VORNADO REALTY TRUST
Form 10-Q
August 01, 2011

**UNITED STATES**

**SECURITIES AND EXCHANGE COMMISSION**

**WASHINGTON, D.C. 20549**

**FORM 10-Q**

(Mark one)

x **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d)**

**OF THE SECURITIES EXCHANGE ACT OF 1934**

For the quarterly period ended: **June 30, 2011**

**Or**

o **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** |

| | |
|---|---|
| (State or other jurisdiction of incorporation or organization) | (I.R.S. Employer Identification Number) |
| **888 Seventh Avenue, New York, New York** | **10019** |
| (Address of principal executive offices) | (Zip Code) |

**(212) 894-7000**

(Registrant's telephone number, including area code)

**N/A**

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

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

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

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

| | |
|---|---|
| x Large Accelerated Filer | o Accelerated Filer |
| o Non-Accelerated Filer (Do not check if smaller reporting company) | o Smaller Reporting Company |

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

As of June 30, 2011, 184,427,825 of the registrant's common shares of beneficial interest are outstanding.

**PART I. FINANCIAL INFORMATION**

**Item 1. Financial Statements**

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

| (Amounts in thousands, except share and per share amounts) **ASSETS** | **June 30, 2011** | **December 31, 2010** |
|---|---|---|
| Real estate, at cost: | | |
| Land | $ 4,592,075 | $ 4,598,303 |
| Buildings and improvements | 12,753,909 | 12,733,487 |
| Development costs and construction in progress | 236,393 | 218,156 |
| Leasehold improvements and equipment | 126,784 | 124,976 |
| Total | 17,709,161 | 17,674,922 |
| Less accumulated depreciation and amortization | (2,941,929) | (2,763,997) |
| Real estate, net | 14,767,232 | 14,910,925 |
| Cash and cash equivalents | 591,515 | 690,789 |
| Restricted cash | 155,320 | 200,822 |
| Marketable securities | 791,676 | 766,116 |
| Accounts receivable, net of allowance for doubtful accounts of $71,939 and $62,979 | 168,624 | 157,146 |
| Investments in partially owned entities | 1,160,292 | 927,672 |
| Investment in Toys "R" Us | 558,755 | 447,334 |
| Real Estate Fund investments | 255,795 | 144,423 |
| Mezzanine loans receivable, net | 155,613 | 202,412 |
| Receivable arising from the straight-lining of rents, net of allowance of $8,148 and $7,323 | 739,784 | 720,806 |
| Deferred leasing and financing costs, net of accumulated amortization of $236,577 and $223,131 | 366,421 | 368,314 |
| Identified intangible assets, net of accumulated amortization of $363,341 and $338,508 | 317,257 | 348,745 |
| Assets related to discontinued operations | - | 234,464 |
| Due from officers | 13,183 | 13,187 |
| Other assets | 497,397 | 384,316 |
| | $ 20,538,864 | $ 20,517,471 |
| **LIABILITIES, REDEEMABLE NONCONTROLLING INTERESTS AND EQUITY** | | |
| Notes and mortgages payable | $ 8,575,022 | $ 8,259,298 |
| Senior unsecured notes | 982,629 | 1,082,928 |
| Exchangeable senior debentures | 494,403 | 491,000 |
| Convertible senior debentures | 187,994 | 186,413 |
| Revolving credit facility debt | 300,000 | 874,000 |

| | | |
|---|---|---|
| Accounts payable and accrued expenses | 436,229 | 438,479 |
| Deferred credit | 555,709 | 583,369 |
| Deferred compensation plan | 100,374 | 91,549 |
| Deferred tax liabilities | 13,256 | 13,278 |
| Liabilities related to discontinued operations | - | 255,922 |
| Other liabilities | 104,257 | 82,856 |
| Total liabilities | 11,749,873 | 12,359,092 |
| Commitments and contingencies | | |
| Redeemable noncontrolling interests: | | |
| Class A units - 12,561,359 and 12,804,202 units outstanding | 1,170,467 | 1,066,974 |
| Series D cumulative redeemable preferred units - 10,000,001 and 10,400,001 units outstanding | 251,000 | 261,000 |
| Total redeemable noncontrolling interests | 1,421,467 | 1,327,974 |
| Vornado shareholders' equity: | | |
| Preferred shares of beneficial interest: no par value per share; authorized 110,000,000 shares; issued and outstanding 41,188,509 and 32,340,009 shares | 997,446 | 783,088 |
| Common shares of beneficial interest: $.04 par value per share; authorized 250,000,000 shares; issued and outstanding 184,427,825 and 183,661,875 shares | 7,347 | 7,317 |
| Additional capital | 6,885,223 | 6,932,728 |
| Earnings less than distributions | (1,244,254) | (1,480,876) |
| Accumulated other comprehensive income | 114,479 | 73,453 |
| Total Vornado shareholders' equity | 6,760,241 | 6,315,710 |
| Noncontrolling interests in consolidated subsidiaries | 607,283 | 514,695 |
| Total equity | 7,367,524 | 6,830,405 |
| | $ 20,538,864 | $ 20,517,471 |

See notes to consolidated financial statements (unaudited).

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

| (Amounts in thousands, except per share amounts) | For the Three Months Ended June 30, 2011 | For the Three Months Ended June 30, 2010 | For the Six Months Ended June 30, 2011 | For the Six Months Ended June 30, 2010 |
|---|---|---|---|---|
| **REVENUES:** | | | | |
| Property rentals | $ 573,646 | $ 565,412 | $ 1,144,806 | $ 1,117,869 |
| Tenant expense reimbursements | 82,325 | 86,420 | 173,284 | 178,350 |
| Cleveland Medical Mart development project | 32,369 | - | 73,068 | - |
| Fee and other income | 41,811 | 32,157 | 76,104 | 73,084 |
| Total revenues | 730,151 | 683,989 | 1,467,262 | 1,369,303 |
| **EXPENSES:** | | | | |
| Operating | 273,152 | 261,845 | 563,925 | 536,538 |
| Depreciation and amortization | 131,898 | 133,277 | 264,125 | 267,070 |
| General and administrative | 50,251 | 49,540 | 109,254 | 98,170 |
| Cleveland Medical Mart development project | 29,940 | - | 68,218 | - |
| Acquisition and other costs | 1,897 | 1,930 | 20,167 | 1,930 |
| Total expenses | 487,138 | 446,592 | 1,025,689 | 903,708 |
| Operating income | 243,013 | 237,397 | 441,573 | 465,595 |
| (Loss) income applicable to Toys "R" Us | (22,846) | (21,004) | 90,098 | 104,866 |
| Income from partially owned entities | 26,403 | 4,452 | 42,687 | 15,796 |
| Income from Real Estate Fund (of which $12,102 and $12,028 is allocated to noncontrolling interests, in the three and six months ended June 30, 2011, respectively) | 19,058 | - | 20,138 | - |
| Interest and other investment income, net | 8,007 | 3,876 | 125,115 | 18,580 |
| Interest and debt expense (including amortization of deferred financing costs of $5,235 and $4,514 in each three-month period, respectively, and $9,868 and $8,915 in each six-month period, respectively) | (137,202) | (142,175) | (271,967) | (277,902) |

