VORNADO REALTY TRUST
Form 10-Q
August 04, 2014

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, 2014**

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, 2014, 187,664,768 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, 2014**	**December 31, 2013**
Real estate, at cost:		
Land	$ 4,051,053	$ 4,068,306
Buildings and improvements	12,519,973	12,475,556
Development costs and construction in progress	1,550,084	1,353,121
Leasehold improvements and equipment	132,485	132,483
Total	18,253,595	18,029,466
Less accumulated depreciation and amortization	(3,527,372)	(3,381,457)
Real estate, net	14,726,223	14,648,009
Cash and cash equivalents	1,371,226	583,290
Restricted cash	160,353	262,440
Marketable securities	206,917	191,917
Tenant and other receivables, net of allowance for doubtful accounts of $21,521 and $21,869	118,217	115,862
Investments in partially owned entities	1,267,370	1,166,443
Investment in Toys "R" Us	26,309	83,224
Real Estate Fund investments	549,091	667,710
Mortgage and mezzanine loans receivable, net of allowance of $5,811 and $5,845	17,417	170,972
Receivable arising from the straight-lining of rents, net of allowance of $3,375 and $4,355	850,278	817,357
Deferred leasing and financing costs, net of accumulated amortization of $286,668 and $264,451	467,455	411,927
Identified intangible assets, net of accumulated amortization of $233,449 and $277,998	289,475	311,963
Assets related to discontinued operations	208,309	314,622
Other assets	478,139	351,488
	$ 20,736,779	$ 20,097,224
LIABILITIES, REDEEMABLE NONCONTROLLING INTERESTS AND EQUITY		
Mortgages payable	$ 8,988,843	$ 8,331,993
Senior unsecured notes	1,791,814	1,350,855
Revolving credit facility debt	88,138	295,870
Accounts payable and accrued expenses	452,641	422,276
Deferred revenue	501,384	529,048
Deferred compensation plan	111,858	116,515
Liabilities related to discontinued operations	-	13,950
Other liabilities	382,789	438,353

Total liabilities	12,317,467	11,498,860
Commitments and contingencies		
Redeemable noncontrolling interests:		
Class A units - 11,430,318 and 11,292,038 units outstanding	1,219,958	1,002,620
Series D cumulative redeemable preferred unit - 1 unit outstanding	1,000	1,000
Total redeemable noncontrolling interests	1,220,958	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 187,664,768 and 187,284,688 shares	7,484	7,469
Additional capital	6,949,663	7,143,840
Earnings less than distributions	(1,872,250)	(1,734,839)
Accumulated other comprehensive income	92,221	71,537
Total Vornado shareholders' equity	6,454,144	6,765,232
Noncontrolling interests in consolidated subsidiaries	744,210	829,512
Total equity	7,198,354	7,594,744
	$ 20,736,779	$ 20,097,224

See notes to consolidated financial statements (unaudited).

3

VORNADO REALTY TRUST
CONSOLIDATED STATEMENTS OF INCOME
(UNAUDITED)

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
(Amounts in thousands, except per share amounts)	**2014**	**2013**	**2014**	**2013**
REVENUES:				
Property rentals	$ 540,124	$ 534,074	$ 1,068,224	$ 1,067,867
Tenant expense reimbursements	76,202	72,291	162,792	148,255
Cleveland Medical Mart development project	-	16,990	-	29,133
Fee and other income	50,280	47,861	96,208	144,674
Total revenues	666,606	671,216	1,327,224	1,389,929
EXPENSES:				
Operating	261,453	259,168	534,844	524,915
Depreciation and amortization	129,025	133,180	276,676	272,497
General and administrative	44,568	50,305	96,726	101,685
Cleveland Medical Mart development project	-	15,151	-	26,525
Impairment losses, acquisition and transaction related costs	4,083	3,350	25,867	3,951
Total expenses	439,129	461,154	934,113	929,573
Operating income	227,477	210,062	393,111	460,356
(Loss) applicable to Toys "R" Us	(57,591)	(36,861)	(55,744)	(35,102)
Income from partially owned entities	3,849	1,472	3,981	22,238
Income from Real Estate Fund	100,110	34,470	118,258	51,034
Interest and other investment income (loss), net	9,435	26,415	21,328	(22,660)
Interest and debt expense	(117,051)	(120,657)	(226,493)	(241,003)
Net gain (loss) on disposition of wholly owned and partially owned assets	905	1,005	10,540	(35,719)
Income before income taxes	167,134	115,906	264,981	199,144
Income tax expense	(3,599)	(2,877)	(5,181)	(3,950)
Income from continuing operations	163,535	113,029	259,800	195,194
Income from discontinued operations	2,152	69,292	4,043	276,054
Net income	165,687	182,321	263,843	471,248
Less net income attributable to noncontrolling interests in:				
Consolidated subsidiaries	(63,975)	(14,930)	(75,554)	(26,216)
Operating Partnership	(4,691)	(8,849)	(8,539)	(22,782)
Preferred unit distributions of the Operating Partnership	(13)	(348)	(25)	(1,134)
Net income attributable to Vornado	97,008	158,194	179,725	421,116
Preferred share dividends	(20,366)	(20,368)	(40,734)	(42,070)
Preferred unit and share redemptions	-	8,100	-	(1,130)
	$ 76,642	$ 145,926	$ 138,991	$ 377,916

NET INCOME attributable to common shareholders								
INCOME PER COMMON SHARE - BASIC:								
Income from continuing operations, net	$	0.40	$	0.43	$	0.72	$	0.63
Income from discontinued operations, net		0.01		0.35		0.02		1.39
Net income per common share	$	0.41	$	0.78	$	0.74	$	2.02
Weighted average shares outstanding		187,527		186,931		187,418		186,842
INCOME PER COMMON SHARE - DILUTED:								
Income from continuing operations, net	$	0.40	$	0.43	$	0.72	$	0.62
Income from discontinued operations, net		0.01		0.35		0.02		1.39
Net income per common share	$	0.41	$	0.78	$	0.74	$	2.01
Weighted average shares outstanding		188,617		187,720		188,431		187,627
DIVIDENDS PER COMMON SHARE	$	0.73	$	0.73	$	1.46	$	1.46

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, 2014	For the Three Months Ended June 30, 2013	For the Six Months Ended June 30, 2014	For the Six Months Ended June 30, 2013
Net income	$ 165,687	$ 182,321	$ 263,843	$ 471,248
Other comprehensive income (loss):				
Change in unrealized net gain on available-for-sale securities	1,878	20,348	15,003	169,138
Pro rata share of other comprehensive income (loss) of nonconsolidated subsidiaries	14,163	(19,707)	5,877	(23,354)
Change in value of interest rate swap	(545)	12,037	1,065	14,560
Other	(2)	(3)	(1)	530
Comprehensive income	181,181	194,996	285,787	632,122
Less comprehensive income attributable to noncontrolling interests	(69,578)	(24,862)	(85,378)	(59,166)
Comprehensive income attributable to Vornado	$ 111,603	$ 170,134	$ 200,409	$ 572,956

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 Interests in Consolidated Subsidiaries	Total
	Shares	Amount	Shares	Amount	Capital	Distributions			Equity
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	-	-	-	-	-	421,116	-	-	421,116
Net income attributable to noncontrolling interests in consolidated subsidiaries	-	-	-	-	-	-	-	26,216	26,216
Dividends on common shares	-	-	-	-	-	(272,825)	-	-	(272,825)
Dividends on preferred shares	-	-	-	-	-	(42,070)	-	-	(42,070)
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	-	-	180	7	14,973	-	-	-	14,980

Under employees' share option plan	-	-	62	3	3,564	-	-	-	3,567
Under dividend reinvestment plan	-	-	11	-	903	-	-	-	903
Contributions:									
Real Estate Fund	-	-	-	-	-	-	-	18,781	18,781
Other	-	-	-	-	-	-	-	15,186	15,186
Distributions:									
Real Estate Fund	-	-	-	-	-	-	-	(43,145)	(43,145)
Other	-	-	-	-	-	-	-	(120,051)	(120,051)
Conversion of Series A preferred shares to common shares	(2)	(90)	3	-	90	-	-	-	-
Deferred compensation shares and options	-	-	-	-	4,786	(305)	-	-	4,481
Change in unrealized net gain on available-for-sale securities	-	-	-	-	-	-	169,138	-	169,138
Pro rata share of other comprehensive loss of nonconsolidated subsidiaries	-	-	-	-	-	-	(23,354)	-	(23,354)
Change in value of interest rate swap	-	-	-	-	-	-	14,560	-	14,560
Adjustments to carry redeemable Class A units at redemption value	-	-	-	-	(29,393)	-	-	-	(29,393)

Redeemable noncontrolling interests' share of above adjustments	-	-	-	-	-	-	(9,034)	-	(9,034)
Preferred unit and share redemptions	-	-	-	-	-	(1,130)	-	-	(1,130)
Deconsolidation of partially owned entity	-	-	-	-	-	-	-	(165,427)	(165,427)
Other	-	-	-	-	(25)	(3,154)	530	(34)	(2,683)
Balance, June 30, 2013	52,683	$ 1,277,455	186,991	$ 7,450	$ 7,190,336	$ (1,471,643)	$ 132,894	$ 784,735	$ 7,921,227

See notes to consolidated financial statements (unaudited).

