

VORNADO REALTY TRUST  
Form 10-Q  
May 06, 2013

**UNITED STATES**

**SECURITIES AND EXCHANGE COMMISSION**

**WASHINGTON, D.C. 20549**

**FORM 10-Q**

(Mark one)

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

For the quarterly period **March 31, 2013**  
ended:

**Or**

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

**For the transition period from:** \_\_\_\_\_ **to** \_\_\_\_\_

**Commission File Number:** **001-11954**

**VORNADO REALTY TRUST**

(Exact name of registrant as specified in its charter)

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**Maryland**

(State or other jurisdiction of incorporation or organization)

**22-1657560**

(I.R.S. Employer Identification Number)

**888 Seventh Avenue, New York, New York**

(Address of principal executive offices)

**10019**

(Zip Code)

**(212) 894-7000**

(Registrant's telephone number, including area code)

**N/A**

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

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

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

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

Large Accelerated Filer

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

Accelerated Filer

Smaller Reporting Company

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

As of March 31, 2013, 186,935,027 of the registrant's common shares of beneficial interest are outstanding.



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

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

| (Amounts in thousands, except share and per share amounts)                                       | <b>March 31,</b> | <b>December 31,</b> |
|--|------------------|---------------------|
| <b>ASSETS</b>  | <b>2013</b>      | <b>2012</b>         |
| Real estate, at cost:  |                  |                     |
| Land   | \$ 4,798,418     | \$ 4,797,773        |
| Buildings and improvements   | 12,509,959       | 12,496,660          |
| Development costs and construction in progress   | 953,162          | 920,654             |
| Leasehold improvements and equipment   | 131,535          | 130,077             |
| Total  | 18,393,074       | 18,345,164          |
| Less accumulated depreciation and amortization   | (3,181,760)      | (3,087,561)         |
| Real estate, net   | 15,211,314       | 15,257,603          |
| Cash and cash equivalents  | 585,823          | 960,319             |
| Restricted cash  | 168,379          | 183,256             |
| Marketable securities  | 382,987          | 398,188             |
| Tenant and other receivables, net of allowance for doubtful accounts of \$34,607 and \$37,674    | 144,204          | 195,718             |
| Investments in partially owned entities  | 1,198,016        | 1,226,256           |
| Investment in Toys "R" Us  | 474,466          | 478,041             |
| Real Estate Fund investments   | 571,306          | 600,786             |
| Mortgage and mezzanine loans receivable  | 225,221          | 225,359             |
| Receivable arising from the straight-lining of rents, net of allowance of \$3,678 and \$3,165    | 777,608          | 760,699             |
| Deferred leasing and financing costs, net of accumulated amortization of \$233,769 and \$224,509 | 411,130          | 407,745             |
| Identified intangible assets, net of accumulated amortization of \$363,211 and \$350,162         | 393,771          | 424,038             |
| Assets related to discontinued operations  | 260,798          | 565,962             |
| Other assets   | 321,104          | 381,079             |
|  | \$ 21,126,127    | \$ 22,065,049       |
| <b>LIABILITIES, REDEEMABLE NONCONTROLLING INTERESTS AND EQUITY</b>                               |                  |                     |
| Mortgages payable  | \$ 9,063,084     | \$ 8,663,326        |
| Senior unsecured notes   | 1,358,095        | 1,358,008           |
| Revolving credit facility debt   | -                | 1,170,000           |
| Accounts payable and accrued expenses  | 426,621          | 484,746             |
| Deferred revenue   | 586,237          | 597,380             |

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|   |               |               |
|---|---------------|---------------|
| Deferred compensation plan  | 109,483       | 105,200       |
| Deferred tax liabilities  | 15,453        | 15,305        |
| Liabilities related to discontinued operations  | 103,609       | 420,508       |
| Other liabilities   | 447,853       | 402,280       |
| Total liabilities   | 12,110,435    | 13,216,753    |
| Commitments and contingencies   |               |               |
| Redeemable noncontrolling interests:  |               |               |
| Class A units - 11,347,226 and 11,215,682 units outstanding   | 949,082       | 898,152       |
| Series D cumulative redeemable preferred units - 1,800,001 units outstanding  | 46,000        | 46,000        |
| Total redeemable noncontrolling interests   | 995,082       | 944,152       |
| Vornado shareholders' equity:   |               |               |
| Preferred shares of beneficial interest: no par value per share; authorized 110,000,000 shares; issued and outstanding 52,684,609 and 51,184,609 shares   | 1,277,719     | 1,240,278     |
| Common shares of beneficial interest: \$.04 par value per share; authorized 250,000,000 shares; issued and outstanding 186,935,027 and 186,734,711 shares | 7,447         | 7,440         |
| Additional capital  | 7,167,959     | 7,195,438     |
| Earnings less than distributions  | (1,479,296)   | (1,573,275)   |
| Accumulated other comprehensive income (loss)   | 120,953       | (18,946)      |
| Total Vornado shareholders' equity  | 7,094,782     | 6,850,935     |
| Noncontrolling interests in consolidated subsidiaries   | 925,828       | 1,053,209     |
| Total equity  | 8,020,610     | 7,904,144     |
|   | \$ 21,126,127 | \$ 22,065,049 |

See notes to consolidated financial statements (unaudited).

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

| (Amounts in thousands, except per share amounts)                   | <b>For the Three<br/>Months Ended March 31,</b> |                   |
|--|---|-------------------|
|  | <b>2013</b>                                     | <b>2012</b>       |
| <b>REVENUES:</b>   |   |                   |
| Property rentals   | \$ 534,635                                      | \$ 510,111        |
| Tenant expense reimbursements                                      | 77,013  | 70,793            |
| Cleveland Medical Mart development project                         | 12,143  | 55,059            |
| Fee and other income   | 97,225  | 33,278            |
| Total revenues   | 721,016   | 669,241           |
| <b>EXPENSES:</b>   |   |                   |
| Operating  | 260,569   | 246,746           |
| Depreciation and amortization                                      | 142,354   | 131,541           |
| General and administrative   | 54,582  | 55,290            |
| Cleveland Medical Mart development project                         | 11,374  | 52,761            |
| Acquisition related costs  | 601   | 685               |
| Total expenses   | 469,480   | 487,023           |
| Operating income   | 251,536   | 182,218           |
| Income applicable to Toys "R" Us                                   | 1,759   | 116,471           |
| Income from partially owned entities                               | 20,766  | 19,660            |
| Income from Real Estate Fund                                       | 16,564  | 11,762            |
| Interest and other investment (loss) income, net                   | (49,074)  | 15,665            |
| Interest and debt expense  | (121,888)                                       | (130,059)         |
| Net loss on disposition of wholly owned and partially owned assets | (36,724)  | -                 |
| Income before income taxes   | 82,939  | 215,717           |
| Income tax expense   | (1,073)   | (6,825)           |
| Income from continuing operations                                  | 81,866  | 208,892           |
| Income from discontinued operations                                | 207,061   | 71,372            |
| Net income   | 288,927   | 280,264           |
| Less net income attributable to noncontrolling interests in:       |   |                   |
| Consolidated subsidiaries  | (11,286)  | (9,597)           |
| Operating Partnership  | (13,933)  | (15,271)          |
| Preferred unit distributions of the Operating Partnership          | (786)   | (3,874)           |
| Net income attributable to Vornado                                 | 262,922   | 251,522           |
| Preferred share dividends  | (21,702)  | (17,787)          |
| Preferred share redemptions  | (9,230)   | -                 |
| <b>NET INCOME attributable to common shareholders</b>              | <b>\$ 231,990</b>                               | <b>\$ 233,735</b> |
| <b>INCOME PER COMMON SHARE - BASIC:</b>                            |   |                   |
| Income from continuing operations, net                             | \$ 0.20   | \$ 0.90           |



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|   |         |         |
|---|---------|---------|
| Income from discontinued operations, net  | 1.04    | 0.36    |
| Net income per common share               | \$ 1.24 | \$ 1.26 |
| Weighted average shares outstanding       | 186,752 | 185,370 |
| <b>INCOME PER COMMON SHARE - DILUTED:</b> |         |         |
| Income from continuing operations, net    | \$ 0.20 | \$ 0.90 |
| Income from discontinued operations, net  | 1.04    | 0.35    |
| Net income per common share               | \$ 1.24 | \$ 1.25 |
| Weighted average shares outstanding       | 187,529 | 191,886 |
| <b>DIVIDENDS PER COMMON SHARE</b>         | \$ 0.73 | \$ 0.69 |

See notes to consolidated financial statements (unaudited).

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

| (Amounts in thousands)  | <b>For the Three<br/>Months Ended March 31,</b> |             |
|---|---|-------------|
|   | <b>2013</b>                                     | <b>2012</b> |
| Net income  | \$ 288,927                                      | \$ 280,264  |
| Other comprehensive income (loss):  |   |             |
| Change in unrealized net gain on securities<br>available-for-sale             | 148,789   | 12,693      |
| Pro rata share of other comprehensive loss of<br>nonconsolidated subsidiaries | (3,647)   | (21,944)    |
| Change in value of interest rate swap   | 2,523   | 2,386       |
| Other   | 533   | (123)       |
| Comprehensive income  | 437,125   | 273,276     |
| Less comprehensive income attributable to noncontrolling interests            | (34,304)  | (28,309)    |
| Comprehensive income attributable to Vornado                                  | \$ 402,821                                      | \$ 244,967  |

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 Capital | Earnings Less Than Comprehensive Income Distributions | Other Comprehensive Income (Loss) | Non-controlling Interests in Consolidated Subsidiaries | Total Equity |
|---|------------------|--------------|---------------|----------|--------------------|---|-----------------------------------|--|--------------|
|   | Shares           | Amount       | Shares        | Amount   |                    |   |                                   |  |              |
| <b>Balance, December 31, 2011</b>                     | 42,187           | \$ 1,021,660 | 185,080       | \$ 7,373 | \$ 7,127,258       | \$ (1,401,704)  | \$ 73,729                         | \$ 680,131   | \$ 7,508,447 |
| Net income  | -                | -            | -             | -        | -                  | 251,522   | -                                 | 9,597  | 261,119      |
| Dividends on common shares                            | -                | -            | -             | -        | -                  | (127,973)   | -                                 | -  | (127,973)    |
| Dividends on preferred shares                         | -                | -            | -             | -        | -                  | (17,787)  | -                                 | -  | (17,787)     |
| Common shares issued:                                 |                  |              |               |          |                    |   |                                   |  |              |
| Upon redemption of Class A units, at redemption value | -                | -            | 158           | 6        | 13,022             | -   | -                                 | -  | 13,028       |
| Under employees' share option plan                    | -                | -            | 389           | 16       | 7,562              | (16,389)  | -                                 | -  | (8,811)      |
| Under dividend reinvestment plan                      | -                | -            | 5             | -        | 411                | -   | -                                 | -  | 411          |
| Distributions:  |                  |              |               |          |                    |   |                                   |  |              |
| Real Estate Fund                                      | -                | -            | -             | -        | -                  | -   | -                                 | (21,856)   | (21,856)     |
| Conversion of Series A preferred shares to common     | (2)              | (105)        | 3             | -        | 105                | -   | -                                 | -  | -            |

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|   |        |              |         |          |              |                |           |            |              |
|---|--------|--------------|---------|----------|--------------|----------------|-----------|------------|--------------|
| shares<br>Deferred<br>compensation<br>shares<br>and options                               | -      | -            | 7       | 1        | 5,915        | (339)          | -         | -          | 5,577        |
| Change in<br>unrealized<br>net gain<br>on securities<br>available-for-sale                | -      | -            | -       | -        | -            | -              | 12,693    | -          | 12,693       |
| Pro rata share<br>of other<br>comprehensive<br>loss of<br>nonconsolidated<br>subsidiaries | -      | -            | -       | -        | -            | -              | (21,944)  | -          | (21,944)     |
| Change in<br>value of<br>interest rate<br>swap  | -      | -            | -       | -        | -            | -              | 2,386     | -          | 2,386        |
| Adjustments<br>to carry<br>redeemable<br>Class A<br>units at<br>redemption<br>value       | -      | -            | -       | -        | (96,061)     | -              | -         | -          | (96,061)     |
| Redeemable<br>noncontrolling<br>interests'<br>share of<br>above<br>adjustments            | -      | -            | -       | -        | -            | -              | 433       | -          | 433          |
| Other   | -      | -            | -       | -        | -            | -              | (123)     | (2)        | (125)        |
| <b>Balance,<br/>March 31,<br/>2012</b>  | 42,185 | \$ 1,021,555 | 185,642 | \$ 7,396 | \$ 7,058,212 | \$ (1,312,670) | \$ 67,174 | \$ 667,870 | \$ 7,509,537 |