| | | | | |
|---|---|---|---|---|
| Net (loss) on extinguishment of debt | - | (1,072) | - | (1,072) |
| Net gain on disposition of wholly owned and partially owned assets | - | 4,382 | 6,677 | 7,687 |
| Income before income taxes | 136,433 | 85,856 | 454,321 | 333,550 |
| Income tax expense | (5,922) | (4,964) | (12,304) | (10,544) |
| Income from continuing operations | 130,511 | 80,892 | 442,017 | 323,006 |
| Income (loss) from discontinued operations | 458 | (3,681) | 134,773 | (13,251) |
| Net income | 130,969 | 77,211 | 576,790 | 309,755 |
| Less: | | | | |
| Net income attributable to noncontrolling interests in consolidated subsidiaries | (13,657) | (981) | (15,007) | (1,194) |
| Net income attributable to noncontrolling interests in the Operating Partnership, including unit distributions | (8,731) | (4,124) | (40,539) | (21,903) |
| Net income attributable to Vornado | 108,581 | 72,106 | 521,244 | 286,658 |
| Preferred share dividends | (16,668) | (14,266) | (30,116) | (28,533) |
| **NET INCOME attributable to common shareholders** | $ 91,913 | $ 57,840 | $ 491,128 | $ 258,125 |
| | | | | |
| **INCOME PER COMMON SHARE - BASIC:** | | | | |
| Income from continuing operations, net | $ 0.50 | $ 0.34 | $ 1.98 | $ 1.49 |
| (Loss) income from discontinued operations, net | - | (0.02) | 0.69 | (0.07) |
| Net income per common share | $ 0.50 | $ 0.32 | $ 2.67 | $ 1.42 |
| Weighted average shares | 184,268 | 182,027 | 184,129 | 181,786 |
| | | | | |
| **INCOME PER COMMON SHARE - DILUTED:** | | | | |
| Income from continuing operations, net | $ 0.49 | $ 0.33 | $ 1.97 | $ 1.48 |
| (Loss) income from discontinued operations, net | - | (0.02) | 0.66 | (0.07) |
| Net income per common share | $ 0.49 | $ 0.31 | $ 2.63 | $ 1.41 |
| Weighted average shares | 186,144 | 183,644 | 191,736 | 183,598 |
| | | | | |
| **DIVIDENDS PER COMMON SHARE** | $ 0.69 | $ 0.65 | $ 1.38 | $ 1.30 |

See notes to consolidated financial statements (unaudited).

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

| (Amounts in thousands) | For the Three Months Ended June 30, 2011 | For the Three Months Ended June 30, 2010 | For the Six Months Ended June 30, 2011 | For the Six Months Ended June 30, 2010 |
|---|---|---|---|---|
| Net income | $ 130,969 | $ 77,211 | $ 576,790 | $ 309,755 |
| Other comprehensive income: | | | | |
| Change in unrealized net gain on securities available-for-sale | (27,195) | 7,943 | 40,844 | 25,531 |
| Pro rata share of other comprehensive income of nonconsolidated subsidiaries | 30,156 | (277) | 26,365 | (15,965) |
| Change in value of interest rate swap and caps | (10,887) | - | (18,034) | - |
| Other | (5,105) | (22) | (5,045) | (418) |
| Comprehensive income | 117,938 | 84,855 | 620,920 | 318,903 |
| Less: | | | | |
| Comprehensive income attributable to noncontrolling interests | (21,875) | (5,640) | (58,650) | (23,737) |
| Comprehensive income attributable to Vornado | $ 96,063 | $ 79,215 | $ 562,270 | $ 295,166 |

See notes to consolidated financial statements (unaudited).

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

| (Amounts in thousands) | Preferred Shares | | Common Shares | | Additional | Earnings Less Than | Accumulated Other Comprehensive Income (Loss) | Non-controlling | Tota |
|---|---|---|---|---|---|---|---|---|---|
| | Shares | Amount | Shares | Amount | Capital | Distributions | | Interests | Equi |
| **Balance, December 31, 2009** | 33,952 | $ 823,686 | 181,214 | $ 7,218 | $ 6,961,007 | $ (1,577,591) | $ 28,449 | $ 406,637 | $ 6,649 |
| Net income | - | - | - | - | - | 286,658 | - | 1,194 | 287 |
| Dividends on common shares | - | - | - | - | - | (236,279) | - | - | (236, |
| Dividends on preferred shares | - | - | - | - | - | (28,533) | - | - | (28, |
| Common shares issued: | | | | | | | | | |
| Upon redemption of Class A units, at redemption value | - | - | 495 | 20 | 35,691 | - | - | - | 35 |
| Under employees' share option plan | - | - | 548 | 22 | 8,989 | (25,433) | - | - | (16, |
| Under dividend reinvestment plan | - | - | 12 | 1 | 801 | - | - | - | |
| Conversion of Series A preferred shares to common shares | (3) | (152) | 4 | - | 152 | - | - | - | |
| Deferred compensation shares and options | - | - | 17 | 1 | 3,905 | - | - | - | 3 |
| Change in unrealized net gain | | | | | | | | | |

| | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| on securities available-for-sale | - | - | - | - | - | - | 25,531 | - | 25 |
| Pro rata share of other comprehensive income of nonconsolidated subsidiaries | - | - | - | - | - | - | (15,965) | - | (15, |
| Adjustments to carry redeemable Class A units at redemption value | - | - | - | - | (66,075) | - | - | - | (66, |
| Other | - | - | - | - | (60) | 2 | (418) | (545) | (1, |
| **Balance, June 30, 2010** | 33,949 | $ 823,534 | 182,290 | $ 7,262 | $ 6,944,410 | $ (1,581,176) | $ 37,597 | $ 407,286 | $ 6,638 |

| (Amounts in thousands) | **Preferred Shares** | | **Common Shares** | | **Additional** | **Earnings Less Than** | **Accumulated Other Comprehensive Income (Loss)** | **Non-controlling** | **Tot** |
|---|---|---|---|---|---|---|---|---|---|
| | **Shares** | **Amount** | **Shares** | **Amount** | **Capital** | **Distributions** | | **Interests** | **Equ** |
| **Balance, December 31, 2010** | 32,340 | $ 783,088 | 183,662 | $ 7,317 | $ 6,932,728 | $ (1,480,876) | $ 73,453 | $ 514,695 | $ 6,830 |
| Net income | - | - | - | - | - | 521,244 | - | 15,007 | 536 |
| Dividends on common shares | - | - | - | - | - | (254,099) | - | - | (254, |
| Dividends on preferred shares | - | - | - | - | - | (30,116) | - | - | (30, |
| Issuance of Series J preferred shares | 8,850 | 214,538 | - | - | - | - | - | - | 214 |
| Common shares issued: | | | | | | | | | |
| Upon redemption of Class A units, at redemption value | - | - | 401 | 16 | 35,192 | - | - | - | 35 |
| Under employees' | | | | | | | | | |

| | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| share option plan | - | - | 343 | 14 | 20,434 | (397) | - | - | 20 |
| Under dividend reinvestment plan | - | - | 10 | - | 883 | - | - | - | |
| Contributions: | | | | | | | | | |
| Real Estate Fund | - | - | - | - | - | - | - | 109,241 | 109 |
| Other | - | - | - | - | - | - | - | 364 | |
| Distributions: | | | | | | | | | |
| Real Estate Fund | - | - | - | - | - | - | - | (20,796) | (20, |
| Other | - | - | - | - | - | - | - | (15,604) | (15, |
| Conversion of Series A preferred shares to common shares | (1) | (75) | 2 | - | 75 | - | - | - | |
| Deferred compensation shares and options | - | - | 10 | - | 5,122 | - | - | - | 5 |
| Change in unrealized net gain on securities available-for-sale | - | - | - | - | - | - | 40,844 | - | 40 |
| Pro rata share of other comprehensive income of nonconsolidated subsidiaries | - | - | - | - | - | - | 26,365 | - | 26 |
| Change in value of interest rate caps | - | - | - | - | - | - | (18,034) | - | (18, |
| Adjustments to carry redeemable Class A units at redemption value | - | - | - | - | (104,693) | - | - | - | (104, |
| Redeemable noncontrolling interests' share of above | - | - | - | - | - | - | (3,104) | - | (3, |

| | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| adjustments | | | | | | | | | |
| Other | - | (105) | - | - | (4,518) | (10) | (5,045) | 4,376 | (5, |
| **Balance, June 30, 2011** | 41,189 | $ 997,446 | 184,428 | $ 7,347 | $ 6,885,223 | $ (1,244,254) | $ 114,479 | $ 607,283 | $ 7,367 |

See notes to consolidated financial statements (unaudited).

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

| | For the Six Months Ended June 30, | |
|---|---|---|
| | **2011** | **2010** |
| (Amounts in thousands) | | |
| **Cash Flows from Operating Activities:** | | |
| Net income | $ 576,790 | $ 309,755 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | |
| Depreciation and amortization (including amortization of deferred financing costs) | 273,980 | 280,058 |
| Equity in net income of partially owned entities, including Toys “R” Us | (132,785) | (120,662) |
| Net (gain) loss on extinguishment of debt | (83,907) | 1,072 |
| Mezzanine loans loss (reversal) accrual and net gain on disposition | (82,744) | 6,900 |
| Net gain on sales of real estate | (51,623) | - |
| Distributions of income from partially owned entities | 43,741 | 18,517 |
| Amortization of below-market leases, net | (33,704) | (32,209) |
| Straight-lining of rental income | (22,291) | (38,557) |
| Other non-cash adjustments | 15,173 | 17,007 |
| Unrealized gain on Real Estate Fund assets | (13,570) | - |
| Income from the mark-to-market of J.C. Penney derivative position | (10,401) | - |
| Net gain on disposition of wholly owned and partially owned assets | (6,677) | (7,687) |
| Litigation loss accrual | - | 10,056 |
| Changes in operating assets and liabilities: | | |
| Real Estate Fund investments | (97,802) | - |
| Accounts receivable, net | (11,478) | (400) |
| Prepaid assets | (117,503) | 79,289 |
| Other assets | (10,424) | (25,691) |
| Accounts payable and accrued expenses | 13,250 | 23,576 |
| Other liabilities | 12,015 | 11,341 |
| Net cash provided by operating activities | 260,040 | 532,365 |
| **Cash Flows from Investing Activities:** | | |
| Investments in partially owned entities | (426,376) | (41,920) |
| Distributions of capital from partially owned entities | 271,375 | 12,638 |
| Proceeds from sales of real estate and related investments | 130,789 | 49,544 |
| Proceeds from sales and repayments of mezzanine loans | 99,990 | 105,061 |
| Restricted cash | 91,127 | 133,888 |
| Additions to real estate | (86,944) | (68,925) |

| | | |
|---|---|---|
| Investments in mezzanine loans receivable and other | (43,516) | (48,339) |
| Development costs and construction in progress | (32,489) | (68,499) |
| Proceeds from sales of marketable securities | 19,301 | 122,956 |
| Proceeds from maturing short-term investments | - | 40,000 |
| Purchases of marketable securities | - | (13,917) |
| Acquisitions of real estate and other | - | (15,128) |
| Net cash provided by investing activities | 23,257 | 207,359 |

See notes to consolidated financial statements (unaudited).

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

| | For the Six Months Ended June 30, | |
|---|---|---|
| | 2011 | 2010 |
| (Amounts in thousands) | | |
| **Cash Flows from Financing Activities:** | | |
| Repayments of borrowings | $ (1,636,817) | $ (1,197,525) |
| Proceeds from borrowings | 1,284,167 | 901,040 |
| Dividends paid on common shares | (254,099) | (236,279) |
| Proceeds from the issuance of Series J preferred shares | 214,538 | - |
| Contributions from noncontrolling interests | 109,605 | - |
| Distributions to noncontrolling interests | (62,111) | (27,665) |
| Dividends paid on preferred shares | (27,117) | (28,533) |
| Debt issuance and other costs | (23,319) | (5,724) |
| Proceeds received from exercise of employee share options | 21,330 | 9,827 |
| Purchases of outstanding preferred units | (8,000) | (13,000) |
| Repurchase of shares related to stock compensation agreements and related tax withholdings | (748) | (25,223) |
| Net cash used in financing activities | (382,571) | (623,082) |
| Net (decrease) increase in cash and cash equivalents | (99,274) | 116,642 |
| Cash and cash equivalents at beginning of period | 690,789 | 535,479 |
| Cash and cash equivalents at end of period | $ 591,515 | $ 652,121 |
| | | |
| **Supplemental Disclosure of Cash Flow Information:** | | |
| Cash payments for interest (including capitalized interest of $0 and $875) | $ 256,776 | $ 270,997 |
| Cash payments for income taxes | $ 5,416 | $ 3,861 |
| | | |
| **Non-Cash Investing and Financing Activities:** | | |
| Change in unrealized gain on securities available-for-sale | $ 40,844 | $ 25,531 |
| Contribution of mezzanine loan receivable to a joint venture | 73,750 | - |
| Exchange of real estate | (45,625) | - |
| Adjustments to carry redeemable Class A units at redemption value | (104,693) | (66,075) |
| Common shares issued upon redemption of Class A units, at redemption value | 35,208 | 35,711 |
| Extinguishment of a liability in connection with the acquisition of real estate | - | 20,500 |
| Decrease in assets and liabilities resulting from deconsolidation | | |

| | | |
|---|---|---|
| of discontinued operations: | | |
| Assets related to discontinued operations | (145,333) | - |
| Liabilities related to discontinued operations | (232,502) | - |
| Write-off of fully depreciated assets | (32,794) | (31,079) |

See notes to consolidated financial statements (unaudited).