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

(Amounts in thousands)	Preferred Shares		Common Shares		Additional	Earnings Less Than	Accumulated Other Comprehensive Income (Loss)	Non-controlling Interests in Consolidated Subsidiaries	Total
	Shares	**Amount**	**Shares**	**Amount**	**Capital**	**Distributions**	**(Loss)**	**Subsidiaries**	**Equity**
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	-	-	-	-	-	179,725	-	-	179,725
Net income attributable to noncontrolling interests in consolidated subsidiaries	-	-	-	-	-	-	-	75,554	75,554
Dividends on common shares	-	-	-	-	-	(273,694)	-	-	(273,694)
Dividends on preferred shares	-	-	-	-	-	(40,734)	-	-	(40,734)
Common shares issued:									
Upon redemption of Class A units, at redemption value	-	-	199	8	19,763	-	-	-	19,771
Under employees' share option plan	-	-	159	6	9,200	-	-	-	9,206
Under dividend reinvestment plan	-	-	9	-	919	-	-	-	919
Contributions:									
	-	-	-	-	-	-	-	5,297	5,297

Real Estate Fund Distributions:									
Real Estate Fund	-	-	-	-	-	-	-	(132,819)	(132,819)
Other	-	-	-	-	-	-	-	(301)	(301)
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	-	-	7	1	3,383	(340)	-	-	3,044
Change in unrealized net gain on available-for-sale securities	-	-	-	-	-	-	15,003	-	15,003
Pro rata share of other comprehensive income of nonconsolidated subsidiaries	-	-	-	-	-	-	5,877	-	5,877
Change in value of interest rate swap	-	-	-	-	-	-	1,065	-	1,065
Adjustments to carry redeemable Class A units at redemption value	-	-	-	-	(227,338)	-	-	-	(227,338)
Redeemable noncontrolling interests' share of above adjustments	-	-	-	-	-	-	(1,260)	-	(1,260)
Other	-	(6)	-	-	(297)	(2,368)	(1)	(5)	(2,677)

Balance, June 30, 2014	52,679	$	1,277,026	187,665	$	7,484	$	6,949,663	$	(1,872,250)	$	92,221	$	744,210	$	7,198,354

See notes to consolidated financial statements (unaudited).

7

VORNADO REALTY TRUST
CONSOLIDATED STATEMENTS OF CASH FLOWS
(UNAUDITED)

	For the Six Months Ended June 30, 2014	2013
(Amounts in thousands)		
Cash Flows from Operating Activities:		
Net income	$ 263,843	$ 471,248
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization (including amortization of deferred financing costs)	288,187	289,643
Return of capital from Real Estate Fund investments	140,920	56,664
Net realized and unrealized gains on Real Estate Fund investments	(111,227)	(47,109)
Equity in net loss of partially owned entities, including Toys "R" Us	51,763	12,864
Straight-lining of rental income	(33,413)	(32,730)
Distributions of income from partially owned entities	25,784	23,774
Amortization of below-market leases, net	(22,624)	(28,511)
Impairment losses	20,842	4,007
Other non-cash adjustments	20,546	42,339
Net (gain) loss on disposition of wholly owned and partially owned assets	(10,540)	35,719
Defeasance cost in connection with the refinancing of mortgage notes payable	5,589	-
Net gains on sale of real estate	-	(267,994)
Non-cash impairment loss on J.C. Penney common shares	-	39,487
Loss from the mark-to-market of J.C. Penney derivative position	-	13,475
Changes in operating assets and liabilities:		
Real Estate Fund investments	(2,666)	(30,893)
Accounts receivable, net	(2,355)	53,821
Prepaid assets	(138,884)	(104,149)
Other assets	(43,842)	(35,570)
Accounts payable and accrued expenses	2,157	(50,690)
Other liabilities	(6,437)	(595)
Net cash provided by operating activities	447,643	444,800
Cash Flows from Investing Activities:		
Development costs and construction in progress	(214,615)	(85,550)
Proceeds from sales of real estate and related investments	125,037	648,167
Additions to real estate	(105,116)	(113,060)
Restricted cash	102,087	16,596
	96,159	47,950

Proceeds from repayments of mortgage and mezzanine loans receivable and other		
Investments in partially owned entities	(62,894)	(59,472)
Acquisitions of real estate and other	(8,963)	(53,992)
Distributions of capital from partially owned entities	1,791	281,991
Proceeds from the sale of LNR	-	240,474
Proceeds from sales of marketable securities	-	160,715
Funding of J.C. Penney derivative collateral	-	(98,447)
Return of J.C. Penney derivative collateral	-	85,450
Investment in mortgage and mezzanine loans receivable	-	(137)
Net cash (used in) provided by investing activities	(66,514)	1,070,685

See notes to consolidated financial statements (unaudited).

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

	For the Six Months Ended June 30,	
	2014	**2013**
(Amounts in thousands)		
Cash Flows from Financing Activities:		
Proceeds from borrowings	$ 1,398,285	$ 1,583,357
Repayments of borrowings	(313,444)	(2,800,441)
Dividends paid on common shares	(273,694)	(272,825)
Purchase of marketable securities in connection with the defeasance of mortgage notes payable	(198,884)	-
Distributions to noncontrolling interests	(149,944)	(181,510)
Dividends paid on preferred shares	(40,737)	(42,451)
Debt issuance costs	(29,560)	(9,520)
Proceeds received from exercise of employee share options	10,125	4,470
Contributions from noncontrolling interests	5,297	33,967
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	406,807	(1,694,149)
Net increase (decrease) in cash and cash equivalents	787,936	(178,664)
Cash and cash equivalents at beginning of period	583,290	960,319
Cash and cash equivalents at end of period	$ 1,371,226	$ 781,655
Supplemental Disclosure of Cash Flow Information:		
Cash payments for interest, excluding capitalized interest of $30,182 and $17,492	$ 214,239	$ 235,588
Cash payments for income taxes	$ 6,726	$ 4,732
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)	-
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)	-
Transfer of noncontrolling interest in Real Estate Fund	(33,028)	-
Decrease in assets and liabilities resulting from the deconsolidation of Independence Plaza:		
Real estate, net	-	(852,166)
Notes and mortgages payable	-	(322,903)
Cash restricted for like kind exchange of real estate	-	(155,810)

See notes to consolidated financial statements (unaudited).

9

VORNADO REALTY TRUST

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(UNAUDITED)

1. Organization

Vornado Realty Trust ("Vornado") is a fully integrated real estate investment trust ("REIT") and conducts its business through, and substantially all of its interests in properties are held by, Vornado Realty L.P., a Delaware limited partnership (the "Operating Partnership"). Vornado is the sole general partner of, and owned approximately 94.0% of the common limited partnership interest in the Operating Partnership at June 30, 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 ("SpinCo"). The spin-off is expected to be effectuated through a pro rata distribution of SpinCo's 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. On June 26, 2014, SpinCo filed its initial registration statement on Form 10 with the Securities and Exchange Commission ("SEC"). We expect the spin-off to be completed by the end of 2014, subject to certain conditions, including the SEC declaring SpinCo's registration statement effective, filing and approval of SpinCo'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, 22 small retail assets which do not fit SpinCo's strategy, and the Springfield Town Center, which is under contract for disposition (see Note 8 – *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 six months ended June 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.

