implicitly assume that the value of real estate diminishes predictably over time, rather than fluctuating based on existing market conditions. FFO does not represent cash generated from operating activities and is not necessarily indicative of cash available to fund cash requirements and should not be considered as an alternative to net income as a performance measure or cash flows as a liquidity measure. FFO may not be comparable to similarly titled measures employed by other companies. The calculations of both the numerator and denominator used in the computation of income per share are disclosed in Note 20 – *Income per Share*, in our consolidated financial statements on page 27 of this Quarterly Report on Form 10-Q.

FFO for the Three and Nine Months Ended September 30, 2014 and 2013

FFO attributable to common shareholders plus assumed conversions was \$217,362,000, or \$1.15 per diluted share for the three months ended September 30, 2014, compared to \$210,627,000, or \$1.12 per diluted share, for the prior year’s quarter. FFO attributable to common shareholders plus assumed conversions was \$684,247,000, or \$3.63 per diluted share for the nine months ended September 30, 2014, compared to \$647,767,000, or \$3.45 per diluted share for the prior year’s nine months. Details of certain items that affect comparability are discussed in the financial results summary of our “Overview”.

(Amounts in thousands, except per share amounts)	For The Three Months		For The Nine Months	
	Ended September 30,		Ended September 30,	
Reconciliation of our net income to FFO:	2014	2013	2014	2013
Net income attributable to Vornado	\$ 151,524	\$ 103,374	\$ 331,249	\$ 524,490
Depreciation and amortization of real property	123,578	117,901	387,549	377,142
Net gains on sale of real estate	(57,796)	(16,087)	(57,796)	(284,081)
Real estate impairment losses	-	720	20,842	4,727
Proportionate share of adjustments to equity in net (loss) of				
Toys, to arrive at FFO:				
Depreciation and amortization of real property	1,350	16,430	21,579	53,235
Net gains on sale of real estate	(760)	-	(760)	-

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Real estate impairment losses	-	1,826	-	6,096
Income tax effect of above adjustments	(207)	(6,390)	(7,287)	(20,766)
Proportionate share of adjustments to equity in net (loss) income of partially owned entities, excluding Toys, to arrive at FFO:				
Depreciation and amortization of real property	25,254	20,931	71,837	62,247
Net gains on sale of real estate	-	-	-	(465)
Noncontrolling interests' share of above adjustments	(5,240)	(7,736)	(21,916)	(11,343)
FFO	237,703	230,969	745,297	711,282
Preferred share dividends	(20,365)	(20,369)	(61,099)	(62,439)
Preferred unit and share redemptions	-	-	-	(1,130)
FFO attributable to common shareholders	217,338	210,600	684,198	647,713
Convertible preferred share dividends	24	27	49	54
FFO attributable to common shareholders plus assumed conversions	\$ 217,362	\$ 210,627	\$ 684,247	\$ 647,767
Reconciliation of Weighted Average Shares				
Weighted average common shares outstanding	187,671	186,969	187,503	186,885
Effect of dilutive securities:				
Employee stock options and restricted share awards	1,099	755	1,046	746
Convertible preferred shares	42	47	43	48
Denominator for FFO per diluted share	188,812	187,771	188,592	187,679
FFO attributable to common shareholders plus assumed conversions				
per diluted share	\$ 1.15	\$ 1.12	\$ 3.63	\$ 3.45

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Item 3. Quantitative and Qualitative Disclosures About Market Risk

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

(Amounts in thousands, except per share amounts)	2014	Effect of 1%	2013	Weighted	
September 30,	Weighted	Change In	December 31,	Average	
Balance	Rate	Base Rates	Balance	Interest	
Consolidated debt:					
Variable rate	\$ 1,637,394	2.23%	\$ 16,374	\$ 1,064,730	2.01%
Fixed rate	9,515,943	4.55%	-	8,913,988	4.73%
	\$ 11,153,337	4.21%	16,374	\$ 9,978,718	4.44%
Pro rata share of debt of non-consolidated entities (non-recourse):					
Variable rate – excluding Toys	\$ 303,145	1.75%	3,031	\$ 196,240	2.09%
Variable rate – Toys	1,075,239	5.56%	10,752	1,179,001	5.45%
Fixed rate (including \$683,616 and \$682,484 of Toys debt in 2014 and 2013)	2,778,274	6.47%	-	2,814,162	6.46%
	\$ 4,156,658	5.89%	13,783	\$ 4,189,403	5.97%
Noncontrolling interests' share of above			(1,758)		
Total change in annual net income		\$ 28,399			
Per share-diluted		\$ 0.15			