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 Capital | Earnings Less Than Distributions | Other Comprehensive Income (Loss) | Non-Accumulated controlling            | Total Equity |
|---|------------------|--------------|---------------|----------|--------------------|----------------------------------|-----------------------------------|--|--------------|
|   | Shares           | Amount       | Shares        | Amount   |                    |                                  |                                   | Interests in Consolidated Subsidiaries |              |
| <b>Balance, December 31, 2012</b>                     | 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  | -                | -            | -             | -        | -                  | 262,922                          | -                                 | 11,286                                 | 274,208      |
| Dividends on common shares                            | -                | -            | -             | -        | -                  | (136,342)                        | -                                 | -                                      | (136,342)    |
| Dividends on preferred shares                         | -                | -            | -             | -        | -                  | (21,702)                         | -                                 | -                                      | (21,702)     |
| Issuance of Series L preferred shares                 | 12,000           | 290,710      | -             | -        | -                  | -                                | -                                 | -                                      | 290,710      |
| 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 | -                | -            | 162           | 5        | 13,399             | -                                | -                                 | -                                      | 13,404       |
| Under employees' share option plan                    | -                | -            | 27            | 1        | 1,175              | -                                | -                                 | -                                      | 1,176        |
| Under dividend reinvestment                           | -                | -            | 5             | -        | 433                | -                                | -                                 | -                                      | 433          |

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|                    |        |              |         |          |              |                |            |         |           |              |
|--------------------|--------|--------------|---------|----------|--------------|----------------|------------|---------|-----------|--------------|
| plan               |        |              |         |          |              |                |            |         |           |              |
| Contributions:     |        |              |         |          |              |                |            |         |           |              |
| Real Estate        |        |              |         |          |              |                |            |         |           |              |
| Fund               | -      | -            | -       | -        | -            | -              | -          | -       | 10,251    | 10,251       |
| Other              | -      | -            | -       | -        | -            | -              | -          | -       | 14,316    | 14,316       |
| Distributions:     |        |              |         |          |              |                |            |         |           |              |
| Real Estate        |        |              |         |          |              |                |            |         |           |              |
| Fund               | -      | -            | -       | -        | -            | -              | -          | -       | (43,145)  | (43,145)     |
| Other              | -      | -            | -       | -        | -            | -              | -          | -       | (120,051) | (120,051)    |
| Deferred           |        |              |         |          |              |                |            |         |           |              |
| compensation       |        |              |         |          |              |                |            |         |           |              |
| shares             |        |              |         |          |              |                |            |         |           |              |
| and options        | -      | -            | 6       | 1        | 2,512        | (305)          | -          | -       | -         | 2,208        |
| Change in          |        |              |         |          |              |                |            |         |           |              |
| unrealized         |        |              |         |          |              |                |            |         |           |              |
| net gain on        |        |              |         |          |              |                |            |         |           |              |
| securities         |        |              |         |          |              |                |            |         |           |              |
| available-for-sale | -      | -            | -       | -        | -            | -              | -          | 148,789 | -         | 148,789      |
| Pro rata share     |        |              |         |          |              |                |            |         |           |              |
| of other           |        |              |         |          |              |                |            |         |           |              |
| comprehensive      |        |              |         |          |              |                |            |         |           |              |
| loss of            |        |              |         |          |              |                |            |         |           |              |
| nonconsolidated    |        |              |         |          |              |                |            |         |           |              |
| subsidiaries       | -      | -            | -       | -        | -            | -              | -          | (3,647) | -         | (3,647)      |
| Change in          |        |              |         |          |              |                |            |         |           |              |
| value of           |        |              |         |          |              |                |            |         |           |              |
| interest rate      |        |              |         |          |              |                |            |         |           |              |
| swap               | -      | -            | -       | -        | -            | -              | -          | 2,523   | -         | 2,523        |
| Adjustments        |        |              |         |          |              |                |            |         |           |              |
| to carry           |        |              |         |          |              |                |            |         |           |              |
| redeemable         |        |              |         |          |              |                |            |         |           |              |
| Class A            |        |              |         |          |              |                |            |         |           |              |
| units at           |        |              |         |          |              |                |            |         |           |              |
| redemption         |        |              |         |          |              |                |            |         |           |              |
| value              | -      | -            | -       | -        | (44,998)     | -              | -          | -       | -         | (44,998)     |
| Redeemable         |        |              |         |          |              |                |            |         |           |              |
| noncontrolling     |        |              |         |          |              |                |            |         |           |              |
| interests'         |        |              |         |          |              |                |            |         |           |              |
| share of           |        |              |         |          |              |                |            |         |           |              |
| above              |        |              |         |          |              |                |            |         |           |              |
| adjustments        | -      | -            | -       | -        | -            | -              | -          | (8,299) | -         | (8,299)      |
| Preferred          |        |              |         |          |              |                |            |         |           |              |
| share              |        |              |         |          |              |                |            |         |           |              |
| redemptions        | -      | -            | -       | -        | -            | (9,230)        | -          | -       | -         | (9,230)      |
| Other              | -      | -            | -       | -        | -            | (1,364)        | 533        | (38)    | -         | (869)        |
| <b>Balance,</b>    |        |              |         |          |              |                |            |         |           |              |
| <b>March 31,</b>   |        |              |         |          |              |                |            |         |           |              |
| <b>2013</b>        | 52,685 | \$ 1,277,719 | 186,935 | \$ 7,447 | \$ 7,167,959 | \$ (1,479,296) | \$ 120,953 | \$      | 925,828   | \$ 8,020,610 |

See notes to consolidated financial statements (unaudited).

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

|  | <b>For the Three Months Ended</b> |             |
|--|-----------------------------------|-------------|
|  | <b>March 31,</b>                  |             |
|  | <b>2013</b>                       | <b>2012</b> |
| <i>(Amounts in thousands)</i>  |                                   |             |
| <b>Cash Flows from Operating Activities:</b>                                       |                                   |             |
| Net income   | \$ 288,927                        | \$ 280,264  |
| Adjustments to reconcile net income to net cash provided by operating activities:  |                                   |             |
| Net gains on sale of real estate   | (202,329)                         | (55,817)    |
| Depreciation and amortization (including amortization of deferred financing costs) | 148,918                           | 145,304     |
| Return of capital from Real Estate Fund investments                                | 56,664                            | -           |
| Non-cash impairment loss on J.C. Penney owned shares                               | 39,487                            | -           |
| Net loss on disposition of wholly owned and partially owned assets                 | 36,724                            | -           |
| Equity in net income of partially owned entities, including Toys “R” Us            | (22,525)                          | (136,131)   |
| Loss (income) from the mark-to-market of J.C. Penney derivative position           | 22,540                            | (1,045)     |
| Straight-lining of rental income   | (18,868)                          | (21,808)    |
| Other non-cash adjustments   | 18,569                            | 7,795       |
| Amortization of below-market leases, net   | (16,815)                          | (13,813)    |
| Net unrealized gain on Real Estate Fund investments                                | (13,516)                          | (6,844)     |
| Distributions of income from partially owned entities                              | 10,627                            | 14,194      |
| Impairment losses  | 1,514                             | -           |
| Changes in operating assets and liabilities:                                       |                                   |             |
| Real Estate Fund investments   | (13,668)                          | 28,980      |
| Accounts receivable, net   | 51,514                            | (19,386)    |
| Prepaid assets   | 67,814                            | 51,202      |
| Other assets   | (15,326)                          | (9,245)     |
| Accounts payable and accrued expenses  | (21,908)                          | 40,609      |
| Other liabilities  | (3,416)                           | 2,844       |
| Net cash provided by operating activities  | 414,927                           | 307,103     |
| <b>Cash Flows from Investing Activities:</b>                                       |                                   |             |
| Proceeds from sales of real estate and related investments                         | 499,369                           | 306,022     |
| Proceeds from sales of marketable securities                                       | 160,300                           | -           |
| Funding of J.C. Penney derivative collateral                                       | (58,522)                          | -           |
| Return of J.C. Penney derivative collateral  | 38,900                            | -           |
| Additions to real estate   | (57,460)                          | (44,052)    |



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|  |          |          |
|--|----------|----------|
| Investments in partially owned entities                | (39,892) | (46,732) |
| Development costs and construction in progress         | (35,334) | (20,614) |
| Restricted cash  | 14,149   | (19,355) |
| Distributions of capital from partially owned entities | 5,544    | 4,203    |
| Proceeds from repayments of mezzanine loans and other  | 631      | 554      |
| Acquisitions of real estate and other                  | -        | (21,054) |
| Proceeds from the repayment of loan to officer         | -        | 13,123   |
| Net cash provided by investing activities              | 527,685  | 172,095  |

See notes to consolidated financial statements (unaudited).

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

|   | <b>For the Three Months Ended</b> |              |
|---|-----------------------------------|--------------|
|   | <b>March 31,</b>                  |              |
|   | <b>2013</b>                       | <b>2012</b>  |
| <i>(Amounts in thousands)</i>   |                                   |              |
| <b>Cash Flows from Financing Activities:</b>  |                                   |              |
| Repayments of borrowings  | \$ (2,529,836)                    | \$ (884,679) |
| Proceeds from borrowings  | 1,499,375                         | 625,000      |
| Proceeds from the issuance of preferred shares  | 290,710                           | -            |
| Purchases of outstanding preferred units and shares   | (262,500)                         | -            |
| Distributions to noncontrolling interests   | (172,142)                         | (34,092)     |
| Dividends paid on common shares   | (136,342)                         | (127,973)    |
| Contributions from noncontrolling interests   | 24,566                            | -            |
| Dividends paid on preferred shares  | (23,161)                          | (17,789)     |
| Debt issuance and other costs   | (9,080)                           | (9,822)      |
| Proceeds received from exercise of employee share options                                     | 1,607                             | 7,997        |
| Repurchase of shares related to stock compensation agreements and/or related tax withholdings | (305)                             | (30,034)     |
| Net cash used in financing activities   | (1,317,108)                       | (471,392)    |
| Net (decrease) increase in cash and cash equivalents  | (374,496)                         | 7,806        |
| Cash and cash equivalents at beginning of period  | 960,319                           | 606,553      |
| Cash and cash equivalents at end of period  | \$ 585,823                        | \$ 614,359   |
| <br><b>Supplemental Disclosure of Cash Flow Information:</b>                                  |                                   |              |
| Cash payments for interest, excluding capitalized interest of \$8,260 and \$16                | \$ 116,141                        | \$ 117,282   |
| Cash payments for income taxes  | \$ 1,825                          | \$ 2,563     |
| <br><b>Non-Cash Investing and Financing Activities:</b>                                       |                                   |              |
| Change in unrealized net gain on securities available-for-sale                                | \$ 148,789                        | \$ 12,693    |
| Adjustments to carry redeemable Class A units at redemption value                             | (44,998)                          | (96,061)     |
| Common shares issued upon redemption of Class A units, at redemption value                    | 13,404                            | 13,028       |
| Write-off of fully depreciated assets   | (11,730)                          | (37,890)     |

See notes to consolidated financial statements (unaudited).



**VORNADO REALTY TRUST**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**(UNAUDITED)**

**1. Organization**

Vornado Realty Trust (“Vornado”) is a fully integrated real estate investment trust (“REIT”) and conducts its business through, and substantially all of its interests in properties are held by, Vornado Realty L.P., a Delaware limited partnership (the “Operating Partnership”). Vornado is the sole general partner of, and owned approximately 94.0% of the common limited partnership interest in the Operating Partnership at March 31, 2013. All references to “we,” “us,” “our,” the “Company” and “Vornado” refer to Vornado Realty Trust and its consolidated subsidiaries, including the Operating Partnership.