VORNADO REALTY TRUST

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

(UNAUDITED)

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.

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.

VORNADO REALTY TRUST

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

(UNAUDITED)

4. Vornado Capital Partners Real Estate Fund (the "Fund")

We are the general partner and investment manager of 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 7 - *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 $75,069,000 net gain.

On June 24, 2014, the Fund and its 50% joint venture partner entered into an agreement to sell Georgetown Park, a 305,000 square foot retail property, for $272,500,000.

At June 30, 2014, the Fund had eight investments with an aggregate fair value of $549,091,000, or $189,571,000 in excess of cost, and had remaining unfunded commitments of $142,118,000, of which our share was $35,529,000. Below is a summary of income from the Fund for the three and six months ended June 30, 2014 and 2013.

(Amounts in thousands)	**For the Three Months Ended June 30,**		**For the Six Months Ended June 30,**	
	2014	**2013**	**2014**	**2013**
Net investment income	$ 3,052	$ 877	$ 7,031	$ 3,925
	75,069	-	75,069	-

Net realized gains on exited investments				
Previously recorded unrealized gains on exited investments	(35,365)	-	(22,388)	-
Net unrealized gains on held investments	57,354	33,593	58,546	47,109
Income from Real Estate Fund	100,110	34,470	118,258	51,034
Less (income) attributable to noncontrolling interests	(61,780)	(14,359)	(72,629)	(23,899)
Income from Real Estate Fund attributable to Vornado (1)	$ 38,330	$ 20,111	$ 45,629	$ 27,135

---

(1) Excludes management, leasing and development fees of $745 and $827 for the three months ended June 30, 2014 and 2013, respectively, and $1,449 and $1,676 for the six months ended June 30, 2014 and 2013, respectively, which are included as a component of "fee and other income" on our consolidated statements of income.

5. Marketable Securities

Below is a summary of our marketable securities portfolio as of June 30, 2014 and December 31, 2013.

(Amounts in thousands)	As of June 30, 2014			As of December 31, 2013		
	Fair Value	GAAP Cost	Unrealized Gain	Fair Value	GAAP Cost	Unrealized Gain
Equity securities:						
Lexington Realty Trust	$ 203,344	$ 72,549	$ 130,795	$ 188,567	$ 72,549	$ 116,018
Other	3,573	56	3,517	3,350	59	3,291
	$ 206,917	$ 72,605	$ 134,312	$ 191,917	$ 72,608	$ 119,309

On March 4, 2013, we sold 10,000,000 J.C. Penney common shares at a price of $16.03 per share, or $160,300,000 in the aggregate, resulting in a net loss of $36,800,000, which is included in “net gain (loss) on disposition of wholly owned and partially owned assets” on our consolidated statements of income for the six months ended June 30, 2013.

12

VORNADO REALTY TRUST

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

(UNAUDITED)

6. 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 June 30, 2014 and December 31, 2013, the carrying amount of mortgage and mezzanine loans receivable was $17,417,000 and $170,972,000, respectively. These loans have a weighted average interest rate of 9.1% and 11.0% at June 30, 2014 and December 31, 2013, respectively, and have maturities ranging from April 2015 to May 2016.

7. Investments in Partially Owned Entities

Toys "R" Us ("Toys")

As of June 30, 2014, we own 32.6% of Toys. We account for our investment in Toys under the equity method and record our share of Toys' net income or loss on a one-quarter lag basis because Toys' fiscal year ends on the Saturday nearest January 31, and our fiscal year ends on December 31. The business of Toys is highly seasonal and substantially all of Toys' net income is generated in its fourth quarter.

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

(Amounts in thousands)			**Balance as of**	
Balance Sheet:			**May 3, 2014**	**November 2, 2013**
Assets			$ 10,358,000	$ 11,756,000
Liabilities			9,130,000	10,437,000
Noncontrolling interests			83,000	75,000
Toys “R” Us, Inc. equity (1)			1,145,000	1,244,000
	For the Three Months Ended		**For the Six Months Ended**	
Income Statement:	**May 3, 2014**	**May 4, 2013**	**May 3, 2014**	**May 4, 2013**
Total revenues	$ 2,479,000	$ 2,408,000	$ 7,746,000	$ 8,178,000
Net income attributable to Toys	(194,000)	(119,000)	(111,000)	122,000

(1) At June 30, 2014, the carrying amount of our investment in Toys is less than our share of Toys' equity by approximately $347,337. This basis difference results primarily from non-cash impairment losses aggregating $355,953 that we have recognized through June 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)

7. Investments in Partially Owned Entities – continued

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

As of June 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 June 30, 2014, we have a $42,489,000 receivable from Alexander's for fees under these agreements.

As of June 30, 2014, the market value ("fair value" pursuant to ASC 820) of our investment in Alexander's, based on Alexander's June 30, 2014 closing share price of $369.47, was $611,128,000, or $444,124,000 in excess of the carrying amount on our consolidated balance sheet. As of June 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 $41,569,000. 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, 2014**	**December 31, 2013**
Assets	$ 1,450,000	$ 1,458,000

Liabilities			1,113,000	1,124,000
Stockholders' equity			337,000	334,000
	For the Three Months Ended June 30,		**For the Six Months Ended June 30,**	
Income Statement:	**2014**	**2013**	**2014**	**2013**
Total revenues	$ 50,000	$ 47,000	$ 99,000	$ 96,000
Net income attributable to Alexander's	17,000	13,000	32,000	27,000

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 4 –*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.

VORNADO REALTY TRUST

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

(UNAUDITED)

7. Investments in Partially Owned Entities – continued

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

(Amounts in thousands)	Percentage Ownership at	Balance as of	
Investments:	**June 30, 2014**	**June 30, 2014**	**December 31, 2013**
Toys	32.6%	$ 26,309	$ 83,224
Alexander’s	32.4%	$ 167,004	$ 167,785
India real estate ventures	4.1%-36.5%	87,859	88,467
Partially owned office buildings (1)	Various	725,483	621,294
Other investments (2)	Various	287,024	288,897
		$ 1,267,370	$ 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	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
Our Share of Net Income (Loss):	**June 30, 2014**	**2014**	**2013**	**2014**	**2013**
Toys:	32.6%				
Equity in net earnings		$ (59,530)	$ (38,708)	$ 15,666	$ 39,834
Non-cash impairment losses (see page 13 for details)		-	-	(75,196)	(78,542)
Management fees		1,939	1,847	3,786	3,606
		$ (57,591)	$ (36,861)	$ (55,744)	$ (35,102)
Alexander's:	32.4%				
Equity in net income		$ 5,272	$ 4,077	$ 10,031	$ 8,486
Management, leasing and development fees		1,622	1,674	3,248	3,341
		6,894	5,751	13,279	11,827
India real estate ventures	4.1%-36.5%	(2,041)	(414)	(2,178)	(1,181)

Partially owned office buildings (1)	Various	990	(1,042)	(1,405)	(1,624)
Other investments (2)	Various	(1,994)	(2,823)	(5,715)	(4,536)
Lexington (3)	n/a	-	-	-	(979)
LNR (see page 14 for details):	n/a				
Equity in net income		-	-	-	45,962
Impairment loss		-	-	-	(27,231)
		-	-	-	18,731
		$ 3,849	$ 1,472	$ 3,981	$ 22,238

(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.

(3)

In the first quarter of 2013, we began accounting for our investment in Lexington as a marketable equity security - available for sale. The 2013 amount represents our share of Lexington's 2012 fourth quarter earnings which was recorded on a one-quarter lag basis.