**VORNADO REALTY TRUST**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**(UNAUDITED)**

**1. Organization**

Vornado Realty Trust ("Vornado") is a fully integrated real estate investment trust ("REIT") and conducts its business through, and substantially all of its interests in properties are held by, Vornado Realty L.P., a Delaware limited partnership (the "Operating Partnership"). Accordingly, Vornado's cash flow and ability to pay dividends to its shareholders is dependent upon the cash flow of the Operating Partnership and the ability of its direct and indirect subsidiaries to first satisfy their obligations to creditors. Vornado is the sole general partner of, and owned approximately 93.3% of the common limited partnership interest in the Operating Partnership at June 30, 2011. All references to "we," "us," "our," the "Company" and "Vornado" refer to Vornado Realty Trust and its consolidated subsidiaries including the Operating Partnership.

# 2. Basis of Presentation

The accompanying consolidated financial statements are unaudited and include the accounts of Vornado, and the Operating Partnership and its consolidated partially owned entities. All intercompany amounts have been eliminated. In our opinion, all adjustments (which include only normal recurring adjustments) necessary to present fairly the financial position, results of operations and changes in cash flows have been made. Certain information and footnote disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States of America ("GAAP") have been condensed or omitted. These condensed consolidated financial statements have been prepared in accordance with the instructions to Form 10-Q of the Securities and Exchange Commission (the "SEC") and should be read in conjunction with the consolidated financial statements and notes thereto included in our Annual Report on Form 10-K, as amended, for the year ended December 31, 2010, as filed with the SEC.

We have made estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting periods. Actual results could differ from those estimates. The results of operations for the three and six months ended June 30, 2011 are not necessarily indicative of the operating results for the full year.

**3. Acquisitions**

*Vornado Capital Partners, L.P. and Vornado Capital Partners Parallel, L.P. (the "Fund")*

We are the general partner and investment manager of an $800,000,000 real estate investment Fund, to which we have committed $200,000,000. The Fund has a term of eight years and is our exclusive investment vehicle during its three-year investment period, which concludes in July 2013, for all investments that fit within the Fund's investment parameters, as defined. The Fund is accounted for under the AICPA Audit and Accounting Guide for Investment Companies 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.

From inception through June 30, 2011, the Fund received aggregate capital contributions from partners of $256,100,000, including $64,031,000 from us, and as of June 30, 2011, has five investments aggregating approximately $243,836,000. In the three and six months ended June 30, 2011, the Fund recognized $19,058,000 and $20,138,000 of income, respectively, of which $12,102,000 and $12,028,000, respectively, is attributable to noncontrolling interests. Included in the Fund's total income for the three and six months ended June 30, 2011 was $12,872,000 and $13,570,000, respectively, of net unrealized gains from the mark-to-market of investments in the Fund, and $3,085,000 of net realized gains from the disposition of an investment. Our share of income from the Fund in the three and six months ended June 30, 2011, net of amounts attributable to noncontrolling interests, was $6,956,000 and $8,110,000, respectively, and includes $2,140,000 of accrued carried interest. In addition, in the three and six months ended June 30, 2011, we recognized $865,000 and $1,165,000, respectively, of management and leasing fees which are included as a component of "fee and other income," and incurred $403,000 and $3,451,000, respectively, of placement fees in connection with the February 2011 closing of the Fund, which are included in "general and administrative" expenses.

*One Park Avenue*

On March 1, 2011, we as a co-investor, together with the Fund, acquired a 95% interest in One Park Avenue, a 932,000 square foot office building located between 32nd and 33rd Streets in New York, for $374,000,000. The purchase price consisted of $137,000,000 in cash and 95% of a new $250,000,000 5-year mortgage that bears interest at 5.0%. The Fund accounts for its 64.7% interest in the property at fair value in accordance with the AICPA Audit and Accounting Guide for Investment Companies. We account for our directly owned 30.3% equity interest under the equity method of accounting.

**VORNADO REALTY TRUST**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)**

**(UNAUDITED)**

## 4. Marketable Securities and Derivative Instruments

*Marketable Securities*

Our portfolio of marketable securities is comprised of debt and equity securities that are classified as available for sale. Available for sale securities are presented on our consolidated balance sheets at fair value. Gains and losses resulting from the mark-to-market of these securities are recognized as an increase or decrease in "accumulated other comprehensive income" (a component of shareholders' equity on our consolidated balance sheet) and not recognized in income. Gains and losses are recognized in earnings only upon the sale of the securities and are recorded based on the weighted average cost of such securities. Below is a summary of our marketable securities portfolio as of June 30, 2011 and December 31, 2010.

| | As of June 30, 2011 | | | | As of December 31, 2010 | | | |
|---|---|---|---|---|---|---|---|---|
| | Maturity | Fair Value | GAAP Cost | Unrealized Gain | Maturity | Fair Value | GAAP Cost | Unrealized Gain |
| Equity securities: | | | | | | | | |
| J.C. Penney | n/a | $ 641,892 | $ 590,366 | $ 51,526 | n/a | $ 600,449 | $ 590,215 | $ 10,234 |
| Other | n/a | 35,413 | 13,561 | 21,852 | n/a | 47,399 | 26,632 | 20,767 |
| Debt securities | 04/13 - 10/18 | 114,371 | 101,816 | 12,555 | 08/11 - 10/18 | 118,268 | 104,180 | 14,088 |
| | | $ 791,676 | $ 705,743 | $ 85,933 | | $ 766,116 | $ 721,027 | $ 45,089 |

In the six months ended June 30, 2011 and 2010, we sold certain marketable securities for aggregate proceeds of $19,301,000 and $122,956,000, resulting in net gains of $2,139,000 and $3,908,000, respectively, of which $48,000 and $3,797,000 were recognized in the three months ended June 30, 2011 and 2010.

*Investment in J.C. Penney Company, Inc. ("J.C. Penney") (NYSE: JCP)*

We own an economic interest in 23,400,000 J.C. Penney common shares, or a 9.9% voting interest in J.C. Penney's outstanding common shares. Below are the details of our investment.

We own 18,584,010 common shares at an average cost of $25.71 per share, or $477,829,000 in the aggregate. These shares, which have an aggregate fair value of $641,892,000 at June 30, 2011, are included in marketable equity securities on our consolidated balance sheet and are classified as "available for sale." During the six months ended June 30, 2011, we recognized $41,292,000 from the mark-to-market of these shares, which is included in "other comprehensive income."

We also own an economic interest in 4,815,990 common shares through a forward contract executed on October 7, 2010, at a weighted average strike price of $28.72 per share, or $138,327,000 in the aggregate. The contract may be settled, at our election, in cash or common shares, in whole or in part, at any time prior to October 9, 2012. The counterparty may accelerate settlement, in whole or in part, upon one year's notice to us. The strike price per share increases at an annual rate of LIBOR plus 80 basis points. The contract is a derivative instrument that does not qualify for hedge accounting treatment. Mark-to-market adjustments on the underlying common shares are recognized in "interest and other investment income, net" on our consolidated statements of income. During the three and six months ended June 30, 2011, we recognized a loss of $6,762,000 and income of $10,401,000, respectively, from the mark-to-market of the underlying common shares, based on J.C. Penney's closing share price of $34.54 per share at June 30, 2011.