**2. Basis of Presentation**

The accompanying consolidated financial statements are unaudited and include the accounts of Vornado and its consolidated subsidiaries, including the Operating Partnership. All intercompany amounts have been eliminated. In our opinion, all adjustments (which include only normal recurring adjustments) necessary to present fairly the financial position, results of operations and changes in cash flows have been made. Certain information and footnote disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States of America (“GAAP”) have been condensed or omitted. These condensed consolidated financial statements have been prepared in accordance with the instructions to Form 10-Q of the Securities and Exchange Commission (the “SEC”) and should be read in conjunction with the consolidated financial statements and notes thereto included in our Annual Report on Form 10-K, for the year ended December 31, 2012, 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 months ended March 31, 2013 are not necessarily indicative of the operating results for the full year. Certain prior year balances have been reclassified in order to conform to current year presentation.

**3. Recently Issued Accounting Literature**

In February 2013, the Financial Accounting Standards Board (“FASB”) issued Update No. 2013-02, *Reporting of Amounts Reclassified Out of Accumulated Other Comprehensive Income* (“ASU No. 2013-02”). ASU No. 2013-02 requires additional disclosures regarding significant reclassifications out of each component of accumulated other comprehensive income, including the effect on the respective line items of net income for amounts that are required to be reclassified into net income in their entirety and cross-references to other disclosures providing additional information for amounts that are not required to be reclassified into net income in their entirety. The adoption of this update on January 1, 2013, did not have a material impact on our consolidated financial statements, but resulted in additional disclosures (see Note 14 - *Accumulated Other Comprehensive Income*).

#### 4. Acquisitions

On December 21, 2012, we acquired a 58.75% interest in Independence Plaza, a three-building 1,328 unit residential complex in the Tribeca submarket of Manhattan. Our preliminary purchase price allocation was primarily to land (\$309,848,000) and building (\$527,578,000). Based on a third party appraisal and additional information about facts and circumstances that existed at the acquisition date, which was obtained subsequent to the acquisition date, we finalized the purchase price allocation and retroactively adjusted our December 31, 2012 consolidated balance sheet. These adjustments did not have a material impact to our consolidated statement of income for the year ended December 31, 2012. The following is a summary of our finalized purchase price allocation:

|   |    |          |
|---|----|----------|
| (Amounts in thousands)  |    |          |
| Land  | \$ | 602,662  |
| Buildings and improvements  |    | 252,844  |
| Acquired above-market leases (included in identified intangible assets) |    | 13,115   |
| Acquired in-place leases (included in identified intangible assets)     |    | 67,879   |
| Other assets  |    | 7,374    |
| Acquired below-market leases (included in deferred revenue)             |    | (99,074) |
| Purchase price allocation   | \$ | 844,800  |

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**VORNADO REALTY TRUST****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)****(UNAUDITED)****5. Vornado Capital Partners Real Estate Fund (the “Fund”)**

We are the general partner and investment manager of our \$800,000,000 Fund, to which we committed \$200,000,000. The Fund has an eight-year term and a three-year investment period, which concludes in July 2013. During the investment period, the Fund is our exclusive investment vehicle for all investments that fit within its investment parameters, as defined. 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.

At March 31, 2013, the Fund had nine investments with an aggregate fair value of \$571,306,000, or \$81,158,000 in excess of cost, and had remaining unfunded commitments of \$257,956,000, of which our share was \$64,489,000. Below is a summary of income from the Fund for the three months ended March 31, 2013 and 2012.

| (Amounts<br>in<br>thousands)                             | <b>For the Three Months<br/>Ended March 31,</b> |             |
|--|---|-------------|
|  | <b>2013</b>                                     | <b>2012</b> |
| Operating<br>income                                      | \$ 3,048  | \$ 4,918    |
| Net<br>unrealized<br>gains                               | 13,516  | 6,844       |
| Income<br>from<br>Real<br>Estate<br>Fund                 | 16,564  | 11,762      |
| Less<br>(income)<br>attributable<br>to<br>noncontrolling | (9,540)   | (7,933)     |

interests  
Income  
from  
Real  
Estate  
Fund  
attributable  
to  
Vornado  
(1)                   \$     7,024   \$     3,829

---

(1) Excludes management, leasing and development fees of \$682 and \$703 for the three months ended March 31, 2013 and 2012, respectively, which are included as a component of "fee and other income" on our consolidated statements of income.

**6. Mortgage and Mezzanine Loans Receivable**

As of March 31, 2013 and December 31, 2012, the carrying amount of mortgage and mezzanine loans receivable was \$225,221,000 and \$225,359,000, respectively. These loans have a weighted average interest rate of 10.3% at March 31, 2013 and December 31, 2012, and have maturities ranging from August 2014 to May 2016.

On March 27, 2013, we transferred, at par, a 25% participation in a mortgage loan on 701 Seventh Avenue to a third party for \$59,375,000 in cash. We acquired this participation in October 2012, together with a 25% interest in a mezzanine loan on the property. The transfer did not qualify for sale accounting given our continuing interest in the mezzanine loan. Accordingly, we continue to include the 25% participation in the mortgage loan in "Mortgage and Mezzanine Loans Receivable" and have recorded a \$59,375,000 liability in "Other Liabilities" on our consolidated balance sheet. Interest income on this participation will be offset by interest expense from the liability.

In the second quarter of 2013, a \$50,000,000 mezzanine loan that was scheduled to mature in August 2015, was repaid. In connection therewith, we received net proceeds of approximately \$55,000,000, including prepayment penalties, which resulted in approximately \$5,000,000 of income that will be recognized in the second quarter.

**VORNADO REALTY TRUST**

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

**(UNAUDITED)**

**7. Marketable Securities and Derivative Instruments**

Our portfolio of marketable securities is comprised of equity securities that are classified as available for sale. Available for sale securities are presented on our consolidated balance sheets at fair value. Unrealized gains and losses resulting from the mark-to-market of these securities are included in “other comprehensive income (loss).” Realized gains and losses are recognized in earnings only upon the sale of the securities and are recorded based on the weighted average cost of such securities.

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

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, which resulted in a net loss of \$36,800,000, which is included in “net gain on disposition of wholly owned and partially owned assets” on our consolidated statements of income.

As of March 31, 2013, we own an economic interest in 13,400,000 J.C. Penney common shares, or 6.1% of its outstanding common shares. Below are the details of our investment.

We own 8,584,010 common shares at a GAAP cost of \$19.71, per share, or \$169,191,000 in the aggregate. As of March 31, 2013, based on J.C. Penney’s closing share price of \$15.11 per share, these shares have an aggregate fair value of \$129,704,000, or \$39,487,000 below our GAAP cost. We have concluded that this decline in value is “other-than temporary” and have recorded a \$39,487,000 impairment loss in the first quarter. Our conclusion was based on the severity of decline in the stock price and our inability to forecast a recovery in the near term.

We also own an economic interest in 4,815,990 common shares through a forward contract at a weighted average strike price of \$29.18 per share, or \$140,525,000 in the aggregate. The forward contract may be settled, at our election, in cash or common shares, in whole or in part, at any time prior to October 8, 2022. The counterparty may accelerate settlement, in whole or in part, on October 8, 2014, or any anniversary thereof, or in the event we were to receive a credit downgrade. The forward contract strike price per share increases at an annual rate of LIBOR plus 95 basis points during the first two years of the contract and LIBOR plus 80 basis points thereafter. The contract is a



derivative instrument that does not qualify for hedge accounting treatment. Gains and losses from the mark-to-market of the underlying common shares are recognized in “interest and other investment (loss) income, net” on our consolidated statements of income. In the three months ended March 31, 2013, we recognized a loss of \$22,540,000, from the mark-to-market of the underlying common shares, and as of March 31, 2013, have funded \$76,002,000 in connection with this derivative position. In the three months ended March 31, 2012, we recognized income of \$1,045,000 from the mark-to-market of the underlying common shares.

As of March 31, 2013, the aggregate economic net loss on our investment in J.C. Penney, including shares sold, was \$227,095,000.

*Investment in Lexington Realty Trust (“Lexington”) (NYSE: LXP)*

Since the inception of our investment in Lexington in 2008, we accounted for it under the equity method of accounting, because of our ability to exercise significant influence over Lexington’s operating and financial policies.

As a result of Lexington’s common share issuances, our ownership interest has been reduced over time from approximately 17.2% to 8.8% as of March 31, 2013. In the first quarter of 2013, we concluded that we no longer have the ability to exercise significant influence over Lexington’s operating and financial policies, and began accounting for this investment as a marketable equity security – available for sale, in accordance with Accounting Standards Codification (“ASC”) Topic 320, *Investments – Debt and Equity Securities*.

Below is a summary of our marketable securities portfolio as of March 31, 2013 and December 31, 2012.

|                    | As of March 31, 2013 |            |                 | As of December 31, 2012 |            |                 |
|--------------------|----------------------|------------|-----------------|-------------------------|------------|-----------------|
|                    | Fair Value           | GAAP Cost  | Unrealized Gain | Fair Value              | GAAP Cost  | Unrealized Gain |
| Equity securities: |                      |            |                 |                         |            |                 |
| Lexington          | \$ 217,934           | \$ 72,549  | \$ 145,385      | \$ -                    | \$ -       | \$ -            |
| J.C. Penney        | 129,704              | 129,704    | -               | 366,291                 | 366,291    | -               |
| Other              | 35,349               | 12,513     | 22,836          | 31,897                  | 12,466     | 19,431          |
|                    | \$ 382,987           | \$ 214,766 | \$ 168,221      | \$ 398,188              | \$ 378,757 | \$ 19,431       |

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**VORNADO REALTY TRUST**

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

**(UNAUDITED)**

**8. Investments in Partially Owned Entities**

*Toys “R” Us (“Toys”)*

As of March 31, 2013, we own 32.5% 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. Historically, Toys’ fourth quarter net income accounts for more than 80% of its fiscal year net income.

In the three months ended December 31, 2012, we recorded a \$40,000,000 non-cash impairment loss with regards to our investment in Toys and disclosed, that if current facts don’t change, our share of Toys’ undistributed income, which in accordance with the equity method of accounting, would increase the carrying amount of our investment above fair value, would require an offsetting impairment loss.

In the three months ended March 31, 2013, we recognized our 32.5% share of Toys’ fourth quarter net income of \$78,542,000 and a corresponding non-cash impairment loss of the same amount. Our income applicable to Toys after the impairment loss was \$1,759,000, representing management fees earned and received.

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

(Amounts in thousands)

|                       | <b>Balance as of</b> |                    |
|-----------------------|----------------------|--------------------|
| <b>Balance Sheet:</b> | <b>February 2,</b>   | <b>October 27,</b> |
|                       | <b>2013</b>          | <b>2012</b>        |
| Assets                | \$ 11,920,000        | \$ 12,953,000      |

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|                          |               |            |
|--------------------------|---------------|------------|
| Liabilities              | 9,921,000     | 11,190,000 |
| Noncontrolling interests | 49,000        | 44,000     |
| Toys “R” Us, Inc. equity | 1,950,000 (1) | 1,719,000  |

| <b>Income Statement:</b>           | <b>For the Three Months Ended</b> |                             |
|------------------------------------|-----------------------------------|-----------------------------|
|                                    | <b>February 2,<br/>2013</b>       | <b>January 28,<br/>2012</b> |
| Total revenues                     | \$ 5,770,000                      | \$ 5,925,000                |
| Net income attributable to<br>Toys | 241,000                           | 349,000                     |

- (1) As of March 31, 2013, the carrying amount of our investment in Toys is less than our share of Toys' equity by approximately \$141,270,000. This basis difference resulted primarily from non-cash impairment losses aggregating \$118,542,000 that we recognized in 2012 and 2013. We have allocated the basis difference to Toys' intangible assets (primarily trade names and trademarks). The basis difference is not being amortized and will be recognized upon disposition of our investment.

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

As of March 31, 2013, 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 March 31, 2013, Alexander’s owed us \$45,623,000 in fees under these agreements.