15

VORNADO REALTY TRUST

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

(UNAUDITED)

7. Investments in Partially Owned Entities – continued

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

(Amounts in thousands)	Percentage Ownership at June 30, 2014	Maturity	Interest Rate at June 30, 2014	100% of Partially Owned Entities' Debt at June 30, 2014	100% of Partially Owned Entities' Debt at December 31, 2013
Toys:					
Notes, loans and mortgages payable	32.6%	2014-2021	6.90%	$ 5,206,299	$ 5,702,247
Alexander's:					
Mortgages payable	32.4%	2015-2021	2.58%	$ 1,034,289	$ 1,049,959
India real estate ventures:					
TCG Urban Infrastructure Holdings mortgages payable	25.0%	2014-2026	13.21%	$ 195,891	$ 199,021
Partially owned office buildings(1)	Various	2014-2023	5.70%	$ 3,646,299	$ 3,622,759
Other(2)	Various	2014-2023	4.56%	$ 1,703,586	$ 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 $4,094,370,000 and $4,189,403,000 at June 30, 2014 and December 31, 2013, respectively.

VORNADO REALTY TRUST

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

(UNAUDITED)

8. 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 approximately $44,000,000, which will be recognized in the third quarter of 2014.

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 June 30, 2014 and December 31, 2013 and their combined results of operations for the three and six months ended June 30, 2014 and 2013.

(Amounts in thousands)	**Assets Related to Discontinued Operations as of**		**Liabilities Related to Discontinued Operations as of**	
	June 30, 2014	**December 31, 2013**	**June 30, 2014**	**December 31, 2013**
Beverly Connection	$ 208,309	$ 208,458	$ -	$ -
Broadway Mall	-	106,164	-	13,950
Total	$ 208,309	$ 314,622	$ -	$ 13,950

(Amounts in thousands)	**For the Three Months Ended June 30,**		**For the Six Months Ended June 30,**	
	2014	**2013**	**2014**	**2013**

Total revenues	$ 3,923	$ 19,311	$ 12,206	$ 45,301
Total expenses	1,771	13,191	7,321	33,234
	2,152	6,120	4,885	12,067
Impairment losses	-	(2,493)	(842)	(4,007)
Net gain on sale of Green Acres Mall	-	-	-	202,275
Net gains on sale of other real estate	-	65,665	-	65,719
Income from discontinued operations	$ 2,152	$ 69,292	$ 4,043	$ 276,054

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 is expected to be completed in the fourth quarter of 2014 and the closing will be no later than March 31, 2015.

VORNADO REALTY TRUST

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

(UNAUDITED)

9. Identified Intangible Assets and Liabilities

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

	Balance as of	
(Amounts in thousands)	**June 30, 2014**	**December 31, 2013**
Identified intangible assets:		
Gross amount	$ 522,924	$ 589,961
Accumulated amortization	(233,449)	(277,998)
Net	$ 289,475	$ 311,963
Identified intangible liabilities (included in deferred revenue):		
Gross amount	$ 850,629	$ 856,933
Accumulated amortization	(380,356)	(360,398)
Net	$ 470,273	$ 496,535

Amortization of acquired below-market leases, net of acquired above-market leases, resulted in an increase to rental income of $10,480,000 and $11,000,000 for the three months ended June 30, 2014 and 2013, respectively, and $22,162,000 and $27,177,000 for the six months ended June 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	$ 39,999
2016	38,377
2017	34,812
2018	33,330
2019	30,093

Amortization of all other identified intangible assets (a component of depreciation and amortization expense) was $7,375,000 and $17,098,000 for the three months ended June 30, 2014 and 2013, respectively, and $16,700,000 and $42,311,000 for the six months ended June 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	$	23,159
2016		20,223
2017		16,826
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 $857,000 and $1,622,000 for the three months ended June 30, 2014 and 2013, respectively, and $1,714,000 and $2,723,000 for the six months ended June 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)

10. 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 June 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%.

The following is a summary of our debt:

(Amounts in thousands)	Interest Rate at June 30, 2014	Balance at June 30, 2014	Balance at December 31, 2013
Mortgages Payable:			
Fixed rate	4.48%	$ 7,623,049	$ 7,563,133
Variable rate	2.31%	1,365,794	768,860
	4.15%	$ 8,988,843	$ 8,331,993
Unsecured Debt:			
Senior unsecured notes	4.88%	$ 1,791,814	$ 1,350,855
Revolving credit facility debt	1.30%	88,138	295,870
	4.71%	$ 1,879,952	$ 1,646,725

11. Redeemable Noncontrolling Interests

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

(Amounts in thousands)	
Balance at December 31, 2012	$ 944,152
Net income	23,916
Other comprehensive income	9,034
Distributions	(17,541)
Redemption of Class A units for common shares, at redemption value	(14,980)
Adjustments to carry redeemable Class A units at redemption value	29,393
Redemption of Series D-15 redeemable units	(36,900)
Other, net	3,914
Balance at June 30, 2013	$ 940,988
Balance at December 31, 2013	$ 1,003,620
Net income	8,564
Other comprehensive income	1,260
Distributions	(16,824)
Redemption of Class A units for common shares, at redemption value	(19,771)
Adjustments to carry redeemable Class A units at redemption value	227,338
Other, net	16,771
Balance at June 30, 2014	$ 1,220,958

As of June 30, 2014 and December 31, 2013, the aggregate redemption value of redeemable Class A units was $1,219,958,000 and $1,002,620,000, respectively.

VORNADO REALTY TRUST

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

(UNAUDITED)

11. Redeemable Noncontrolling Interests - continued

Redeemable noncontrolling interests exclude our Series G-1 through G-4 convertible preferred units and Series D-13 cumulative redeemable preferred units, as they are accounted for as liabilities in accordance with ASC 480, *Distinguishing Liabilities and Equity*, because of their possible settlement by issuing a variable number of Vornado common shares. Accordingly, the fair value of these units is included as a component of "other liabilities" on our consolidated balance sheets and aggregated $55,097,000 as of June 30, 2014 and December 31, 2013.

12. Accumulated Other Comprehensive Income

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

		For the Three Months Ended June 30, 2013			
(Amounts in thousands)	Total	Securities available-for-sale	Pro rata share of nonconsolidated subsidiaries' OCI	Interest rate swap	Other
Balance as of March 31, 2013	$ 120,953	$ 168,221	$ 7,666	$ (47,542)	$ (7,392)
OCI before reclassifications	11,941	20,349	(19,707)	12,037	(738)
Amounts reclassified from AOCI	-	-	-	-	-
Net current period OCI	11,941	20,349	(19,707)	12,037	(738)
Balance as of June 30, 2013	$ 132,894	$ 188,570	$ (12,041)	$ (35,505)	$ (8,130)

		For the Three Months Ended June 30, 2014			
(Amounts in thousands)	Total	Securities available-for-sale	Pro rata share of nonconsolidated subsidiaries' OCI	Interest rate swap	Other
Balance as of March 31, 2014	$ 77,626	$ 132,434	$ (19,787)	$ (30,272)	$ (4,749)

OCI before reclassifications	14,595	1,878	14,163	(545)	(901)
Amounts reclassified from AOCI	-	-	-	-	-
Net current period OCI	14,595	1,878	14,163	(545)	(901)
Balance as of June 30, 2014	$ 92,221	$ 134,312	$ (5,624)	$ (30,817)	$ (5,650)

	For the Six Months Ended June 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	151,840	169,138	(23,354)	14,560	(8,504)
Amounts reclassified from AOCI	-	-	-	-	-
Net current period OCI	151,840	169,138	(23,354)	14,560	(8,504)
Balance as of June 30, 2013	$ 132,894	$ 188,570	$ (12,041)	$ (35,505)	$ (8,130)

	For the Six Months Ended June 30, 2014				
(Amounts in thousands)	**Total**	**Securities available-for-sale**	**Pro rata share of nonconsolidated subsidiaries' OCI**	**Interest rate swap**	**Other**
Balance as of December 31, 2013	$ 71,537	$ 119,309	$ (11,501)	$ (31,882)	$ (4,389)
OCI before reclassifications	20,684	15,003	5,877	1,065	(1,261)
Amounts reclassified from AOCI	-	-	-	-	-
Net current period OCI	20,684	15,003	5,877	1,065	(1,261)
Balance as of June 30, 2014	$ 92,221	$ 134,312	$ (5,624)	$ (30,817)	$ (5,650)

VORNADO REALTY TRUST

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

(UNAUDITED)

13. Variable Interest Entities (“VIEs”)

We do not have any consolidated VIEs. At June 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 June 30, 2014, and December 31, 2013, the net carrying amounts of our investment in these entities were $286,863,000 and $152,929,000, respectively, and our maximum exposure to loss in these entities is limited to our investment.