We review our investment in J.C. Penney on a continuing basis. Depending on various factors, including, without limitation, J.C. Penney's financial position and strategic direction, actions taken by its board, price levels of its common stock, other investment opportunities available to us, market conditions and general economic and industry conditions, we may take such actions with respect to J.C. Penney as we deem appropriate, including, without limitation, purchasing additional common stock, or other financial instruments related to J.C. Penney, or selling some or all of our beneficial or economic holdings, or engage in hedging or similar transactions.

As of June 30, 2011, the aggregate economic net gain on our investment in J.C. Penney was $192,079,000, based on J.C. Penney's closing share price of $34.54 per share and our weighted average cost of $26.33 per share.



---

**VORNADO REALTY TRUST**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)**

**(UNAUDITED)**

## 5. Investments in Partially Owned Entities

*Toys "R" Us ("Toys")*

As of June 30, 2011, we own 32.7% of Toys. The business of Toys is highly seasonal. Historically, Toys' fourth quarter net income accounts for more than 80% of its fiscal year net income. We account for our investment in Toys under the equity method and record our 32.7% 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. As of June 30, 2011, the carrying amount of our investment in Toys does not differ materially from our share of the equity in the net assets of Toys on a purchase accounting basis.

On May 28, 2010, Toys filed a registration statement, as amended, with the SEC for the offering and sale of its common stock. The offering, if completed, would result in a reduction of our percentage ownership of Toys' equity. The size of the offering and its completion are subject to market and other conditions.

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

| (Amounts in thousands) | | | Balance as of | |
|---|---|---|---|---|
| **Balance Sheet:** | | | **April 30, 2011** | **October 30, 2010** |
| Assets | | | $ 11,951,000 | $ 12,810,000 |
| Liabilities | | | 10,115,000 | 11,317,000 |
| Toys "R" Us, Inc. equity | | | 1,836,000 | 1,493,000 |
| | **For the Three Months Ended** | | **For the Six Months Ended** | |
| **Income Statement:** | **April 30, 2011** | **May 1, 2010** | **April 30, 2011** | **May 1, 2010** |
| Total revenues | $ 2,636,000 | $ 2,608,000 | $ 8,608,000 | $ 8,465,000 |
| Net (loss) income attributable to Toys | (77,000) | (71,000) | 262,000 | 308,000 |

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

As of June 30, 2011, 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 the agreements described below which expire in March of each year and are automatically renewable. As of June 30, 2011, Alexander's owed us $43,316,000 in fees under these agreements.

As of June 30, 2011, the fair value of our investment in Alexander's, based on Alexander's June 30, 2011 closing share price of $397.00, was $656,665,000, or $467,479,000 in excess of the carrying amount on our consolidated balance sheet. As of June 30, 2011, 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 $59,367,000. 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:** | **June 30, 2011** | **December 31, 2010** |
| Assets | $ 1,772,000 | $ 1,679,000 |
| Liabilities | 1,421,000 | 1,335,000 |
| Noncontrolling interests | 2,000 | 3,000 |
| Stockholders' equity | 349,000 | 341,000 |

| | **For the Three Months Ended** | | **For the Six Months Ended** | |
|---|---|---|---|---|
| **Income Statement:** | **June 30, 2011** | **June 30, 2010** | **June 30, 2011** | **June 30, 2010** |
| Total revenues | $ 62,000 | $ 59,000 | $ 125,000 | $ 118,000 |
| Net income attributable to Alexander's | 20,000 | 15,000 | 38,000 | 31,000 |

11

**VORNADO REALTY TRUST**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)**

**(UNAUDITED)**

## 5. Investments in Partially Owned Entities – continued

*Lexington Realty Trust ("Lexington") (NYSE: LXP)*

As of June 30, 2011, we own 18,468,969 Lexington common shares, or approximately 11.7% of Lexington's common equity. We account for our investment in Lexington under the equity method because we believe we have the ability to exercise significant influence over Lexington's operating and financial policies, based on, among other factors, our representation on Lexington's Board of Trustees and the level of our ownership in Lexington as compared to other shareholders. We record our pro rata share of Lexington's net income or loss on a one-quarter lag basis because we file our consolidated financial statements on Form 10-K and 10-Q prior to the time that Lexington files its consolidated financial statements.

Based on Lexington's June 30, 2011 closing share price of $9.13, the fair value of our investment in Lexington was $168,622,000, or $104,583,000 in excess of the June 30, 2011 carrying amount on our consolidated balance sheet. As of June 30, 2011, the carrying amount of our investment in Lexington was less than our share of the equity in the net assets of Lexington by approximately $43,446,000. This basis difference resulted primarily from $107,882,000 of non-cash impairment charges recognized during 2008, partially offset by purchase accounting for our acquisition of an additional 8,000,000 common shares of Lexington in October 2008, of which the majority relates to our estimate of the fair values of Lexington's real estate (land and buildings) as compared to the carrying amounts in Lexington's consolidated financial statements. The basis difference related to the buildings is being amortized over their estimated useful lives as an adjustment to our equity in net income or loss of Lexington. This amortization is not material to our share of equity in Lexington's net income or loss. The basis difference attributable to the land will be recognized upon disposition of our investment.

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

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

| (Amounts in thousands) | Balance as of | |
|---|---|---|
| **Balance Sheet:** | **March 31, 2011** | **September 30, 2010** |
| Assets | $ 3,223,000 | $ 3,385,000 |
| Liabilities | 1,904,000 | 2,115,000 |
| Noncontrolling interests | 76,000 | 71,000 |
| Shareholders' equity | 1,243,000 | 1,199,000 |

| | **For the Three Months Ended** | | **For the Six Months Ended** | |
|---|---|---|---|---|
| **Income Statement:** | **March 31, 2011** | **March 31, 2010** | **March 31, 2011** | **March 31, 2010** |
| Total revenues | $ 83,000 | $ 82,000 | $ 169,000 | $ 168,000 |
| Net (loss) attributable to Lexington | (17,000) | (27,000) | (5,000) | (73,000) |

*LNR Property LLC ("LNR")*

As of June 30, 2011, we own a 26.2% equity interest in LNR, which we acquired in July 2010. We account for our investment in LNR under the equity method and record our 26.2% share of LNR's net income or loss on a one-quarter lag basis because we file our consolidated financial statements on Form 10-K and 10-Q prior to receiving LNR's consolidated financial statements.

LNR consolidates certain commercial mortgage-backed securities ("CMBS") and Collateralized Debt Obligation ("CDO") trusts for which it is the primary beneficiary. The assets of these trusts (primarily commercial mortgage loans), which aggregate approximately $141 billion as of March 31, 2011, are the sole source of repayment of the related liabilities, which are non-recourse to LNR and its equity holders, including us. Changes in the fair value of these assets each period are offset by changes in the fair value of the related liabilities through LNR's consolidated income statement. As of June 30, 2011, the carrying amount of our investment in LNR does not materially differ from our share of LNR's equity.