As of March 31, 2013, the market value (“fair value” pursuant to ASC 820) of our investment in Alexander’s, based on Alexander’s March 31, 2013 closing share price of \$329.69, was \$545,330,000, or \$373,510,000 in excess of the carrying amount on our consolidated balance sheet. As of March 31, 2013, 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 \$43,595,000. The majority of this basis difference resulted from the excess of our purchase price for the Alexander’s common stock acquired over the book value of Alexander’s net assets. Substantially all of this basis difference was allocated, based on our estimates of the fair values of Alexander’s assets and liabilities, to real estate (land and buildings). We are amortizing the basis difference related to the buildings into earnings as additional depreciation expense over their estimated useful lives. This depreciation is not material to our share of equity in Alexander’s net income. The basis difference related to the land will be recognized upon disposition of our investment.



## VORNADO REALTY TRUST

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(UNAUDITED)

**8. Investments in Partially Owned Entities – continued***Alexander's, Inc. ("Alexander's") (NYSE: ALX)- continued*

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

(Amounts in thousands)

|  | <b>Balance as of</b>              |                          |
|--|-----------------------------------|--------------------------|
|  | <b>March 31, 2013</b>             | <b>December 31, 2012</b> |
| <b>Balance Sheet:</b>                  |                                   |                          |
| Assets                                 | \$ 1,485,000                      | \$ 1,482,000             |
| Liabilities                            | 1,150,000                         | 1,150,000                |
| Stockholders' equity                   | 335,000                           | 332,000                  |
|  |                                   |                          |
|  | <b>For the Three Months Ended</b> |                          |
|  | <b>March 31, 2013</b>             | <b>March 31, 2012</b>    |
| <b>Income Statement:</b>               |                                   |                          |
| Total revenues                         | \$ 49,000                         | \$ 47,000                |
| Net income attributable to Alexander's | 14,000                            | 19,000                   |

*LNR Property LLC ("LNR")*

At March 31, 2013, we owned a 26.2% interest in LNR and accounted for our investment under the equity method. We recorded our share of LNR's net income or loss on a one-quarter lag basis because we filed our consolidated financial statements on Form 10-K and 10-Q prior to receiving LNR's consolidated financial statements.

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

(Amounts in thousands)

|                                 | <b>Balance as of</b>              |                      |
|---------------------------------|-----------------------------------|----------------------|
|                                 | <b>December 31,</b>               | <b>September 30,</b> |
|                                 | <b>2012</b>                       | <b>2012</b>          |
| <b>Balance Sheet:</b>           |                                   |                      |
| Assets                          | \$ 92,267,000                     | \$ 98,530,000        |
| Liabilities                     | 91,204,000                        | 97,643,000           |
| Noncontrolling interests        | 8,000                             | 8,000                |
| LNR Property Corporation equity | 1,055,000                         | 879,000              |
|                                 |                                   |                      |
|                                 | <b>For the Three Months Ended</b> |                      |
|                                 | <b>December 31,</b>               | <b>December 31,</b>  |
|                                 | <b>2012</b>                       | <b>2011</b>          |
| <b>Income Statement:</b>        |                                   |                      |
| Total revenues                  | \$ 48,000                         | \$ 49,000            |
| Net income attributable to LNR  | 176,000                           | 51,000               |

In the three months ended March 31, 2013, we recognized our 26.2% share of LNR's fourth quarter net income of \$18,731,000, which increased the carrying amount of our investment to approximately \$241,000,000. In the second quarter of 2013, LNR was sold for \$1.053 billion, and we received net proceeds of approximately \$241,000,000 for our interest. Pursuant to the sale agreement, we ceased receiving income as of January 1, 2013.

## VORNADO REALTY TRUST

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(UNAUDITED)

## 8. Investments in Partially Owned Entities – continued

Below is a schedule of our investments in partially owned entities as of March 31, 2013 and December 31, 2012.

| (Amounts in thousands)                    | Percentage<br>Ownership at | Balance as of  |                      |
|---|----------------------------|----------------|----------------------|
|   | March 31, 2013             | March 31, 2013 | December 31,<br>2012 |
| <b>Investments:</b>                       |                            |                |                      |
| Toys                                      | 32.5 %                     | \$ 474,466     | \$ 478,041           |
| Alexander's                               | 32.4 %                     | \$ 171,820     | \$ 171,013           |
| Lexington <sup>(1)</sup>                  | n/a                        | -              | 75,542               |
| LNR (see page 14 for details)             | 26.2 %                     | 241,377        | 224,724              |
| India real estate ventures                | 4.0%-36.5%                 | 94,691         | 95,516               |
| Partially owned office buildings:         |                            |                |                      |
| 280 Park Avenue                           | 49.5 %                     | 199,466        | 197,516              |
| Rosslyn Plaza                             | 43.7%-50.4%                | 61,827         | 62,627               |
| West 57th Street properties               | 50.0 %                     | 56,500         | 57,033               |
| One Park Avenue                           | 30.3 %                     | 52,238         | 50,509               |
| 666 Fifth Avenue Office<br>Condominium    | 49.5 %                     | 37,212         | 35,527               |
| 330 Madison Avenue                        | 25.0 %                     | 31,581         | 30,277               |
| Warner Building                           | 55.0 %                     | 10,118         | 8,775                |
| Fairfax Square                            | 20.0 %                     | 5,299          | 5,368                |
| Other partially owned office<br>buildings | Various                    | 8,942          | 9,315                |
| Other investments:                        |                            |                |                      |
| Downtown Crossing, Boston <sup>(2)</sup>  | 50.0 %                     | 46,309         | 48,122               |
| Monmouth Mall                             | 50.0 %                     | 7,380          | 7,205                |
| Other investments <sup>(3)</sup>          | Various                    | 173,256        | 147,187              |
|   |                            | \$ 1,198,016   | \$ 1,226,256         |

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- (1) In the first quarter of 2013, we began accounting for our investment in Lexington as a marketable equity security - available for sale (see page 12 for details).
- (2) On April 24, 2013, the joint venture sold the site in Downtown Crossing, Boston, and we received approximately \$45,000 for our 50% interest (see note 2 on page 16 for details).
- (3) Includes interests in 85 10th Avenue, Fashion Centre Mall, 50-70 West 93rd Street and others.



## VORNADO REALTY TRUST

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(UNAUDITED)

## 8. Investments in Partially Owned Entities - continued

Below is a schedule of income recognized from investments in partially owned entities for the three months ended March 31, 2013 and 2012.

| (Amounts in thousands)                                | Percentage<br>Ownership<br>March 31,<br>2013 | For the Three Months<br>Ended March 31, |             |
|---|--|---|-------------|
| <b>Our Share of Net Income (Loss):</b>                | <b>2013</b>                                  | <b>2013</b>                             | <b>2012</b> |
| Toys:   | 32.5 %                                       |   |             |
| Equity in net income before income taxes              |  | \$ 137,888                              | \$ 157,387  |
| Income tax expense                                    |  | (59,346)                                | (43,203)    |
| Equity in net income                                  |  | 78,542                                  | 114,184     |
| Non-cash impairment loss (see page 13<br>for details) |  | (78,542)                                | -           |
| Management fees                                       |  | 1,759                                   | 2,287       |
|   |  | \$ 1,759                                | \$ 116,471  |
| Alexander's:  | 32.4 %                                       |   |             |
| Equity in net income                                  |  | \$ 4,589                                | \$ 6,132    |
| Management, leasing and development<br>fees           |  | 1,487                                   | 1,889       |
|   |  | 6,076                                   | 8,021       |
| Lexington <sup>(1)</sup>                              | n/a  | (979)                                   | 930         |
| LNR ( see page 14 for details)                        | 26.2 %                                       | 18,731                                  | 13,250      |
| India real estate ventures                            | 4.0%-36.5%                                   | (767)                                   | (793)       |
| Partially owned office buildings:                     |  |   |             |
| 280 Park Avenue                                       | 49.5 %                                       | (2,569)                                 | (5,595)     |
| Warner Building                                       | 55.0 %                                       | (2,346)                                 | (3,010)     |
| 666 Fifth Avenue Office Condominium                   | 49.5 %                                       | 2,019                                   | 1,715       |
| 330 Madison Avenue                                    | 25.0 %                                       | 1,304                                   | 794         |
| One Park Avenue                                       | 30.3 %                                       | 457                                     | 331         |
| Rosslyn Plaza   | 43.7%-50.4%                                  | (446)                                   | 158         |
| 1101 17th Street                                      | 55.0 %                                       | 384                                     | 683         |

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|  |         |           |           |
|--|---------|-----------|-----------|
| West 57th Street properties              | 50.0 %  | 172       | 313       |
| Fairfax Square                           | 20.0 %  | (45)      | (12)      |
| Other partially owned office buildings   | Various | 488       | 527       |
|  |         | (582)     | (4,096)   |
| Other investments:                       |         |           |           |
| Downtown Crossing, Boston <sup>(2)</sup> | 50.0 %  | (2,374)   | (334)     |
| Monmouth Mall                            | 50.0 %  | 859       | 362       |
| Independence Plaza <sup>(3)</sup>        | n/a     | -         | 1,682     |
| Other investments <sup>(4)</sup>         | Various | (198)     | 638       |
|  |         | (1,713)   | 2,348     |
|  |         | \$ 20,766 | \$ 19,660 |

- (1) In the first quarter of 2013, we began accounting for our investment in Lexington as a marketable equity security - available for sale (see page 12 for details).
- (2) On April 24, 2013, the joint venture sold the site in Downtown Crossing, Boston, and we received approximately \$45,000 for our 50% interest. In connection therewith we recognized a \$2,335 impairment loss in the first quarter.
- (3) In December 2012, we acquired a 58.75% interest in Independence Plaza and began to consolidate the accounts of the property into our consolidated financial statements.
- (4) Includes interests in 85 10th Avenue, Fashion Centre Mall, 50-70 West 93rd Street and others.

## VORNADO REALTY TRUST

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(UNAUDITED)

## 8. Investments in Partially Owned Entities – continued

Below is a summary of the debt of our partially owned entities as of March 31, 2013 and December 31, 2012, none of which is recourse to us.

| (Amounts in thousands)                               | Percentage<br>Ownership<br>at | Maturity  | Interest<br>Rate at<br>March<br>31,<br>2013 | 100% of<br>Partially Owned Entities' Debt at |               |
|--|-------------------------------|-----------|---|--|---------------|
|  | March 31,<br>2013             |           | March 31,<br>2013                           | December 31,<br>2012                         |               |
| Toys:  | 32.5 %                        |           |   |  |               |
| Notes, loans and mortgages payable                   |                               | 2013-2021 | 7.71 %                                      | \$ 5,294,567                                 | \$ 5,683,733  |
| Alexander's:   | 32.4 %                        |           |   |  |               |
| Mortgages payable                                    |                               | 2014-2018 | 3.85 %                                      | \$ 1,061,953                                 | \$ 1,065,916  |
| Lexington <sup>(1)</sup> :                           |                               |           |   |  |               |
| Mortgages payable                                    |                               | n/a       | n/a   | \$ -   | \$ 1,994,179  |
| LNR (sold in April 2013):                            | 26.2 %                        |           |   |  |               |
| Mortgages payable                                    |                               | 2013-2031 | 4.62 %                                      | \$ 383,804                                   | \$ 309,787    |
| Liabilities of consolidated CMBS and CDO trusts      |                               | n/a       | 5.38 %                                      | 90,735,416                                   | 97,211,734    |
|  |                               |           |   | \$ 91,119,220                                | \$ 97,521,521 |
| Partially owned office buildings:                    |                               |           |   |  |               |
| 666 Fifth Avenue Office Condominium mortgage payable | 49.5 %                        | 02/19     | 6.76 %                                      | \$ 1,124,402                                 | \$ 1,109,700  |
| 280 Park Avenue mortgage payable                     | 49.5 %                        | 06/16     | 6.65 %                                      | 738,240                                      | 738,228       |
| Warner Building mortgage payable                     | 55.0 %                        | 05/16     | 6.26 %                                      | 292,700                                      | 292,700       |
| One Park Avenue mortgage payable                     | 30.3 %                        | 03/16     | 5.00 %                                      | 250,000                                      | 250,000       |
| 330 Madison Avenue mortgage payable                  | 25.0 %                        | 06/15     | 1.70 %                                      | 150,000                                      | 150,000       |
|  | 20.0 %                        | 12/14     | 7.00 %                                      | 69,906                                       | 70,127        |

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|   |         |           |         |              |              |
|---|---------|-----------|---------|--------------|--------------|
| Fairfax Square mortgage payable                     |         |           |         |              |              |
| West 57th Street properties mortgages payable       | 50.0 %  | 02/14     | 4.94 %  | 20,088       | 20,434       |
| 1101 17th Street mortgage payable                   | 55.0 %  | 01/15     | 1.45 %  | 31,000       | 31,000       |
| Other   | Various | Various   | 6.03 %  | 76,611       | 69,704       |
|   |         |           |         | \$ 2,752,947 | \$ 2,731,893 |
| India Real Estate Ventures:                         |         |           |         |              |              |
| TCG Urban Infrastructure Holdings mortgages payable | 25.0 %  | 2013-2022 | 13.51 % | \$ 238,359   | \$ 236,579   |
| Other:  |         |           |         |              |              |
| Monmouth Mall mortgage payable                      | 50.0 %  | 09/15     | 5.44 %  | 159,459      | 159,896      |
| Other <sup>(2)</sup>                                | Various | Various   | 5.02 %  | 990,533      | 990,647      |
|   |         |           |         | \$ 1,149,992 | \$ 1,150,543 |

- (1) In the first quarter of 2013, we began accounting for our investment in Lexington as a marketable equity security - available for sale (see page 12 for details).
- (2) Includes interests in Fashion Centre 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 \$27,439,213,000 and \$29,443,128,000 at March 31, 2013 and December 31, 2012, respectively. Excluding our pro rata share of LNR's liabilities related to consolidated CMBS and CDO trusts, which are non-recourse to LNR and its equity holders, including us, our pro rata share of partially owned entities debt was \$3,690,125,000 and \$3,998,929,000 at March 31, 2013 and December 31, 2012, respectively.