We may utilize various financial instruments to mitigate the impact of interest rate fluctuations on our cash flows and earnings, including hedging strategies, depending on our analysis of the interest rate environment and the costs and risks of such strategies. As of September 30, 2014, we have an interest rate cap with a notional amount of \$60,000,000 that caps LIBOR at a rate of 5.00%. In addition, we have an interest rate swap on a \$423,000,000 mortgage loan that swapped the rate from LIBOR plus 2.00% (2.15% at September 30, 2014) to a fixed rate of 5.13% for the remaining four-year term of the loan.

Fair Value of Debt

The estimated fair value of our consolidated debt is calculated based on current market prices and discounted cash flows at the rate at which similar loans could be made currently to borrowers with similar credit ratings, for the remaining term of such debt. As of September 30, 2014, the estimated fair value of our consolidated debt was \$11,120,000,000.

Item 4. Controls and Procedures

Disclosure Controls and Procedures: The Company's management, with the participation of the Company's Chief Executive Officer and Chief Financial Officer, has evaluated the effectiveness of the Company's disclosure controls and procedures (as such term is defined in Rule 13a-15(e) under the Securities Exchange Act of 1934, as amended) as of the end of the period covered by this report. Based on such evaluation, the Company's Chief Executive Officer and Chief Financial Officer have concluded that, as of September 30, 2014, such disclosure controls and procedures were effective.

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

PART II. OTHER INFORMATION

Item 1. Legal Proceedings

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

Item 1A. Risk Factors

There were no material changes to the Risk Factors disclosed in our Annual Report on Form 10-K, as amended, for the year ended December 31, 2013.

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

During the third quarter of 2014, we issued 28,177 common shares upon the redemption of Class A units of the Operating Partnership held by persons who received units, in private placements in earlier periods, in exchange for their interests in limited partnerships that owned real estate. The common shares were issued without registration under the Securities Act of 1933 in reliance on Section 4 (2) of that Act.

Information relating to compensation plans under which our equity securities are authorized for issuance is set forth under Part III, Item 12 of the Annual Report on Form 10-K, as amended, for the year ended December 31, 2013, and such information is incorporated by reference herein.

Item 3. Defaults Upon Senior Securities

None.

Item 4. Mine Safety Disclosures

Not applicable.

Item 5. Other Information

None.

Item 6. Exhibits

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

SIGNATURES

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

VORNADO REALTY TRUST
(Registrant)

Date: November 3, 2014

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

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EXHIBIT INDEX

Exhibit No.

10.52**	-	Employment agreement between Vornado Realty Trust and Michael J. Franco dated January 10, 2014. Incorporated by reference to Exhibit 10.52 to Vornado Realty Trust's Quarterly Report on Form 10-Q for the quarter ended March 31, 2014 (File No. 001-11954), filed on May 5, 2014	*
10.53**	-	Form of Vornado Realty Trust 2014 Outperformance Plan Award Agreement. Incorporated by reference to Exhibit 10.53 to Vornado Realty Trust's Quarterly Report on Form 10-Q for the quarter ended March 31, 2014 (File No. 001-11954), filed on May 5, 2014	*
10.54	-	Amended and Restated Revolving Credit Agreement dated as of September 30, 2014, by and among Vornado Realty L.P. as borrower, Vornado Realty Trust as General Partner, the Banks listed on the signature pages thereof, and JPMorgan Chase Bank N.A. as Administrative Agent for the Banks.	
15.1	-	Letter regarding Unaudited Interim Financial Information	
31.1	-	Rule 13a-14 (a) Certification of the Chief Executive Officer	
31.2	-	Rule 13a-14 (a) Certification of the Chief Financial Officer	
32.1	-	Section 1350 Certification of the Chief Executive Officer	
32.2	-	Section 1350 Certification of the Chief Financial Officer	
101.INS	-	XBRL Instance Document	
101.SCH	-	XBRL Taxonomy Extension Schema	
101.CAL	-	XBRL Taxonomy Extension Calculation Linkbase	
101.DEF	-	XBRL Taxonomy Extension Definition Linkbase	
101.LAB	-	XBRL Taxonomy Extension Label Linkbase	

101.PRE - XBRL Taxonomy Extension Presentation Linkbase

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Incorporated by reference
Management contract or compensation agreement