14. 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 June 30, 2014 and December 31, 2013, respectively.

	As of June 30, 2014			
(Amounts in thousands)	**Total**	**Level 1**	**Level 2**	**Level 3**
Marketable securities	$ 206,917	$ 206,917	$ -	$ -
Real Estate Fund investments (75% of which is attributable to noncontrolling interests)	549,091	-	-	549,091
Deferred compensation plan assets (included in other assets)	111,858	47,249	-	64,609
Total assets	$ 867,866	$ 254,166	$ -	$ 613,700
Mandatorily redeemable instruments (included in other liabilities)	$ 55,097	$ 55,097	$ -	$ -
Interest rate swap (included in other liabilities)	30,817	-	30,817	-
Total liabilities	$ 85,914	$ 55,097	$ 30,817	$ -

	As of December 31, 2013			
(Amounts in thousands)	**Total**	**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)

14. Fair Value Measurements – continued

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

Real Estate Fund Investments

At June 30, 2014, our Real Estate Fund had eight investments with an aggregate fair value of $549,091,000, or $189,571,000 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 0.1 to 6.0 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 June 30, 2014.

Unobservable Quantitative Input	Range	Weighted Average (based on fair value of investments)
Discount rates	12.0% to 17.5%	14.5%
Terminal capitalization rates	5.0% to 6.2%	5.6%

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 six months ended June 30, 2014 and 2013.

	Real Estate Fund Investments For the Three Months Ended June 30,		Real Estate Fund Investments For the Six Months Ended June 30,	
(Amounts in thousands)	2014	2013	2014	2013
Beginning balance	$ 682,002	$ 571,306	$ 667,710	$ 600,786
Purchases	2,544	17,225	2,667	30,893
Sales/Returns	(232,513)	-	(232,513)	(56,664)
Net unrealized gains	57,354	33,593	58,546	47,109
Net realized gains	75,069	-	75,069	-
Previously recorded unrealized gains	(35,365)	-	(22,388)	-
Ending balance	$ 549,091	$ 622,124	$ 549,091	$ 622,124

VORNADO REALTY TRUST

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

(UNAUDITED)

14. Fair Value Measurements – continued

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

Deferred Compensation Plan Assets

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

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

	Deferred Compensation Plan Assets For the Three Months Ended June 30,		**Deferred Compensation Plan Assets For the Six Months Ended June 30,**	
(Amounts in thousands)	**2014**	**2013**	**2014**	**2013**
Beginning balance	$ 67,627	$ 65,010	$ 68,782	$ 62,631
Purchases	7,915	440	9,559	3,147
Sales	(11,255)	(1,748)	(16,379)	(4,445)
Realized and unrealized (loss) gain	(198)	2,782	1,974	4,136
Other, net	520	18	673	1,033
Ending balance	$ 64,609	$ 66,502	$ 64,609	$ 66,502

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 and our investment in Toys that were written-down to estimated fair value at December 31, 2013. The fair value of our real estate assets 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 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

VORNADO REALTY TRUST

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

(UNAUDITED)

14. Fair Value Measurements – continued

Financial Assets and Liabilities not Measured at Fair Value

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

	As of June 30, 2014		As of December 31, 2013	
(Amounts in thousands)	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Cash equivalents	$ 1,157,000	$ 1,157,000	$ 295,000	$ 295,000
Mortgage and mezzanine loans receivable	17,417	17,000	170,972	171,000
	$ 1,174,417	$ 1,174,000	$ 465,972	$ 466,000
Debt:				
Mortgages payable	$ 8,988,843	$ 8,961,000	$ 8,331,993	$ 8,104,000
Senior unsecured notes	1,791,814	1,852,000	1,350,855	1,402,000
Revolving credit facility debt	88,138	88,000	295,870	296,000
	$ 10,868,795	$ 10,901,000	$ 9,978,718	$ 9,802,000

15. 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 $9,051,000 and $9,129,000 in the three months ended June 30, 2014 and 2013, respectively and $20,075,000 and $16,595,000 in the six months ended June 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.

VORNADO REALTY TRUST

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

(UNAUDITED)

16. Fee and Other Income

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

(Amounts in thousands)	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2014	**2013**	**2014**	**2013**
BMS cleaning fees	$ 22,195	$ 16,509	$ 41,151	$ 33,173
Signage revenue	8,873	8,347	18,191	14,828
Management and leasing fees	6,151	6,431	12,365	11,684
Lease termination fees (1)	4,545	7,041	8,338	67,009
Other income	8,516	9,533	16,163	17,980
	$ 50,280	$ 47,861	$ 96,208	$ 144,674

(1) The six months ended June 30, 2013, 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 $131,000 and $130,000 for the three months ended June 30, 2014 and 2013, respectively, and $265,000 and $333,000 for the six months ended June 30, 2014 and 2013, respectively. The above table excludes fee income from partially owned entities, which is typically included in "income from partially owned entities" (see Note 7 – *Investments in Partially Owned Entities*).

17. 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 June 30,		For the Six Months Ended June 30,	
	2014	**2013**	**2014**	**2013**
Dividends and interest on marketable securities	$ 3,198	$ 2,770	$ 6,304	$ 5,540

Mark-to-market of investments in our deferred compensation plan (1)	2,380	2,492	6,780	5,938
Interest on mezzanine loans receivable	736	4,940	3,120	10,017
Income (loss) from the mark-to-market of J.C. Penney derivative position	-	9,065	-	(13,475)
Income from prepayment penalties in connection with the repayment of a mezzanine loan	-	5,267	-	5,267
Non-cash impairment loss on J.C. Penney common shares	-	-	-	(39,487)
Other, net	3,121	1,881	5,124	3,540
	$ 9,435	$ 26,415	$ 21,328	$ (22,660)

(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.

18. Interest and Debt Expense

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

(Amounts in thousands)	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2014	2013	2014	2013
Interest expense	$ 125,484	125,136	$ 243,736	$ 248,363
Amortization of deferred financing costs	8,127	4,753	12,939	10,132
Capitalized interest	(16,560)	(9,232)	(30,182)	(17,492)
	$ 117,051	$ 120,657	$ 226,493	$ 241,003

25

VORNADO REALTY TRUST

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

(UNAUDITED)

19. Income Per Share

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

(Amounts in thousands, except per share amounts)	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2014	2013	2014	2013
Numerator:				
Income from continuing operations, net of income attributable to noncontrolling interests	$ 94,980	$ 92,569	$ 175,916	$ 160,555
Income from discontinued operations, net of income attributable to noncontrolling interests	2,028	65,625	3,809	260,561
Net income attributable to Vornado	97,008	158,194	179,725	421,116
Preferred share dividends	(20,366)	(20,368)	(40,734)	(42,070)
Preferred unit and share redemptions	-	8,100	-	(1,130)
Net income attributable to common shareholders	76,642	145,926	138,991	377,916
Earnings allocated to unvested participating securities	(21)	(31)	(51)	(86)
Numerator for basic income per share	76,621	145,895	138,940	377,830
Impact of assumed conversions:				
Convertible preferred share dividends	-	27	-	55
Numerator for diluted income per share	$ 76,621	$ 145,922	$ 138,940	$ 377,885
Denominator:				
	187,527	186,931	187,418	186,842

Denominator for basic income per share – weighted average shares								
Effect of dilutive securities[1]:								
Employee stock options and restricted share awards		1,090		742		1,013		737
Convertible preferred shares		-		47		-		48
Denominator for diluted income per share – weighted average shares and assumed conversions		188,617		187,720		188,431		187,627
INCOME PER COMMON SHARE – BASIC:								
Income from continuing operations, net	$	0.40	$	0.43	$	0.72	$	0.63
Income from discontinued operations, net		0.01		0.35		0.02		1.39
Net income per common share	$	0.41	$	0.78	$	0.74	$	2.02
INCOME PER COMMON SHARE – DILUTED:								
Income from continuing operations, net	$	0.40	$	0.43	$	0.72	$	0.62
Income from discontinued operations, net		0.01		0.35		0.02		1.39
Net income per common share	$	0.41	$	0.78	$	0.74	$	2.01

(1) The effect of dilutive securities in the three months ended June 30, 2014 and 2013 excludes an aggregate of 11,289 and 11,913 weighted average common share equivalents, respectively, and 11,304 and 11,911 weighted average common share equivalents in the six months ended June 30, 2014 and 2013, respectively, as their effect was anti-dilutive.