**VORNADO REALTY TRUST**

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

**(UNAUDITED)**

**9. Discontinued Operations**

**2013 Activity:**

On January 24, 2013, we completed the sale of the Green Acres Mall located in Valley Stream, New York, for \$500,000,000. The sale resulted in net proceeds of \$185,000,000, after repaying the existing loan and closing costs, and a net gain of \$202,275,000.

In the second quarter of 2013, we sold The Plant, a power strip shopping center in San Jose, California, for \$203,000,000. The sale resulted in net proceeds of approximately \$98,000,000, after repaying the existing loan and closing costs, and a net gain of approximately \$33,000,000, which will be recognized in the second quarter.

In the second quarter of 2013, we sold a retail property in Philadelphia, which is a part of the Gallery at Market Street, for \$60,000,000. The sale resulted in net proceeds of \$58,000,000, and a net gain of \$33,000,000, which will be recognized in the second quarter.

**2012 Activity:**

On January 6, 2012, we completed the sale of 350 West Mart Center, a 1.2 million square foot office building in Chicago, Illinois, for \$228,000,000, in cash, which resulted in a net gain of \$54,911,000.

In the first quarter of 2012, we sold seven retail properties in separate transactions, for an aggregate of \$83,670,000, in cash, which resulted in a net gain aggregating \$906,000.

We have reclassified the revenues and expenses of all of the properties discussed above, as well as certain other retail properties that are currently held for sale to “income from discontinued operations” and the related assets and liabilities to “assets related to discontinued operations” and “liabilities related to discontinued operations” for all of the periods presented in the accompanying financial statements. The tables below set forth the assets and liabilities related to discontinued operations at March 31, 2013 and December 31, 2012 and their combined results of operations for the three months ended March 31, 2013 and 2012.

| (Amounts in thousands) | <b>Assets Related to<br/>Discontinued Operations as of</b> |                              | <b>Liabilities Related to<br/>Discontinued Operations as of</b> |                              |
|------------------------|--|------------------------------|---|------------------------------|
|                        | <b>March 31,<br/>2013</b>                                  | <b>December 31,<br/>2012</b> | <b>March 31,<br/>2013</b>                                       | <b>December 31,<br/>2012</b> |
| Retail properties      | \$ 229,081   | \$ 532,463                   | \$ 103,609  | \$ 420,508                   |
| Other properties       | 31,717   | 33,499                       | -   | -                            |
| Total                  | \$ 260,798   | \$ 565,962                   | \$ 103,609  | \$ 420,508                   |

| (Amounts in thousands)                      | <b>For the Three Months<br/>Ended March 31,</b> |             |
|---|---|-------------|
|   | <b>2013</b>                                     | <b>2012</b> |
| Total revenues                              | \$ 23,686                                       | \$ 59,934   |
| Total expenses                              | 17,440  | 44,379      |
|   | 6,246   | 15,555      |
| Net gain on sale of Green Acres Mall        | 202,275   | -           |
| Net gain on sale of 350 West Mart<br>Center | -   | 54,911      |
| Impairment loss                             | (1,514)   | -           |
| Net gains on sale of other real estate      | 54  | 906         |
| Income from discontinued operations         | \$ 207,061                                      | \$ 71,372   |

## VORNADO REALTY TRUST

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(UNAUDITED)

**10. Identified Intangible Assets and Liabilities**

The following summarizes our identified intangible assets (primarily acquired in-place and above-market leases) and liabilities (primarily acquired below-market leases) as of March 31, 2013 and December 31, 2012.

| (Amounts in thousands)   | <b>Balance as of</b>      |                              |
|--|---------------------------|------------------------------|
|  | <b>March 31,<br/>2013</b> | <b>December 31,<br/>2012</b> |
| <b>Identified intangible assets:</b>                                     |                           |                              |
| Gross amount   | \$ 756,982                | \$ 774,200                   |
| Accumulated amortization   | (363,211)                 | (350,162)                    |
| Net  | \$ 393,771                | \$ 424,038                   |
| <b>Identified intangible liabilities (included in deferred revenue):</b> |                           |                              |
| Gross amount   | \$ 906,705                | \$ 904,640                   |
| Accumulated amortization   | (355,018)                 | (342,338)                    |
| Net  | \$ 551,687                | \$ 562,302                   |

Amortization of acquired below-market leases, net of acquired above-market leases, resulted in an increase to rental income of \$16,866,000 and \$13,774,000 for the three months ended March 31, 2013 and 2012, 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, 2014 is as follows:

| (Amounts in thousands) |           |
|------------------------|-----------|
| 2014                   | \$ 43,255 |
| 2015                   | 40,188    |
| 2016                   | 38,130    |
| 2017                   | 32,777    |
| 2018                   | 29,904    |

Amortization of all other identified intangible assets (a component of depreciation and amortization expense) was \$25,117,000 and \$11,240,000 for the three months ended March 31, 2013 and 2012, 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, 2014 is as follows:

| (Amounts in thousands) |    |        |
|------------------------|----|--------|
| 2014                   | \$ | 45,044 |
| 2015                   |    | 39,467 |
| 2016                   |    | 21,002 |
| 2017                   |    | 17,659 |
| 2018                   |    | 12,722 |

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 \$1,198,000 and \$344,000 for the three months ended March 31, 2013 and 2012, respectively. Estimated annual amortization of these below-market leases, net of above-market leases for each of the five succeeding years commencing January 1, 2014 is as follows:

| (Amounts in thousands) |    |       |
|------------------------|----|-------|
| 2014                   | \$ | 3,526 |
| 2015                   |    | 3,526 |
| 2016                   |    | 3,526 |
| 2017                   |    | 3,526 |
| 2018                   |    | 3,526 |



## VORNADO REALTY TRUST

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(UNAUDITED)

## 11. Debt

The following is a summary of our debt:

| (Amounts in thousands)                                    | Maturity | Interest<br>Rate at<br>March 31,<br>2013 | Balance at<br>March 31,<br>2013 | Balance at<br>December 31,<br>2012 |
|---|----------|--|---------------------------------|------------------------------------|
|   | (1)      | 2013                                     | 2013                            | 2012                               |
| <b>Mortgages payable:</b>                                 |          |  |                                 |                                    |
| <b>Fixed rate:</b>  |          |  |                                 |                                    |
| New York:   |          |  |                                 |                                    |
| 1290 Avenue of the Americas<br>(70% owned)                | 11/22    | 3.34 %                                   | \$ 950,000                      | \$ 950,000                         |
| Two Penn Plaza  | 03/18    | 5.13 %                                   | 425,000                         | 425,000                            |
| 666 Fifth Avenue Retail<br>Condominium <sup>(2)</sup>     | 03/23    | 3.61 %                                   | 390,000                         | -                                  |
| 770 Broadway  | 03/16    | 5.65 %                                   | 353,000                         | 353,000                            |
| 888 Seventh Avenue  | 01/16    | 5.71 %                                   | 318,554                         | 318,554                            |
| 350 Park Avenue   | 01/17    | 3.75 %                                   | 300,000                         | 300,000                            |
| 909 Third Avenue  | 04/15    | 5.64 %                                   | 198,111                         | 199,198                            |
| 828-850 Madison Avenue Retail<br>Condominium              | 06/18    | 5.29 %                                   | 80,000                          | 80,000                             |
| 510 5th Avenue  | 01/16    | 5.60 %                                   | 31,121                          | 31,253                             |
| Washington, DC:   |          |  |                                 |                                    |
| Skyline Properties <sup>(3)</sup>                         | 02/17    | 5.74 %                                   | 715,127                         | 704,957                            |
| River House Apartments                                    | 04/15    | 5.43 %                                   | 195,546                         | 195,546                            |
| 2101 L Street   | 08/24    | 3.97 %                                   | 150,000                         | 150,000                            |
| 2121 Crystal Drive  | 03/23    | 5.51 %                                   | 150,000                         | 150,000                            |
| 1215 Clark Street, 200 12th<br>Street and 251 18th Street | 01/25    | 7.09 %                                   | 105,237                         | 105,724                            |
| Bowen Building  | 06/16    | 6.14 %                                   | 115,022                         | 115,022                            |
| West End 25   | 06/21    | 4.88 %                                   | 101,671                         | 101,671                            |
| Universal Buildings                                       | 04/14    | 6.52 %                                   | 91,935                          | 93,226                             |
| 2011 Crystal Drive  | 08/17    | 7.30 %                                   | 79,379                          | 79,624                             |
| 220 20th Street   | 02/18    | 4.61 %                                   | 73,618                          | 73,939                             |
| 1550 and 1750 Crystal Drive                               | 11/14    | 7.08 %                                   | 73,329                          | 74,053                             |
| 2231 Crystal Drive  | 08/13    | 7.08 %                                   | 40,862                          | 41,298                             |

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|  |             |             |              |              |
|--|-------------|-------------|--------------|--------------|
| 1225 Clark Street  | 08/13       | 7.08 %      | 24,442       | 24,834       |
| Retail Properties:   |             |             |              |              |
| Cross-collateralized mortgages<br>on 40 strip shopping centers | 09/20       | 4.24 %      | 570,049      | 573,180      |
| Bergen Town Center <sup>(4)</sup>                              | 04/23       | 3.56 %      | 300,000      | -            |
| Montehiedra Town Center  | 07/16       | 6.04 %      | 120,000      | 120,000      |
| Broadway Mall  | 07/13       | 5.30 %      | 84,497       | 85,180       |
| North Bergen (Tonnelles<br>Avenue)                             | 01/18       | 4.59 %      | 75,000       | 75,000       |
| Las Catalinas Mall   | 11/13       | 6.97 %      | 53,787       | 54,101       |
| Other  | 06/14-05/36 | 5.12%-7.30% | 86,208       | 86,641       |
| Other:   |             |             |              |              |
| 555 California Street (70%<br>owned)                           | 09/21       | 5.10 %      | 600,000      | 600,000      |
| Merchandise Mart   | 12/16       | 5.57 %      | 550,000      | 550,000      |
| Borgata Land   | 02/21       | 5.14 %      | 59,938       | 60,000       |
| Total fixed rate mortgages payable                             |             | 4.94 %      | \$ 7,461,433 | \$ 6,771,001 |

See notes on page 22.