**VORNADO REALTY TRUST**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)**

**(UNAUDITED)**

**5. Investments in Partially Owned Entities – continued**

*LNR Property LLC ("LNR") – continued*

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

| (Amounts in thousands) | Balance as of | |
|---|---|---|
| **Balance Sheet:** | **March 31, 2011** | **September 30, 2010** |
| Assets | $ 141,759,000 | $ 143,266,000 |
| Liabilities | 141,118,000 | 142,720,000 |
| Noncontrolling interests | 20,000 | 37,000 |
| LNR equity | 621,000 | 509,000 |
| | **For the Three Months Ended** | **For the Six Months Ended** |
| **Income Statement:** | **March 31, 2011** | **March 31, 2011** |
| Total revenues | $ 47,000 | $ 83,000 |
| Net income attributable to LNR | 42,000 | 100,000 |

*280 Park Avenue Joint Venture*

On March 16, 2011, we formed a 50/50 joint venture with SL Green Realty Corp ("SL Green") to own the mezzanine debt of 280 Park Avenue, a 1.2 million square foot office building located between 48th and 49th Streets in Manhattan (the "Property"). We contributed our mezzanine loan with a face amount of $73,750,000, and they contributed their mezzanine loans with a face amount of $326,250,000 to the joint venture. We equalized our interest in the joint venture with SL Green by paying them $111,250,000 in cash and assuming $15,000,000 of their debt. On May 17, 2011, as part of the recapitalization of the Property, the joint venture contributed its debt position for 99% of the common equity of a new joint venture which owns the Property. The new joint venture expects to spend

$150,000,000 for re-tenanting and repositioning the Property. We account for our 49.5% equity interest in the Property under the equity method of accounting from the date of recapitalization.

*Independence Plaza*

On June 17, 2011, a joint venture in which we are a 51% partner invested $55,000,000 in cash (of which we contributed $35,000,000) to acquire a face amount of $150,000,000 of mezzanine loans and a $35,000,000 participation in a senior loan in Independence Plaza, a residential complex comprised of three 39-story buildings in the Tribeca submarket of Manhattan. We share control over major decisions with our joint venture partner. Accordingly, we account for our 51% interest in the joint venture under the equity method of accounting from the date of acquisition.

**VORNADO REALTY TRUST**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)**

**(UNAUDITED)**

## 5. Investments in Partially Owned Entities - continued

Investments in partially owned entities as of June 30, 2011 and December 31, 2010 and income recognized from these investments for the three and six months ended June 30, 2011 and 2010 are as follows:

| (Amounts in thousands)<br>**Investments:** | **Percentage Ownership as of June 30, 2011** | **Balance as of June 30, 2011** | **Balance as of December 31, 2010** |
|---|---|---|---|
| Toys | 32.7 % | $ 558,755 | $ 447,334 |
| Alexander's | 32.4 % | $ 189,186 | $ 186,811 |
| Lexington | 11.7 % | 64,039 | 57,270 |
| LNR | 26.2 % | 158,269 | 132,973 |
| India real estate ventures | 4%-36.5% | 103,488 | 127,193 |
| Partially owned office buildings (1) | Various | 445,669 | 181,838 |
| Other equity method investments (2) | Various | 199,641 | 241,587 |
| | | $ 1,160,292 | $ 927,672 |

| **Our Share of Net Income (Loss):** | **For the Three Months Ended Ended June 30, 2011** | **For the Three Months Ended Ended June 30, 2010** | **For the Six Months Ended Ended June 30, 2011** | **For the Six Months Ended Ended June 30, 2010** |
|---|---|---|---|---|
| **Toys** – 32.7% share of: | | | | |
| Equity in net (loss) income before income taxes | $ (49,017) | $ (47,314) | $ 130,822 | $ 126,236 |
| Income tax benefit (expense) | 23,969 | 24,123 | (45,049) | (25,587) |
| Equity in net (loss) income | (25,048) | (23,191) | 85,773 | 100,649 |
| Interest and other income | 2,202 | 2,187 | 4,325 | 4,217 |
| | $ (22,846) | $ (21,004) | $ 90,098 | $ 104,866 |
| **Alexander's** – 32.4% share of: | | | | |
| Equity in net income | $ 6,351 | $ 4,920 | $ 12,070 | $ 8,697 |
| | 2,287 | 2,146 | 4,579 | 4,829 |

| | | | | |
|---|---|---|---|---|
| Management, leasing and development fees | 8,638 | 7,066 | 16,649 | 13,526 |
| **Lexington** – 11.7% share in 2011 and 13.8% share in 2010 of equity in net income (loss) (3) | 8,654 | (428) | 10,826 | 5,617 |
| **LNR** – 26.2% share of equity in net income (acquired in July 2010) (4) | 11,003 | - | 26,257 | - |
| **India real estate ventures** – 4% to 36.5% range in our share of equity in net income (loss) | 205 | 606 | (2) | 2,257 |
| **Partially owned office buildings** (5) | (2,366) | 1,023 | (6,990) | 1,778 |
| **Other equity method investments** | 269 | (3,815) | (4,053) | (7,382) |
| | $ 26,403 | $ 4,452 | $ 42,687 | $ 15,796 |

(1) Includes interests in 330 Madison Avenue (25%), One Park Avenue (30.3%), 280 Park Avenue (49.5%), 825 Seventh Avenue (50%), Warner Building and 1101 17th Street (55%), Fairfax Square (20%), Kaempfer equity interests in three office buildings (2.5% to 5.0%), Rosslyn Plaza (46%) and West 57th Street properties (50%).

(2) Includes interests in Monmouth Mall, Verde Realty Operating Partnership, 85 10th Avenue Associates and redevelopment ventures, including Harlem Park and Farley.

(3) Includes net gains of $8,308 in the three months ended June 30, 2011, and $9,760 and $5,998 in the six months ended June 30, 2011 and 2010, respectively, resulting from Lexington's stock issuances.

(4) The three and six months ended June 30, 2011 include $6,020 for our share of net gains from asset sales. The six months ended June 30, 2011 also includes $8,977 for our share of a tax settlement gain.

(5) The six months ended June 30, 2011 includes $9,022 for our share of expense, primarily for straight-line rent reserves and the write-off of tenant improvements in connection with a tenant's bankruptcy at the Warner Building.