26

VORNADO REALTY TRUST

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

(UNAUDITED)

20. 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 June 30, 2014, the aggregate dollar amount of these guarantees and master leases is approximately $360,000,000.

At June 30, 2014, $38,477,000 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 June 30, 2014, we expect to fund additional capital to certain of our partially owned entities aggregating approximately $114,000,000.

VORNADO REALTY TRUST

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

(UNAUDITED)

21. Subsequent Events

On July 9, 2014, we entered into an agreement, in partnership with Crown Acquisitions ("Crown"), to acquire the retail condominium of the St. Regis Hotel and the adjacent retail townhouse, for approximately $700,000,000. The property has 100 feet of frontage on Fifth Avenue on the Southeast corner of 55th Street. We will own between 67% and 80% of the venture, with Crown owning the balance. The final ownership percentages will be based on the amount of debt financing put on the property and Crown's short-term option to invest additional capital. The purchase is expected to close in the fourth quarter of 2014, subject to customary closing conditions.

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

On July 23, 2014, a joint venture in which we are a 50% 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 and retail building 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.

VORNADO REALTY TRUST

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

(UNAUDITED)

22. Segment Information

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

(Amounts in thousands)	For the Three Months Ended June 30, 2014					
	Total	**New York**	**Washington, DC**	**Retail Properties**	**Toys**	**Other**
Total revenues	$ 666,606	$ 385,534	$ 134,826	$ 82,807	$ -	$ 63,439
Total expenses	439,129	230,812	87,352	48,053	-	72,912
Operating income (loss)	227,477	154,722	47,474	34,754	-	(9,473)
(Loss) income from partially owned entities, including Toys	(53,742)	8,996	(2,248)	341	(57,591)	(3,240)
Income from Real Estate Fund	100,110	-	-	-	-	100,110
Interest and other investment income, net	9,435	1,645	42	8	-	7,740
Interest and debt expense	(117,051)	(49,070)	(18,660)	(9,292)	-	(40,029)
Net gain on disposition of wholly owned and partially owned assets	905	-	-	-	-	905
Income (loss) before income taxes	167,134	116,293	26,608	25,811	(57,591)	56,013
Income tax expense	(3,599)	(1,226)	(115)	(319)	-	(1,939)
Income (loss) from continuing operations	163,535	115,067	26,493	25,492	(57,591)	54,074
Income (loss) from discontinued operations	2,152	-	-	2,154	-	(2)

Net income (loss)	165,687	115,067	26,493	27,646	(57,591)	54,072
Less net income attributable to noncontrolling interests	(68,679)	(3,108)	-	(21)	-	(65,550)
Net income (loss) attributable to Vornado	97,008	111,959	26,493	27,625	(57,591)	(11,478)
Interest and debt expense(2)	179,520	64,072	22,463	10,433	39,529	43,023
Depreciation and amortization(2)	173,443	74,007	35,806	15,803	27,686	20,141
Income tax (benefit) expense (2)	(574)	1,291	132	319	(4,435)	2,119
EBITDA(1)	$ 449,397	$ 251,329 (3)	$ 84,894 (4)	$ 54,180 (5)	$ 5,189	$ 53,805 (6)

(Amounts in thousands)

	For the Three Months Ended June 30, 2013					
	Total	New York	Washington, DC	Retail Properties	Toys	Other
Total revenues	$ 671,216	$ 375,700	$ 134,317	$ 80,446	$ -	$ 80,753
Total expenses	461,154	233,733	85,782	47,038	-	94,601
Operating income (loss)	210,062	141,967	48,535	33,408	-	(13,848)
(Loss) income from partially owned entities, including Toys	(35,389)	4,226	(2,449)	423	(36,861)	(728)
Income from Real Estate Fund	34,470	-	-	-	-	34,470
Interest and other investment income (loss), net	26,415	1,443	6	(49)	-	25,015
Interest and debt expense	(120,657)	(42,648)	(27,854)	(11,517)	-	(38,638)
Net gain on disposition of wholly owned and partially owned assets	1,005	-	-	-	-	1,005
Income (loss) before income taxes	115,906	104,988	18,238	22,265	(36,861)	7,276
Income tax expense	(2,877)	(961)	(805)	(749)	-	(362)
Income (loss) from continuing operations	113,029	104,027	17,433	21,516	(36,861)	6,914
Income from discontinued	69,292	2,928	-	66,091	-	273

operations																	
Net income (loss)		182,321		106,955			17,433			87,607			(36,861)			7,187	
Less net income attributable to noncontrolling interests		(24,127)		(1,381)			-			(13)			-			(22,733)	
Net income (loss) attributable to Vornado		158,194		105,574			17,433			87,594			(36,861)			(15,546)	
Interest and debt expense(2)		179,461		54,546			31,245			13,715			37,730			42,225	
Depreciation and amortization(2)		182,131		74,573			35,248			16,348			33,882			22,080	
Income tax (benefit) expense (2)		(22,366)		1,030			852			749			(25,697)			700	
EBITDA(1)	$	497,420	$	235,723	(3)	$	84,778	(4)	$	118,406	(5)	$	9,054		$	49,459	(6)

See notes on page 31.

29

VORNADO REALTY TRUST

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

(UNAUDITED)

22. Segment Information – continued

(Amounts in thousands)	For the Six Months Ended June 30, 2014					
	Total	New York	Washington, DC	Retail Properties	Toys	Other
Total revenues	$ 1,327,224	$ 756,816	$ 270,104	$ 171,612	$ -	$ 128,692
Total expenses	934,113	472,811	176,924	130,284	-	154,094
Operating income (loss)	393,111	284,005	93,180	41,328	-	(25,402)
(Loss) income from partially owned entities, including Toys	(51,763)	10,562	(3,514)	879	(55,744)	(3,946)
Income from Real Estate Fund	118,258	-	-	-	-	118,258
Interest and other investment income, net	21,328	3,120	78	17	-	18,113
Interest and debt expense	(226,493)	(91,909)	(38,007)	(18,509)	-	(78,068)
Net gain on disposition of wholly owned and partially owned assets	10,540	-	-	-	-	10,540
Income (loss) before income taxes	264,981	205,778	51,737	23,715	(55,744)	39,495
Income tax (expense) benefit	(5,181)	(2,195)	84	(1,050)	-	(2,020)
Income (loss) from continuing operations	259,800	203,583	51,821	22,665	(55,744)	37,475
Income from discontinued operations	4,043	-	-	3,868	-	175
Net income (loss)	263,843	203,583	51,821	26,533	(55,744)	37,650

Less net income attributable to noncontrolling interests	(84,118)	(4,513)	-	(38)	-	(79,567)
Net income (loss) attributable to Vornado	179,725	199,070	51,821	26,495	(55,744)	(41,917)
Interest and debt expense(2)	350,472	122,140	45,261	20,784	78,078	84,209
Depreciation and amortization(2)	369,782	161,594	71,956	41,131	54,610	40,491
Income tax expense (benefit)(2)	19,257	2,323	(57)	1,050	13,642	2,299
EBITDA(1)	$ 919,236	$ 485,127 (3)	$ 168,981 (4)	$ 89,460 (5)	$ 90,586	$ 85,082 (6)