## VORNADO REALTY TRUST

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(UNAUDITED)

## 11. Debt - continued

| (Amounts in thousands)   |          |                      |         | Interest | Balance at  |              |
|--|----------|----------------------|---------|----------|-------------|--------------|
|  |          | Spread               | Rate at |          | March 31,   | December 31, |
|  | Maturity | over                 | March   |          | 2013        | 2012         |
| Mortgages payable:   | (1)      | LIBOR                | 31,     | 2013     |             |              |
| Variable rate:   |          |                      |         |          |             |              |
| New York:  |          |                      |         |          |             |              |
| Eleven Penn Plaza  | 01/19    | L+235                | 2.55 %  | \$       | 330,000     | \$ 330,000   |
| Independence Plaza (58.75% owned)  | 08/13    | L+92                 | 1.15 %  |          | 327,375     | 334,225      |
| 100 West 33rd Street - office & retail                                     | 03/17    | L+250                | 2.70 %  |          | 325,000     | 325,000      |
| 4 Union Square South - retail  | 11/19    | L+215                | 2.35 %  |          | 120,000     | 120,000      |
| 435 Seventh Avenue - retail  | 08/19    | L+225                | 2.45 %  |          | 98,000      | 98,000       |
| 866 UN Plaza   | 05/16    | L+125                | 1.45 %  |          | 44,978      | 44,978       |
| Washington, DC:  |          |                      |         |          |             |              |
| River House Apartments   | 04/18    | n/a <sup>(5)</sup>   | 1.63 %  |          | 64,000      | 64,000       |
| 2200 / 2300 Clarendon Boulevard  | 01/15    | L+75                 | 0.95 %  |          | 45,841      | 47,353       |
| 1730 M and 1150 17th Street  | 06/14    | L+140                | 1.60 %  |          | 43,581      | 43,581       |
| Retail:  |          |                      |         |          |             |              |
| Cross-collateralized mortgages on 40 strip shopping centers <sup>(6)</sup> | 09/20    | L+136 <sup>(6)</sup> | 2.36 %  |          | 60,000      | 60,000       |
| Bergen Town Center <sup>(4)</sup>  | n/a      | n/a                  | n/a     |          | -           | 282,312      |
| Other  | 05/15    | L+375                | 3.96 %  |          | 19,126      | 19,126       |
| Other:   |          |                      |         |          |             |              |
| 220 Central Park South   | 10/13    | L+275                | 2.95 %  |          | 123,750     | 123,750      |
| Total variable rate mortgages payable                                      |          |                      | 2.18 %  |          | 1,601,651   | 1,892,325    |
| Total mortgages payable  |          |                      | 4.45 %  |          | \$9,063,084 | \$8,663,326  |

**Senior unsecured notes:**

|  |       |  |        |             |             |
|--|-------|--|--------|-------------|-------------|
| Senior unsecured notes due 2015                | 04/15 |  | 4.25 % | \$ 499,669  | \$ 499,627  |
| Senior unsecured notes due 2039 <sup>(7)</sup> | 10/39 |  | 7.88 % | 460,000     | 460,000     |
| Senior unsecured notes due 2022                | 01/22 |  | 5.00 % | 398,426     | 398,381     |
| Total senior unsecured notes                   |       |  | 5.70 % | \$1,358,095 | \$1,358,008 |

**Unsecured revolving credit facilities:**

|  |       |       |   |      |              |
|--|-------|-------|---|------|--------------|
| \$1.25 billion unsecured revolving credit facility   | 11/16 | L+125 | - | \$ - | \$ 1,150,000 |
| \$1.25 billion unsecured revolving credit facility<br>(\$22,167 reserved for outstanding letters of credit)<br>(8) | 06/18 | L+115 | - | -    | 20,000       |
| Total unsecured revolving credit facilities  |       |       | - | \$ - | \$1,170,000  |

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See notes on the following page.

**VORNADO REALTY TRUST**

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

**(UNAUDITED)**

**11. Debt - continued**

Notes to preceding tabular information (amounts in thousands):

- (1) Represents the extended maturity for certain loans in which we have the unilateral right, ability and intent to extend.
- (2) On February 20, 2013, we completed a \$390,000 financing of this property. The 10-year fixed-rate interest only loan bears interest at 3.61%. This property was previously unencumbered.
- (3) In 2012, due to the rising vacancy rate at the Skyline properties (43.4% at March 31, 2013), primarily from the effects of the Base Realignment and Closure statute; insufficient cash flows to pay current obligations, including interest payments to the lender; and the significant amount of capital required to re-tenant these properties, we requested that the mortgage loan be transferred to the special servicer. In connection therewith, we entered into a forbearance agreement with the special servicer, that provides for interest shortfalls to be deferred and added to the principal balance of the loan and not give rise to a loan default. The forbearance agreement was amended on March 28, 2013, to extend its maturity through June 1, 2013. As of March 31, 2013, the deferred interest amounted to \$37,127. We continue to negotiate with the special servicer to restructure the terms of the loan.
- (4) On March 25, 2013, we completed a \$300,000 financing of this property. The 10-year fixed-rate interest only loan bears interest at 3.56%. The property was previously encumbered by a \$282,000 floating-rate loan.
- (5) Interest at the Freddie Mac Reference Note Rate plus 1.53%.
- (6) LIBOR floor of 1.00%.
- (7) May be redeemed at our option in whole or in part beginning on October 1, 2014, at a price equal to the principal amount plus accrued interest.
- (8) On March 28, 2013, we extended this revolving credit facility from June 2015 to June 2017, with two six-month extension options. The interest on the extended facility was reduced from LIBOR plus 135 basis points to LIBOR plus 115 basis points. In addition, the facility fee was reduced from 30 basis

points to 20 basis points.

## VORNADO REALTY TRUST

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(UNAUDITED)

**12. Redeemable Noncontrolling Interests**

Redeemable noncontrolling interests on our consolidated balance sheets represent Operating Partnership units held by third parties and are comprised of Class A units and Series D-15 and D-16 cumulative redeemable preferred units. Redeemable noncontrolling interests on our consolidated balance sheets 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, 2011  | \$ 1,160,677 |
| Net income  | 19,145       |
| Distributions   | (12,236)     |
| Conversion of Class A units into common shares, at redemption value | (13,028)     |
| Adjustments to carry redeemable Class A units at redemption value   | 96,061       |
| Other, net  | 280          |
| Balance at March 31, 2012   | \$ 1,250,899 |
| Balance at December 31, 2012  | \$ 944,152   |
| Net income  | 14,719       |
| Distributions   | (8,946)      |
| Conversion of Class A units into common shares, at redemption value | (13,404)     |
| Adjustments to carry redeemable Class A units at redemption value   | 44,998       |
| Other, net  | 13,563       |
| Balance at March 31, 2013   | \$ 995,082   |

As of March 31, 2013 and December 31, 2012, the aggregate redemption value of redeemable Class A units was \$949,082,000 and \$898,152,000, respectively.

Redeemable noncontrolling interests exclude our Series G-1 through G-4 convertible preferred units and Series D-13 cumulative redeemable preferred units, as they are accounted for as liabilities in accordance with ASC 480,

*Distinguishing Liabilities and Equity*, because of their possible settlement by issuing a variable number of Vornado common shares. Accordingly, the fair value of these units is included as a component of “other liabilities” on our consolidated balance sheets and aggregated \$55,097,000 and \$55,011,000 as of March 31, 2013 and December 31, 2012, respectively.

### **13. Shareholders' Equity**

On January 25, 2013, we sold 12,000,000 5.40% Series L Cumulative Redeemable Preferred Shares at a price of \$25.00 per share in an underwritten public offering pursuant to an effective registration statement. We retained aggregate net proceeds of \$290,710,000, after underwriters' discounts and issuance costs and contributed the net proceeds to the Operating Partnership in exchange for 12,000,000 Series L Preferred Units (with economic terms that mirror those of the Series L Preferred Shares). Dividends on the Series L Preferred Shares are cumulative and payable quarterly in arrears. The Series L Preferred Shares are not convertible into, or exchangeable for, any of our properties or securities. On or after five years from the date of issuance (or sooner under limited circumstances), we may redeem the Series L Preferred Shares at a redemption price of \$25.00 per share, plus accrued and unpaid dividends through the date of redemption. The Series L Preferred Shares have no maturity date and will remain outstanding indefinitely unless redeemed by us.

On February 19, 2013, we redeemed all of the outstanding 6.75% Series F Cumulative Redeemable Preferred Shares and 6.75% Series H Cumulative Redeemable Preferred Shares at par, for an aggregate of \$262,500,000 in cash, plus accrued and unpaid dividends through the date of redemption.



## VORNADO REALTY TRUST

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(UNAUDITED)

**14. Accumulated Other Comprehensive Income**

The following table sets forth the changes in accumulated other comprehensive income (loss) (“OCI”) by component.

| (Amounts in thousands)                           | <b>Total</b> | <b>For the three months ended March 31, 2013</b> |   |                                   |              |
|--|--------------|--|---|-----------------------------------|--------------|
|  |              | <b>Securities<br/>available-<br/>for-sale</b>    | <b>Pro-rata<br/>share of<br/>non-consolidated<br/>subsidiaries'<br/>OCI</b> | <b>Interest<br/>rate<br/>swap</b> | <b>Other</b> |
| Balance as of December 31, 2012                  | \$ (18,946)  | \$ 19,432  | \$ 11,313   | \$ (50,065)                       | \$ 374       |
| Other comprehensive income (loss) <sup>(1)</sup> | 139,899      | 148,789  | (3,647)   | 2,523                             | (7,766)      |
| Balance as of March 31, 2013                     | \$ 120,953   | \$ 168,221                                       | \$ 7,666  | \$ (47,542)                       | \$ (7,392)   |

(1) In the three months ended March 31, 2013, there were no amounts reclassified from accumulated other comprehensive income.

**15. Variable Interest Entities***Consolidated Variable Interest Entities*

As of March 31, 2013, we have variable interests in Independence Plaza. We consolidate this entity because we are deemed to be the primary beneficiary and have the power to direct the activities of the entity that most significantly affect economic performance and the obligation to absorb losses and right to receive benefits that could potentially be

significant to the entity. The table below summarizes the assets and liabilities of the entity. The liabilities are secured only by the assets of the entity, and are non-recourse to us.

| (Amounts in thousands) | <b>As of March 31,<br/>2013</b> | <b>As of December<br/>31,<br/>2012</b> |
|------------------------|---------------------------------|--|
| Total assets           | \$ 942,780                      | \$ 957,730                             |
| Total liabilities      | \$ 431,110                      | \$ 443,894                             |

#### *Unconsolidated Variable Interest Entities*

As of March 31, 2013, we also have a variable interest in the Warner Building. We do not consolidate this entity because we are not deemed to be the primary beneficiary and the nature of our involvement in the activities of the entity does not give us power over decisions that significantly affect the entity's economic performance. We account for our interest in the entity under the equity method of accounting (see Note 8 – *Investments in Partially Owned Entities*). As of March 31, 2013 and December 31, 2012, the carrying amount of our investment in this entity was \$10,118,000 and \$8,775,000, respectively, and our maximum exposure to loss is limited to our investment.

## VORNADO REALTY TRUST

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(UNAUDITED)

## 16. 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 in our consolidated financial statements 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) derivative positions in marketable equity securities, (v) interest rate swaps and (vi) 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 March 31, 2013 and December 31, 2012, respectively.

| (Amounts in thousands)  | Total      | As of March 31, 2013 |         |         |
|---|------------|----------------------|---------|---------|
|   |            | Level 1              | Level 2 | Level 3 |
| Marketable securities   | \$ 382,987 | \$ 382,987           | \$ -    | \$ -    |
| Real Estate Fund investments (75% of which is attributable to noncontrolling interests) | 571,306    | -                    | -       | 571,306 |
| Deferred compensation plan assets (included in other assets)                            | 109,483    | 44,473               | -       | 65,010  |

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|   |              |            |           |            |
|---|--------------|------------|-----------|------------|
| J.C. Penney derivative position (included in other assets) <sup>(1)</sup> | 8,247        | -          | 8,247     | -          |
| Total assets  | \$ 1,072,023 | \$ 427,460 | \$ 8,247  | \$ 636,316 |
| Mandatorily redeemable instruments (included in other liabilities)        | \$ 55,097    | \$ 55,097  | \$ -      | \$ -       |
| Interest rate swap (included in other liabilities)                        | 47,547       | -          | 47,547    | -          |
| Total liabilities   | \$ 102,644   | \$ 55,097  | \$ 47,547 | \$ -       |

(1) Represents the cash deposited with the counterparty in excess of the mark-to-market loss on the derivative position.

| (Amounts in thousands)  | Total        | As of December 31, 2012 |           |            |
|---|--------------|-------------------------|-----------|------------|
|   |              | Level 1                 | Level 2   | Level 3    |
| Marketable securities   | \$ 398,188   | \$ 398,188              | \$ -      | \$ -       |
| Real Estate Fund investments (75% of which is attributable to noncontrolling interests) | 600,786      | -                       | -         | 600,786    |
| Deferred compensation plan assets (included in other assets)                            | 105,200      | 42,569                  | -         | 62,631     |
| J.C. Penney derivative position (included in other assets) <sup>(1)</sup>               | 11,165       | -                       | 11,165    | -          |
| Total assets  | \$ 1,115,339 | \$ 440,757              | \$ 11,165 | \$ 663,417 |
| Mandatorily redeemable instruments (included in other liabilities)                      | \$ 55,011    | \$ 55,011               | \$ -      | \$ -       |
| Interest rate swap (included in other liabilities)                                      | 50,070       | -                       | 50,070    | -          |
| Total liabilities   | \$ 105,081   | \$ 55,011               | \$ 50,070 | \$ -       |

(1) Represents the cash deposited with the counterparty in excess of the mark-to-market loss on the derivative position.