**VORNADO REALTY TRUST**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)**

**(UNAUDITED)**

## 5. Investments in Partially Owned Entities – continued

Below is a summary of the debt of our partially owned entities as of June 30, 2011 and December 31, 2010, none of which is recourse to us.

| (Amounts in thousands) | Maturity | Interest Rate at June 30, 2011 | 100% of Partially Owned Entities' Debt at June 30, 2011 | December 31, 2010 |
|---|---|---|---|---|
| **Toys (32.7% interest) (as of April 30, 2011 and October 30, 2010, respectively):** | | | | |
| Senior unsecured notes (Face value – $950,000) | 07/17 | 10.75 % | $ 929,183 | $ 928,045 |
| Senior unsecured notes (Face value – $725,000) | 12/17 | 8.50 % | 716,070 | 715,577 |
| $700 million secured term loan facility | 09/16 | 6.00 % | 686,979 | 689,757 |
| Senior U.K. real estate facility | 04/13 | 5.02 % | 583,423 | 561,559 |
| 7.625% bonds (Face value – $500,000) | 08/11 | 8.82 % | 498,787 | 495,943 |
| 7.875% senior notes (Face value – $400,000) | 04/13 | 9.50 % | 388,781 | 386,167 |
| 7.375% senior secured notes (Face value – $350,000) | 09/16 | 7.38 % | 349,750 | 350,000 |
| 7.375% senior notes (Face value – $400,000) | 10/18 | 9.99 % | 345,970 | 343,528 |
| Japan bank loans | 03/12-02/16 | 1.85%-2.85% | 184,662 | 180,500 |
| Spanish real estate facility | 02/13 | 4.51 % | 189,580 | 179,511 |
| Junior U.K. real estate facility | 04/13 | 6.81%-7.84% | 101,828 | 98,266 |
| Japan borrowings | 03/12 | 0.98 % | 99,792 | 141,360 |
| French real estate facility | 02/13 | 4.51 % | 91,457 | 86,599 |
| 8.750% debentures (Face value – $21,600) | 09/21 | 9.17 % | 21,071 | 21,054 |
| $1.85 billion credit facility | 08/15 | - | - | 519,810 |
| European and Australian asset-based revolving credit facility | 10/12 | - | - | 25,767 |

| | | | | |
|---|---|---|---|---|
| Other | Various | Various | 171,350 | 156,853 |
| | | | 5,358,683 | 5,880,296 |
| **Alexander’s (32.4% interest):** | | | | |
| 731 Lexington Avenue mortgage note payable, collateralized by the office space | 02/14 | 5.33 % | 345,875 | 351,751 |
| 731 Lexington Avenue mortgage note payable, collateralized by the retail space | 07/15 | 4.93 % | 320,000 | 320,000 |
| Rego Park construction loan payable | 12/11 | 1.50 % | 277,200 | 277,200 |
| Kings Plaza Regional Shopping Center mortgage note payable (1) | 06/16 | 1.95 % | 250,000 | 151,214 |
| Rego Park mortgage note payable | 03/12 | 0.75 % | 78,246 | 78,246 |
| Paramus mortgage note payable | 10/11 | 5.92 % | 68,000 | 68,000 |
| | | | 1,339,321 | 1,246,411 |
| **Lexington (11.7% interest) (as of March 31, 2011 and September 30, 2010, respectively):** | | | | |
| Mortgage loans collateralized by Lexington’s real estate | 2011-2037 | 5.81 % | 1,721,643 | 1,927,729 |
| **LNR (26.2% interest) (as of March 31, 2011 and September 30, 2010):** | | | | |
| Mortgage notes payable | 2011-2043 | 4.75 % | 353,803 | 508,547 |
| Liabilities of consolidated CMBS and CDO trusts | n/a | 5.28 % | 140,615,139 | 142,001,333 |
| | | | 140,968,942 | 142,509,880 |

**(1)** On June 10, 2011, Alexander's completed a $250,000 refinancing of this loan. The five-year interest only loan is at LIBOR plus 1.70%.

15

**VORNADO REALTY TRUST**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)**

**(UNAUDITED)**

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

| (Amounts in thousands) | Maturity | Interest Rate at June 30, 2011 | 100% of Partially Owned Entities' Debt at June 30, 2011 | 100% of Partially Owned Entities' Debt at December 31, 2010 |
|---|---|---|---|---|
| **Partially owned office buildings:** | | | | |
| 280 Park Avenue (49.5% interest) mortgage notes payable (Face value - $740,000 at 6.37%) | 06/16 | 3.93 % | $ 823,629 | $ - |
| One Park Avenue (30.3% interest) mortgage note payable | 03/16 | 5.00 % | 250,000 | - |
| Warner Building (55% interest) mortgage note payable | 05/16 | 6.26 % | 292,700 | 292,700 |
| 330 Madison Avenue (25% interest) mortgage note payable | 06/15 | 1.77 % | 150,000 | 150,000 |
| Kaempfer Properties (2.5% and 5.0% interests in two partnerships) mortgage notes payable, collateralized by the partnerships' real estate | 11/11-12/11 | 5.86 % | 138,084 | 139,337 |
| Fairfax Square (20% interest) mortgage note payable | 12/14 | 7.00 % | 71,376 | 71,764 |
| Rosslyn Plaza (46% interest) mortgage note payable | 12/11 | 1.30 % | 56,680 | 56,680 |
| 330 West 34th Street (34.8% interest) mortgage note payable, collateralized by land | 07/22 | 5.71 % | 50,150 | 50,150 |
| West 57th Street (50% interest) mortgage note payable | 02/14 | 4.94 % | 22,466 | 22,922 |
| 825 Seventh Avenue (50% interest) mortgage note payable | 10/14 | 8.07 % | 20,327 | 20,565 |
| **India Real Estate Ventures:** | | | | |
| TCG Urban Infrastructure Holdings (25% interest) mortgage notes | | | | |

| | | | | |
|---|---|---|---|---|
| payable, collateralized by the entity's real estate | 2011-2022 | 11.53 % | 255,741 | 196,319 |
| **Other:** | | | | |
| Verde Realty Operating Partnership (8.3% interest) mortgage notes payable, collateralized by the partnerships' real estate | 2013-2025 | 5.93 % | 541,852 | 581,086 |
| Green Courte Real Estate Partners, LLC (8.3% interest) (as of March 31, 2011 and September 30, 2010), mortgage notes payable, collateralized by the partnerships' real estate | 2011-2018 | 5.60 % | 295,441 | 296,991 |
| Monmouth Mall (50% interest) mortgage note payable | 02/14-09/15 | 5.35 % | 172,384 | 164,474 |
| Wells/Kinzie Garage (50% interest) mortgage note payable | 12/17 | 5.00 % | 14,917 | 15,022 |
| Orleans Hubbard Garage (50% interest) mortgage note payable | 12/17 | 5.00 % | 9,442 | 9,508 |
| Waterfront Station (2.5% interest) | n/a | n/a | - | 217,106 |
| Other | Various | 4.58 % | 663,162 | 418,339 |

Based on our ownership interest in the partially owned entities above, our pro rata share of the debt of these partially owned entities was $40,339,296,000 and $40,443,346,000 as of June 30, 2011 and December 31, 2010, respectively. Excluding our pro rata share of LNR's liabilities related to consolidated CMBS and CDO trusts which are non-recourse to LNR and its equity holders, including us, our pro rata share of partially owned entities debt is $3,534,690,000 and $3,275,917,000 at June 30, 2011 and December 31, 2010, respectively.