(Amounts in thousands)	For the Six Months Ended June 30, 2013					
	Total	New York	Washington, DC	Retail Properties	Toys	Other
Total revenues	$ 1,389,929	$ 740,501	$ 269,048	$ 222,658	$ -	$ 157,722
Total expenses	929,573	476,660	170,979	95,618	-	186,316
Operating income (loss)	460,356	263,841	98,069	127,040	-	(28,594)
(Loss) income from partially owned entities, including Toys	(12,864)	9,831	(4,542)	1,324	(35,102)	15,625
Income from Real Estate Fund	51,034	-	-	-	-	51,034
Interest and other investment (loss) income, net	(22,660)	2,608	82	2	-	(25,352)
Interest and debt expense	(241,003)	(83,079)	(56,104)	(21,803)	-	(80,017)
Net loss on disposition of wholly owned and partially owned assets	(35,719)	-	-	-	-	(35,719)
Income (loss) before income taxes	199,144	193,201	37,505	106,563	(35,102)	(103,023)
Income tax expense	(3,950)	(1,233)	(1,183)	(749)	-	(785)
Income (loss) from continuing	195,194	191,968	36,322	105,814	(35,102)	(103,808)

operations										
Income (loss) from discontinued operations	276,054	5,656		-		271,473		-	(1,075)	
Net income (loss)	471,248	197,624		36,322		377,287		(35,102)	(104,883)	
Less net income attributable to noncontrolling interests	(50,132)	(2,962)		-		(109)		-	(47,061)	
Net income (loss) attributable to Vornado	421,116	194,662		36,322		377,178		(35,102)	(151,944)	
Interest and debt expense(2)	368,241	104,235		62,998		27,938		80,912	92,158	
Depreciation and amortization(2)	376,316	152,986		70,396		34,867		71,556	46,511	
Income tax expense(2)	38,393	1,377		1,306		749		33,649	1,312	
EBITDA(1)	$ 1,204,066	$ 453,260	(3)	$ 171,022	(4)	$ 440,732	(5)	$ 151,015	$ (11,963)	(6)

See notes on the following page.

VORNADO REALTY TRUST

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

(UNAUDITED)

22. 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 (benefit) expense in the reconciliation of net income (loss) to EBITDA includes our share of these items from partially owned entities.

(3) The elements of "New York" EBITDA are summarized below.

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
(Amounts in thousands)	2014	2013	2014	2013
Office	$ 162,833	$ 158,186	$ 320,712	$ 304,482
Retail	67,947	57,230	134,142	117,612
Alexander's	10,271	10,213	20,701	20,754
Hotel Pennsylvania	10,278	10,094	9,572	10,412
Total New York	$ 251,329	$ 235,723	$ 485,127	$ 453,260

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

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
(Amounts in thousands)	2014	2013	2014	2013
Office, excluding the Skyline Properties	$ 67,057	$ 66,136	$ 134,314	$ 133,243
Skyline properties	7,073	7,543	13,572	15,705
Total Office	74,130	73,679	147,886	148,948
Residential	10,764	11,099	21,095	22,074
Total Washington, DC	$ 84,894	$ 84,778	$ 168,981	$ 171,022

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

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
(Amounts in thousands)	2014	2013	2014	2013
Strip shopping centers[(a)]	$ 40,056	$ 101,529	$ 81,377	$ 204,890
Regional malls[(b)]	14,124	16,877	8,083	235,842
Total Retail properties	$ 54,180	$ 118,406	$ 89,460	$ 440,732

(a) The three and six months ended June 30, 2013, includes a $33,058 net gain on sale of Philadelphia (Market Street) and a $32,169 net gain on sale of San Jose (The Plant). The six months ended June 30, 2013, includes $59,599 of income pursuant to a settlement agreement with Stop & Shop.

(b)

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

VORNADO REALTY TRUST

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

(UNAUDITED)

22. 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 June 30, 2014	For the Three Months Ended June 30, 2013	For the Six Months Ended June 30, 2014	For the Six Months Ended June 30, 2013
Our share of Real Estate Fund:				
Income before net realized/unrealized gains	$ 2,191	$ 1,643	$ 4,617	$ 3,651
Net realized gains on exited investments	18,767	-	18,767	-
Previously recorded unrealized gains on exited investments	(8,841)	-	(5,597)	-
Net unrealized gains on held investments	14,339	8,398	14,637	11,777
Carried interest	11,874	10,070	13,205	11,707
Total	38,330	20,111	45,629	27,135
The Mart and trade shows	22,454	22,453	41,541	39,307
555 California Street	11,506	11,022	23,572	21,651
India real estate ventures	99	2,254	1,923	4,013
LNR[(a)]	-	-	-	20,443
Lexington[(b)]	-	-	-	6,931
Other investments	4,288	5,760	9,207	8,877
	76,677	61,600	121,872	128,357
Corporate general and administrative expenses[(c)]	(23,022)	(24,831)	(49,004)	(47,587)
Investment income and other, net[(c)]	8,032	16,709	16,105	28,045
Acquisition and transaction related costs	(4,083)	(3,350)	(5,867)	(3,951)
Net gain on sale of residential condominiums and a land parcel	905	1,005	10,540	1,005
Income (loss) from the mark-to-market of J.C. Penney derivative position	-	9,065	-	(13,475)
Severance costs (primarily reduction-in-force at The Mart)	-	(1,542)	-	(4,154)
Non-cash impairment loss on J.C. Penney common shares	-	-	-	(39,487)
Loss on sale of J.C. Penney common shares	-	-	-	(36,800)

Net income attributable to noncontrolling interests in the Operating Partnership	(4,691)	(8,849)	(8,539)	(22,782)
Preferred unit distributions of the Operating Partnership	(13)	(348)	(25)	(1,134)
	$ 53,805	$ 49,459	$ 85,082	$ (11,963)

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

(b) In the first quarter of 2013, we began accounting for our investment in Lexington as a marketable equity security - available for sale. The 2013 amount represents our share of Lexington's 2012 fourth quarter earnings which was recorded on a one-quarter lag basis.

(c) The amounts in these captions (for this table only) exclude income/expense from the mark-to-market of our deferred compensation plan of $2,380 and $2,492 for the three months ended June 30, 2014 and 2013, respectively, and $6,780 and $5,938 for the six months ended June 30, 2014 and 2013, respectively.

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 June 30, 2014, and the related consolidated statements of income and comprehensive income for the three-month and six-month periods ended June 30, 2014 and 2013 and changes in equity and cash flows for the six-month periods ended June 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

Parsippany, New Jersey

August 4, 2014

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," "inte "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 six months ended June 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 six months ended June 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 June 30, 2014.

		Total Return[(1)]	
	Vornado	**Office REIT**	**RMS**
Three-month	9.0%	5.9%	7.0%
Six-month	22.0%	17.8%	17.7%
One-year	33.0%	16.5%	13.4%
Three-year	28.3%	25.2%	39.9%
Five-year	184.6%	159.6%	191.3%
Ten-year	182.0%	113.1%	150.7%

(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 ("SpinCo"). The spin-off is expected to be effectuated through a pro rata distribution of SpinCo's 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. On June 26, 2014, SpinCo filed its initial registration statement on Form 10 with the Securities and Exchange Commission ("SEC"). We expect the spin-off to be completed by the end of 2014, subject to certain conditions, including the SEC declaring SpinCo's registration statement effective, filing and approval of SpinCo'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, 22 small retail assets which do not fit SpinCo's strategy, and the Springfield Town Center, which is under contract for disposition.

Overview – continued

Quarter Ended June 30, 2014 Financial Results Summary

Net income attributable to common shareholders for the quarter ended June 30, 2014 was $76,642,000, or $0.41 per diluted share, compared to $145,926,000, or $0.78 per diluted share for the quarter ended June 30, 2013. Net income for the quarter ended June 30, 2013 includes $65,665,000 of net gains on sale of real estate and $3,113,000 of real estate impairment losses. In addition, the quarters ended June 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, decreased net income attributable to common shareholders for the quarter ended June 30, 2014 by $60,467,000, or $0.32 per diluted share and increased net income attributable to common shareholders for the quarter ended June 30, 2013 by $41,721,000 or $0.22 per diluted share.

Funds From Operations attributable to common shareholders plus assumed conversions ("FFO") for the quarter ended June 30, 2014 was $216,547,000, or $1.15 per diluted share, compared to $235,348,000, or $1.25 per diluted share for the prior year's quarter. FFO for the quarters ended June 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 $55,027,000, or $0.29 per diluted share for the quarter ended June 30, 2014, and $3,956,000, or $0.02 per diluted share for the quarter ended June 30, 2013.