**VORNADO REALTY TRUST**

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

**(UNAUDITED)**

**16. Fair Value Measurements – continued**

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

Real Estate Fund Investments

At March 31, 2013, our Real Estate Fund had nine investments with an aggregate fair value of \$571,306,000, or \$81,158,000 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 1.3 to 7.3 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 March 31, 2013.

| <b>Unobservable Quantitative Input</b> | <b>Range</b>   | <b>Weighted Average<br/>(based on fair value of investments)</b> |
|--|----------------|--|
| Discount rates                         | 12.5% to 19.0% | 14.4 %   |
| Terminal capitalization rates          | 5.3% to 6.3%   | 5.8 %  |

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

The table below summarizes the changes in the fair value of Fund investments that are classified as Level 3, for the three months ended March 31, 2013 and 2012.

| (Amounts in thousands) | <b>Real Estate Investments</b>              |             |
|------------------------|---|-------------|
|                        | <b>For the Three Months Ended March 31,</b> |             |
|                        | <b>2013</b>                                 | <b>2012</b> |
| Beginning balance      | \$ 600,786                                  | \$ 346,650  |
| Purchases              | 13,668                                      | -           |
| Sales>Returns          | (56,664)                                    | (31,052)    |
| Unrealized gains       | 13,516                                      | 6,844       |
| Other, net             | -   | 2,072       |
| Ending balance         | \$ 571,306                                  | \$ 324,514  |

**VORNADO REALTY TRUST****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)****(UNAUDITED)****16. 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 months ended March 31, 2013 and 2012.

| (Amounts in thousands)        | <b>Deferred Compensation Plan Assets</b>    |             |
|-------------------------------|---|-------------|
|                               | <b>For the Three Months Ended March 31,</b> |             |
|                               | <b>2013</b>                                 | <b>2012</b> |
| Beginning balance             | \$ 62,631                                   | \$ 56,221   |
| Purchases                     | 2,707                                       | 3,611       |
| Sales                         | (2,697)                                     | (3,395)     |
| Realized and unrealized gains | 1,354                                       | 2,392       |
| Other, net                    | 1,015                                       | 52          |
| Ending balance                | \$ 65,010                                   | \$ 58,881   |

*Fair Value Measurements on a Nonrecurring Basis*

Assets measured at fair value on a nonrecurring basis on our consolidated balance sheets consist primarily of our investment in Toys “R” Us and real estate assets that have been written-down to estimated fair value during 2013 and 2012. The fair values of these assets are 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. Generally, we consider multiple 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.

| (Amounts in thousands)   | <b>Total</b> | <b>As of March 31, 2013</b> |                |                |
|--------------------------|--------------|-----------------------------|----------------|----------------|
|                          |              | <b>Level 1</b>              | <b>Level 2</b> | <b>Level 3</b> |
| Investment in Toys"R" Us | \$ 474,466   | \$ -                        | \$ -           | \$ 474,466     |

  

| (Amounts in thousands)                       | <b>Total</b> | <b>As of December 31, 2012</b> |                |                |
|--|--------------|--------------------------------|----------------|----------------|
|  |              | <b>Level 1</b>                 | <b>Level 2</b> | <b>Level 3</b> |
| Investment in Toys"R" Us                     | \$ 478,041   | \$ -                           | \$ -           | \$ 478,041     |
| Real estate assets                           | 189,529      | -                              | -              | 189,529        |
| Condominium units (included in other assets) | 52,142       | -                              | -              | 52,142         |
| Total assets                                 | \$ 719,712   | \$ -                           | \$ -           | \$ 719,712     |



## VORNADO REALTY TRUST

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(UNAUDITED)

## 16. 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 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 March 31, 2013 and December 31, 2012.

| (Amounts in thousands)                  | As of March 31, 2013 |               | As of December 31, 2012 |               |
|---|----------------------|---------------|-------------------------|---------------|
|   | Carrying Amount      | Fair Value    | Carrying Amount         | Fair Value    |
| Cash equivalents                        | \$ 355,650           | \$ 355,650    | \$ 543,000              | \$ 543,000    |
| Mortgage and mezzanine loans receivable | 225,221              | 230,044       | 225,359                 | 221,446       |
|   | \$ 580,871           | \$ 585,694    | \$ 768,359              | \$ 764,446    |
| Debt:                                   |                      |               |                         |               |
| Mortgages payable                       | \$ 9,063,084         | \$ 9,202,000  | \$ 8,663,326            | \$ 8,690,000  |
| Senior unsecured notes                  | 1,358,095            | 1,471,000     | 1,358,008               | 1,468,000     |
| Revolving credit facility debt          | -                    | -             | 1,170,000               | 1,170,000     |
|   | \$ 10,421,179        | \$ 10,673,000 | \$ 11,191,334           | \$ 11,328,000 |

## 17. 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 rewards to certain of our employees and officers. We account for all stock-based compensation in accordance ASC 718, *Compensation – Stock Compensation*. Stock-based compensation expense was \$7,466,000 and \$6,609,000 in the three months ended March 31, 2013 and 2012, respectively.

On March 15, 2013, our Compensation Committee (the “Committee”) approved the 2013 Outperformance Plan, a performance-based equity compensation plan and related form of award agreement (the “2013 OPP”). Under the 2013 OPP, participants have the opportunity to earn compensation payable in the form of operating partnership units in the second and/or third year 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 total TSR. Awards under our 2013 OPP may be earned if (i) we achieve a TSR greater than 14% over the two-year performance measurement period, or 21% over the three-year performance measurement period (the “Absolute Component”), and/or (ii) we achieve a TSR above that of the SNL US REIT Index (the “Index”) over a two-year or 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 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 fully 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 performance, 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 2013 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 earned OPP awards for one year following vesting.

## VORNADO REALTY TRUST

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(UNAUDITED)

**18. Fee and Other Income**

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

| (Amounts in thousands)                | For the Three Months<br>Ended March 31, |           |
|---------------------------------------|---|-----------|
|                                       | 2013                                    | 2012      |
| BMS cleaning fees                     | \$ 16,664                               | \$ 15,510 |
| Signage revenue                       | 6,481                                   | 4,590     |
| Management and leasing fees           | 5,258                                   | 4,754     |
| Lease termination fees <sup>(1)</sup> | 60,026                                  | 411       |
| Other income                          | 8,796                                   | 8,013     |
|                                       | \$ 97,225                               | \$ 33,278 |

- (1) On February 6, 2013, we received \$124,000,000 pursuant to a settlement agreement with Stop & Shop, which terminates our right to receive \$6,000,000 of additional annual rent under a 1992 agreement, for a period potentially through 2031. As a result of this settlement, we collected a \$47,900,000 receivable and recognized \$59,599,000 of income in the quarter ended March 31, 2013.

Management and leasing fees include management fees from Interstate Properties, a related party, of \$202,000 and \$199,000 for the three months ended March 31, 2013 and 2012, respectively. The above table excludes fee income from partially owned entities, which is typically included in “income from partially owned entities” (see Note 8 – *Investments in Partially Owned Entities*).

**19. Interest and Other Investment (Loss) Income, Net**

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

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

| (Amounts in thousands)   | For the Three Months<br>Ended March 31, |           |
|--|---|-----------|
|  | 2013                                    | 2012      |
| Non-cash impairment loss on J.C. Penney owned shares                           | \$ (39,487)                             | \$ -      |
| (Loss) income from the mark-to-market of J.C. Penney derivative position       | (22,540)                                | 1,045     |
| Interest on mezzanine loans receivable   | 5,077                                   | 2,851     |
| Mark-to-market of investments in our deferred compensation plan <sup>(1)</sup> | 3,446                                   | 4,127     |
| Dividends and interest on marketable securities                                | 2,770                                   | 6,247     |
| Other, net   | 1,660                                   | 1,395     |
|  | \$ (49,074)                             | \$ 15,665 |

- (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.

## 20. Interest and Debt Expense

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

| (Amounts in thousands)                   | For the Three Months<br>Ended March 31, |            |
|--|---|------------|
|  | 2013                                    | 2012       |
| Interest expense                         | \$ 124,726                              | \$ 124,647 |
| Amortization of deferred financing costs | 5,422                                   | 5,428      |
| Capitalized interest                     | (8,260)                                 | (16)       |
|  | \$ 121,888                              | \$ 130,059 |

## VORNADO REALTY TRUST

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(UNAUDITED)

**21. 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 and exchangeable senior debentures in 2012.

| (Amounts in thousands, except per share amounts)  | <b>For the Three Months<br/>Ended March 31,</b> |             |
|---|---|-------------|
|   | <b>2013</b>                                     | <b>2012</b> |
| <b>Numerator:</b>   |   |             |
| Income from continuing operations, net of income attributable to noncontrolling interests   | \$ 67,592                                       | \$ 183,628  |
| Income from discontinued operations, net of income attributable to noncontrolling interests | 195,330   | 67,894      |
| Net income attributable to Vornado  | 262,922   | 251,522     |
| Preferred share dividends   | (21,702)  | (17,787)    |
| Preferred share redemptions   | (9,230)   | -           |
| Net income attributable to common shareholders  | 231,990   | 233,735     |
| Earnings allocated to unvested participating securities                                     | (56)  | (69)        |
| Numerator for basic income per share  | 231,934   | 233,666     |
| Impact of assumed conversions:  |   |             |
| Interest on 3.88% exchangeable senior debentures  | -   | 6,626       |
| Convertible preferred share dividends   | 28  | 29          |
| Numerator for diluted income per share  | \$ 231,962                                      | \$ 240,321  |
| <b>Denominator:</b>   |   |             |
| Denominator for basic income per share – weighted average shares                            | 186,752   | 185,370     |
| Effect of dilutive securities <sup>(1)</sup> :  |   |             |

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|  |         |         |
|--|---------|---------|
| 3.88% exchangeable senior debentures   | -       | 5,736   |
| Employee stock options and restricted share awards   | 727     | 730     |
| Convertible preferred shares   | 50      | 50      |
| Denominator for diluted income per share – weighted average shares and assumed conversions | 187,529 | 191,886 |

**INCOME PER COMMON SHARE – BASIC:**

|  |         |         |
|--|---------|---------|
| Income from continuing operations, net   | \$ 0.20 | \$ 0.90 |
| Income from discontinued operations, net | 1.04    | 0.36    |
| Net income per common share              | \$ 1.24 | \$ 1.26 |

**INCOME PER COMMON SHARE – DILUTED:**

|  |         |         |
|--|---------|---------|
| Income from continuing operations, net   | \$ 0.20 | \$ 0.90 |
| Income from discontinued operations, net | 1.04    | 0.35    |
| Net income per common share              | \$ 1.24 | \$ 1.25 |

- (1) The effect of dilutive securities in the three months ended March 31, 2013 and 2012 excludes an aggregate of 11,997 and 12,943 weighted average common share equivalents, respectively, as their effect was anti-dilutive.

**VORNADO REALTY TRUST**

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

**(UNAUDITED)**

**22. 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, including coverage for terrorist acts, 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.