**VORNADO REALTY TRUST**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)**

**(UNAUDITED)**

## 6. Mezzanine Loans Receivable

On March 2, 2011, we sold our mezzanine loan in the Tharaldson Lodging Companies for $70,848,000 in cash, which had a carrying amount of $60,416,000 and recognized a net gain of $10,474,000. The gain is included as a component of “interest and other investment income, net” on our consolidated statement of income.

In the first quarter of 2011, we recognized $72,270,000 of income, representing the difference between the fair value of our 280 Park Avenue Mezzanine Loan of $73,750,000, and its carrying amount of $1,480,000. The $72,270,000 of income, which is included in “interest and other investment income, net” on our consolidated statement of income, is comprised of $63,145,000 from the reversal of the loan loss reserve and $9,125,000 of previously unrecognized interest income. Our decision to reverse the loan loss reserve was based on the increase in value of the underlying collateral. On March 16, 2011, we contributed this mezzanine loan to a 50/50 joint venture with SL Green (see Note 5 – Investments in Partially Owned Entities).

As of June 30, 2011 and December 31, 2010, the carrying amount of mezzanine loans receivable was $155,613,000 and $202,412,000, respectively, net of allowances of $0 and $73,216,000, respectively. These loans have a weighted average interest rate of 5.62% and maturities ranging from November 2011 to August 2015.

## 7. Discontinued Operations

On March 31, 2011, the receiver completed the disposition of the High Point Complex in North Carolina. In connection therewith, the property and related debt were removed from our consolidated balance sheet and we recognized a net gain of $83,907,000 on the extinguishment of debt.

In the first half of 2011, we sold (i) 1140 Connecticut Avenue and 1227 25$^{th}$ Street for $127,000,000 in cash, which resulted in a $45,862,000 net gain, and (ii) three retail properties in separate transactions for an aggregate of $40,990,000 in cash, which resulted in net gains aggregating $5,761,000.

The tables below set forth the assets and liabilities related to discontinued operations at June 30, 2011 and December 31, 2010, and their combined results of operations for the three and six months ended June 30, 2011 and 2010.

| (Amounts in thousands) | Assets Related to Discontinued Operations as of | | Liabilities Related to Discontinued Operations as of | |
|---|---|---|---|---|
| | **June 30, 2011** | **December 31, 2010** | **June 30, 2011** | **December 31, 2010** |
| High Point | $ - | $ 154,563 | $ - | $ 236,974 |
| 1227 25th Street | - | 43,630 | - | - |
| 1140 Connecticut Avenue | - | 36,271 | - | 18,948 |
| Total | $ - | $ 234,464 | $ - | $ 255,922 |

| (Amounts in thousands) | For The Three Months Ended June 30, | | For The Six Months Ended June 30, | |
|---|---|---|---|---|
| | **2011** | **2010** | **2011** | **2010** |
| Total revenues | $ - | $ 12,116 | $ 5,987 | $ 23,137 |
| Total expenses | - | 15,797 | 6,744 | 26,332 |
| | - | (3,681) | (757) | (3,195) |
| Net gain on extinguishment of High Point debt | - | - | 83,907 | - |
| Net gain on sale of 1140 Connecticut Avenue and 1227 25th Street | - | - | 45,862 | - |
| Net gain on sales of other real estate | 458 | - | 5,761 | - |
| Litigation loss accrual | - | - | - | (10,056) |
| Income (loss) from discontinued operations | $ 458 | $ (3,681) | $ 134,773 | $ (13,251) |

17

**VORNADO REALTY TRUST**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)**

**(UNAUDITED)**

## 8. Identified Intangible Assets and Liabilities

The following summarizes our identified intangible assets (primarily acquired above-market leases) and liabilities (primarily acquired below-market leases) as of June 30, 2011 and December 31, 2010.

| (Amounts in thousands) | Balance as of June 30, 2011 | Balance as of December 31, 2010 |
|---|---|---|
| **Identified intangible assets:** | | |
| Gross amount | $ 680,598 | $ 687,253 |
| Accumulated amortization | (363,341) | (338,508) |
| Net | $ 317,257 | $ 348,745 |
| **Identified intangible liabilities (included in deferred credit):** | | |
| Gross amount | $ 877,836 | $ 870,623 |
| Accumulated amortization | (374,438) | (341,718) |
| Net | $ 503,398 | $ 528,905 |

Amortization of acquired below-market leases, net of acquired above-market leases, resulted in an increase to rental income of $16,812,000 and $16,284,000 for the three months ended June 30, 2011 and 2010, respectively, and $33,571,000 and $32,055,000 for the six months ended June 30, 2011 and 2010, 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, 2012 is as follows:

| (Amounts in thousands) | |
|---|---|
| 2012 | $ 52,025 |
| 2013 | 44,095 |
| 2014 | 38,240 |
| 2015 | 35,472 |
| 2016 | 32,093 |

Amortization of all other identified intangible assets (a component of depreciation and amortization expense) was $13,623,000 and $15,757,000 for the three months ended June 30, 2011 and 2010, respectively, and $27,885,000 and $30,610,000 for the six months ended June 30, 2011 and 2010, 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, 2012 is as follows:

| (Amounts in thousands) | | |
|---|---|---|
| 2012 | $ | 44,777 |
| 2013 | | 37,281 |
| 2014 | | 18,885 |
| 2015 | | 13,929 |
| 2016 | | 11,325 |

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 $334,000 and $509,000 for the three months ended June 30, 2011 and 2010, respectively, and $648,000 and $1,018,000 for the six months ended June 30, 2011 and 2010, respectively. Estimated annual amortization of these below-market leases, net of above-market leases, for each of the five succeeding years commencing January 1, 2012 is as follows:

| (Amounts in thousands) | | |
|---|---|---|
| 2012 | $ | 1,377 |
| 2013 | | 1,377 |
| 2014 | | 1,377 |
| 2015 | | 1,377 |
| 2016 | | 1,377 |

**VORNADO REALTY TRUST**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)**

**(UNAUDITED)**

## 9. Debt

The following is a summary of our debt:

| (Amounts in thousands) | | Interest Rate at June 30, | Balance at June 30, | Balance at December 31, |
|---|---|---|---|---|
| **Notes and mortgages payable:** | **Maturity (1)** | **2011** | **2011** | **2010** |
| **Fixed rate:** | | | | |
| New York Office: | | | | |
| 350 Park Avenue | 01/12 | 5.48 % | $ 430,000 | $ 430,000 |
| Two Penn Plaza (2) | 03/18 | 5.13 % | 425,000 | 277,347 |
| 1290 Avenue of the Americas | 01/13 | 5.97 % | 418,657 | 424,136 |
| 770 Broadway | 03/16 | 5.65 % | 353,000 | 353,000 |
| 888 Seventh Avenue | 01/16 | 5.71 % | 318,554 | 318,554 |
| 909 Third Avenue | 04/15 | 5.64 % | 205,142 | 207,045 |