	For the Three Months Ended June 30,	
(Amounts in thousands)	**2014**	**2013**
Items that affect comparability income (expense):		
Toys "R" Us Negative FFO	$ (51,862)	$ (25,088)
Defeasance cost in connection with the refinancing of 909 Third Avenue	(5,589)	-
Acquisition and transaction related costs	(4,083)	(3,350)
FFO from discontinued operations	2,200	7,556
Net gain on sale of residential condominiums	905	1,005
Income from the mark-to-market of J.C. Penney derivative position	-	9,065
Preferred unit redemptions	-	8,100
Other, net	-	(1,489)
	(58,429)	(4,201)
Noncontrolling interests' share of above adjustments	3,402	245
Items that affect comparability, net	$ (55,027)	$ (3,956)

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 June 30, 2014 over the quarter ended June 30, 2013 and the trailing quarter ended March 31, 2013 are summarized below.

Same Store EBITDA:	**New York**	**Washington, DC**	**Retail Properties**
June 30, 2014 vs. June 30, 2013			
Same store EBITDA	5.2% (1)	(1.8%)	1.8%
Cash basis same store EBITDA	6.9% (1)	(1.7%)	3.1%
June 30, 2014 vs. March 31, 2014			
Same store EBITDA	6.4% (2)	1.1%	1.8%
Cash basis same store EBITDA	6.2% (2)	(0.3%)	1.7%

(1) Excluding the Hotel Pennsylvania, same store EBITDA increased by 5.3% and by 7.2% on a cash basis.

(2) Excluding the Hotel Pennsylvania, same store EBITDA increased by 1.7% and by 0.8% on a cash basis.

36

Overview – continued

Six Months Ended June 30, 2014 Financial Results Summary

Net income attributable to common shareholders for the six months ended June 30, 2014 was $138,991,000, or $0.74 per diluted share, compared to $377,916,000, or $2.01 per diluted share for the six months ended June 30, 2013. Net income for the six months ended June 30, 2014 and 2013 include $20,842,000 and $8,277,000, respectively, of real estate impairment losses and the six months ended June 30, 2013 also includes $268,459,000 of net gains on sale of real estate. In addition, the six months ended June 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 six months ended June 30, 2014 by $68,379,000, or $0.36 per diluted share, and increased net income attributable to common shareholders for the six months ended June 30, 2013 by $199,406,000, or $1.06 per diluted share.

FFO for the six months ended June 30, 2014 was $463,626,000, or $2.46 per diluted share, compared to $437,168,000, or $2.33 per diluted share for the six months ended June 30, 2013. FFO for the six months ended June 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 $35,003,000, or $0.19 per diluted share for the six months ended June 30, 2014 and $13,749,000, or $0.07 per diluted share for the six months ended June 30, 2013.

	For the Six Months Ended June 30,	
(Amounts in thousands)	2014	2013
Items that affect comparability income (expense):		
Toys "R" Us Negative FFO (including impairment losses of $75,196 and $78,542, respectively)	$ (42,595)	$ (8,404)
Net gain on sale of residential condominiums and a land parcel in 2014	10,540	1,005
FFO from discontinued operations, including LNR in 2013	6,339	35,507
Acquisition and transaction related costs	(5,867)	(3,951)
Defeasance cost in connection with the refinancing of 909 Third Avenue	(5,589)	-
Losses from the mark-to-market, impairment and disposition of investment in J.C. Penney	-	(89,762)
Stop & Shop litigation settlement income	-	59,599
The Mart reduction-in-force and severance costs	-	(4,154)

Preferred unit and share redemptions		-		(1,130)
Other, net		-		(3,310)
		(37,172)		(14,600)
Noncontrolling interests' share of above adjustments		2,169		851
Items that affect comparability, net	$	(35,003)	$	(13,749)

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

Same Store EBITDA:	**New York**		**Washington, DC**	**Retail Properties**
June 30, 2014 vs. June 30, 2013				
Same store EBITDA	5.6%	(1)	(2.2%)	1.6%
Cash basis same store EBITDA	8.5%	(1)	(0.5%)	2.3%

(1) Excluding the Hotel Pennsylvania, same store EBITDA increased by 6.0% and by 9.0% on a cash basis.

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 9, 2014, we entered into an agreement, in partnership with Crown Acquisitions (“Crown”), to acquire the retail condominium of the St. Regis Hotel and the adjacent retail townhouse, for approximately $700,000,000. The property has 100 feet of frontage on Fifth Avenue on the Southeast corner of 55th Street. We will own between 67% and 80% of the venture, with Crown owning the balance. The final ownership percentages will be based on the amount of debt financing put on the property and Crown’s short-term option to invest additional capital. The purchase is expected to close in the fourth quarter of 2014, subject to customary closing conditions.

On July 23, 2014, a joint venture in which we are a 50% 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 and retail building 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.

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 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 $44,000,000, which will be recognized in the third quarter of 2014.

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 redevelopment is expected to be completed in the fourth quarter of 2014 and the closing will be no later than March 31, 2015.

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 June 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 Caguas, Puerto Rico, in the San Juan area. The 10-year fixed rate loan bears interest at 4.43% and amortizes based on a 30-year schedule beginning in year six.

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 $75,069,000 net gain.

On June 24, 2014, the Fund and its 50% joint venture partner entered into an agreement to sell Georgetown Park, a 305,000 square foot retail property, for $272,500,000.

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.

	New York		Washington, DC	Retail Properties	
(Square feet in thousands)	Office	Retail	Office	Strips	Malls
Quarter Ended June 30, 2014					
Total square feet leased	1,222	23	352	231	54
Our share of square feet leased:	1,034	23	336	231	51
Initial rent [1]	$ 69.43	$ 452.81	$ 37.58	$ 20.82	$ 21.92
Weighted average lease term (years)	11.6	8.6	6.7	6.0	4.8
Second generation relet space:					
Square feet	1,009	22	256	128	47
Cash basis:					
Initial rent [1]	$ 69.07	$ 468.05	$ 38.29	$ 24.68	$ 19.00
Prior escalated rent	$ 62.55	$ 358.97	$ 42.06	$ 22.66	$ 18.00
Percentage increase (decrease)	10.4%	30.4%	(9.0%)	8.9%	5.6%
GAAP basis:					
Straight-line rent [2]	$ 69.14	$ 534.56	$ 37.64	$ 24.78	$ 19.00
Prior straight-line rent	$ 58.07	$ 340.11	$ 39.20	$ 21.74	$ 18.00
Percentage increase (decrease)	19.1%	57.2%	(4.0%)	14.0%	5.6%
Tenant improvements and leasing commissions:					
Per square foot	$ 76.39	$ 133.02	$ 34.95	$ 2.75	$ -
Per square foot per annum	$ 6.59	$ 15.47	$ 5.22	$ 0.46	$ -
Percentage of initial rent	9.5%	3.4%	13.9%	2.2%	-

Six Months Ended June 30, 2014:					
Total square feet leased	2,169	34	709 (3)	464	79
Our share of square feet leased:	1,840	34	678 (3)	464	72
Initial rent (1)	$ 66.34	$ 338.77	$ 40.27	$ 19.48	$ 25.25
Weighted average lease term (years)	11.2	10.7	7.7	6.0	5.1
Second generation relet space:					
Square feet	1,574	32	467	335	53
Cash basis:					
Initial rent (1)	$ 67.72	$ 357.64	$ 40.19	$ 20.84	$ 22.26
Prior escalated rent	$ 60.53	$ 270.65	$ 42.62	$ 19.73	$ 21.11
Percentage increase (decrease)	11.9%	32.1%	(5.7%)	5.6%	5.4%
GAAP basis:					
Straight-line rent (2)	$ 67.01	$ 406.90	$ 38.63	$ 21.18	$ 22.68
Prior straight-line rent	$ 56.46	$ 269.43	$ 38.80	$ 19.01	$ 21.04
Percentage increase (decrease)	18.7%	51.0%	(0.5%)	11.4%	7.8%
Tenant improvements and leasing commissions:					
Per square foot	$ 72.48	$ 88.72	$ 40.26	$ 2.76	$ 3.70
Per square foot per annum	$ 6.47	$ 8.29	$ 5.23	$ 0.46	$ 0.73
Percentage of initial rent	9.8%	2.4%	13.0%	2.4%	2.9%