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 acts of terrorism, including nuclear, biological, chemical and radiological (“NBCR”) acts, as defined by the Terrorism Risk Insurance Program Reauthorization Act. Coverage for acts of terrorism (excluding NBCR acts) is fully reinsured by third party insurance companies and the Federal government with no exposure to PPIC. Coverage for NBCR losses is up to \$2.0 billion per occurrence, for which PPIC is responsible for a deductible of \$3,200,000 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 losses 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 future policy years.

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 March 31, 2013, the aggregate dollar amount of these guarantees and master leases is approximately \$305,000,000.

At March 31, 2013, \$22,167,000 of letters of credit were outstanding under one of our revolving credit facilities. Our 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 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.

Two of our wholly owned subsidiaries that are contracted to develop and operate the Cleveland Medical Mart and Convention Center, in Cleveland, Ohio, are required to fund \$11,500,000, primarily for tenant improvements, and they are responsible for operating expenses and are entitled to the net operating income, if any, upon the completion of development and the commencement of operations. As of March 31, 2013, our subsidiaries have funded approximately \$4,000,000 of the commitment.

As of March 31, 2013, we expect to fund additional capital to certain of our partially owned entities aggregating approximately \$169,000,000.





## VORNADO REALTY TRUST

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(UNAUDITED)

## 23. Segment Information

As a result of certain organizational changes and asset sales in 2012, the Merchandise Mart segment no longer meets the criteria to be a separate reportable segment; accordingly, effective January 1, 2013, the remaining assets have been reclassified to our Other segment. We have also reclassified the prior period segment financial results to conform to the current year presentation. Below is a summary of net income and a reconciliation of net income to EBITDA<sup>(1)</sup> by segment for the three months ended March 31, 2013 and 2012.

(Amounts in thousands)

For the Three Months Ended March 31, 2013

|   | Retail     |            |                   |            |      |           |
|---|------------|------------|-------------------|------------|------|-----------|
|   | Total      | New York   | Washington,<br>DC | Properties | Toys | Other     |
| Property rentals                                  | \$ 499,237 | \$ 274,650 | \$ 112,272        | \$ 65,134  | \$ - | \$ 47,181 |
| Straight-line rent adjustments                    | 18,532     | 10,326     | 2,777             | 1,482      | -    | 3,947     |
| Amortization of acquired below-market leases, net | 16,866     | 12,089     | 506               | 2,922      | -    | 1,349     |
| Total rentals                                     | 534,635    | 297,065    | 115,555           | 69,538     | -    | 52,477    |
| Tenant expense reimbursements                     | 77,013     | 42,671     | 10,136            | 20,633     | -    | 3,573     |
| Cleveland Medical Mart development project        | 12,143     | -          | -                 | -          | -    | 12,143    |
| Fee and other income:                             |            |            |                   |            |      |           |
| BMS cleaning fees                                 | 16,664     | 21,022     | -                 | -          | -    | (4,358)   |
| Signage revenue                                   | 6,481      | 6,481      | -                 | -          | -    | -         |
| Management and leasing fees                       | 5,258      | 2,064      | 2,807             | 479        | -    | (92)      |
| Lease termination fees                            | 60,026     | 58         | 368               | 59,599     | -    | 1         |
| Other income                                      | 8,796      | 715        | 5,865             | 577        | -    | 1,639     |
| Total revenues                                    | 721,016    | 370,076    | 134,731           | 150,826    | -    | 65,383    |
| Operating expenses                                | 260,569    | 160,231    | 47,322            | 34,695     | -    | 18,321    |
| Depreciation and amortization                     | 142,354    | 76,234     | 30,950            | 16,990     | -    | 18,180    |
| General and administrative                        | 54,582     | 8,822      | 6,925             | 5,415      | -    | 33,420    |

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|   |            |                           |           |                           |            |                            |
|---|------------|---------------------------|-----------|---------------------------|------------|----------------------------|
| Cleveland Medical Mart development project                                      | 11,374     | -                         | -         | -                         | -          | 11,374                     |
| Acquisition related costs   | 601        | -                         | -         | -                         | -          | 601                        |
| Total expenses  | 469,480    | 245,287                   | 85,197    | 57,100                    | -          | 81,896                     |
| Operating income (loss)   | 251,536    | 124,789                   | 49,534    | 93,726                    | -          | (16,513)                   |
| Income applicable to Toys   | 1,759      | -                         | -         | -                         | 1,759      | -                          |
| Income (loss) from partially owned entities                                     | 20,766     | 5,605                     | (2,093)   | 901                       | -          | 16,353                     |
| Income from Real Estate Fund  | 16,564     | -                         | -         | -                         | -          | 16,564                     |
| Interest and other investment (loss) income, net                                | (49,074)   | 1,165                     | 76        | 52                        | -          | (50,367)                   |
| Interest and debt expense   | (121,888)  | (40,618)                  | (28,250)  | (11,641)                  | -          | (41,379)                   |
| Net loss on disposition of wholly owned and partially owned assets              | (36,724)   | -                         | -         | -                         | -          | (36,724)                   |
| Income (loss) before income taxes   | 82,939     | 90,941                    | 19,267    | 83,038                    | 1,759      | (112,066)                  |
| Income tax expense  | (1,073)    | (272)                     | (378)     | -                         | -          | (423)                      |
| Income (loss) from continuing operations  | 81,866     | 90,669                    | 18,889    | 83,038                    | 1,759      | (112,489)                  |
| Income from discontinued operations   | 207,061    | -                         | -         | 206,642                   | -          | 419                        |
| Net income (loss)   | 288,927    | 90,669                    | 18,889    | 289,680                   | 1,759      | (112,070)                  |
| Less net income attributable to noncontrolling interests in:                    |            |                           |           |                           |            |                            |
| Consolidated subsidiaries   | (11,286)   | (1,581)                   | -         | (96)                      | -          | (9,609)                    |
| Operating Partnership Preferred unit distributions of the Operating Partnership | (13,933)   | -                         | -         | -                         | -          | (13,933)                   |
| Net income (loss) attributable to Vornado                                       | 262,922    | 89,088                    | 18,889    | 289,584                   | 1,759      | (136,398)                  |
| Interest and debt expense <sup>(2)</sup>  | 188,780    | 49,689                    | 31,753    | 14,223                    | 43,182     | 49,933                     |
| Depreciation and amortization <sup>(2)</sup>                                    | 194,185    | 78,413                    | 35,148    | 18,519                    | 37,674     | 24,431                     |
| Income tax expense <sup>(2)</sup>   | 60,759     | 347                       | 454       | -                         | 59,346     | 612                        |
| EBITDA <sup>(1)</sup>   | \$ 706,646 | \$ 217,537 <sup>(3)</sup> | \$ 86,244 | \$ 322,326 <sup>(4)</sup> | \$ 141,961 | \$ (61,422) <sup>(5)</sup> |

See notes on page 34.



## VORNADO REALTY TRUST

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(UNAUDITED)

## 23. Segment Information – continued

(Amounts in thousands)

For the Three Months Ended March 31, 2012

|   | Retail     |            |                   |            |         |           |
|---|------------|------------|-------------------|------------|---------|-----------|
|   | Total      | New York   | Washington,<br>DC | Properties | Toys    | Other     |
| Property rentals                                  | \$ 474,989 | \$ 233,936 | \$ 122,804        | \$ 65,150  | \$ -    | \$ 53,099 |
| Straight-line rent adjustments                    | 21,348     | 17,129     | 1,857             | 1,333      | -       | 1,029     |
| Amortization of acquired below-market leases, net | 13,774     | 7,695      | 523               | 4,188      | -       | 1,368     |
| Total rentals                                     | 510,111    | 258,760    | 125,184           | 70,671     | -       | 55,496    |
| Tenant expense reimbursements                     | 70,793     | 36,712     | 10,008            | 21,272     | -       | 2,801     |
| Cleveland Medical Mart development project        | 55,059     | -          | -                 | -          | -       | 55,059    |
| Fee and other income:                             |            |            |                   |            |         |           |
| BMS cleaning fees                                 | 15,510     | 22,647     | -                 | -          | -       | (7,137)   |
| Signage revenue                                   | 4,590      | 4,590      | -                 | -          | -       | -         |
| Management and leasing fees                       | 4,754      | 1,108      | 2,783             | 836        | -       | 27        |
| Lease termination fees                            | 411        | 23         | -                 | -          | -       | 388       |
| Other income                                      | 8,013      | 1,757      | 5,590             | 341        | -       | 325       |
| Total revenues                                    | 669,241    | 325,597    | 143,565           | 93,120     | -       | 106,959   |
| Operating expenses                                | 246,746    | 145,672    | 46,202            | 35,250     | -       | 19,622    |
| Depreciation and amortization                     | 131,541    | 53,759     | 42,553            | 17,907     | -       | 17,322    |
| General and administrative                        | 55,290     | 8,587      | 6,950             | 6,333      | -       | 33,420    |
| Cleveland Medical Mart development project        | 52,761     | -          | -                 | -          | -       | 52,761    |
| Acquisition related costs                         | 685        | -          | -                 | -          | -       | 685       |
| Total expenses                                    | 487,023    | 208,018    | 95,705            | 59,490     | -       | 123,810   |
| Operating income (loss)                           | 182,218    | 117,579    | 47,860            | 33,630     | -       | (16,851)  |
| Income applicable to Toys                         | 116,471    | -          | -                 | -          | 116,471 | -         |
|   | 19,660     | 4,185      | (1,870)           | 404        | -       | 16,941    |

|   |            |            |                |           |                |           |
|---|------------|------------|----------------|-----------|----------------|-----------|
| Income (loss) from partially owned entities                         |            |            |                |           |                |           |
| Income from Real Estate Fund  | 11,762     | -          | -              | -         | -              | 11,762    |
| Interest and other investment income, net                           | 15,665     | 1,052      | 44             | 14        | -              | 14,555    |
| Interest and debt expense   | (130,059)  | (36,141)   | (29,098)       | (16,352)  | -              | (48,468)  |
| Income (loss) before income taxes                                   | 215,717    | 86,675     | 16,936         | 17,696    | 116,471        | (22,061)  |
| Income tax expense  | (6,825)    | (601)      | (450)          | -         | -              | (5,774)   |
| Income (loss) from continuing operations                            | 208,892    | 86,074     | 16,486         | 17,696    | 116,471        | (27,835)  |
| Income (loss) from discontinued operations                          | 71,372     | (608)      | 1,586          | 10,220    | -              | 60,174    |
| Net income  | 280,264    | 85,466     | 18,072         | 27,916    | 116,471        | 32,339    |
| Less net (income) loss attributable to noncontrolling interests in: |            |            |                |           |                |           |
| Consolidated subsidiaries   | (9,597)    | (2,176)    | -              | 114       | -              | (7,535)   |
| Operating Partnership   | (15,271)   | -          | -              | -         | -              | (15,271)  |
| Preferred unit distributions of the Operating Partnership           | (3,874)    | -          | -              | -         | -              | (3,874)   |
| Net income attributable to Vornado                                  | 251,522    | 83,290     | 18,072         | 28,030    | 116,471        | 5,659     |
| Interest and debt expense <sup>(2)</sup>                            | 193,082    | 47,058     | 33,657         | 20,438    | 31,569         | 60,360    |
| Depreciation and amortization <sup>(2)</sup>                        | 191,173    | 61,911     | 48,260         | 22,275    | 34,706         | 24,021    |
| Income tax expense <sup>(2)</sup>                                   | 51,440     | 693        | 523            | -         | 43,203         | 7,021     |
| EBITDA <sup>(1)</sup>   | \$ 687,217 | \$ 192,952 | (3) \$ 100,512 | \$ 70,743 | (4) \$ 225,949 | \$ 97,061 |
|   |            |            |                |           |                | (5)       |

See notes on the following page.

**VORNADO REALTY TRUST**

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

**(UNAUDITED)**

**23. Segment Information - continued**

**Notes to preceding tabular information:**

- (1) EBITDA represents "Earnings Before Interest, Taxes, Depreciation and Amortization." We consider EBITDA a supplemental 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.

| (Amounts in thousands) | <b>For the Three Months<br/>Ended March 31,</b> |             |
|------------------------|---|-------------|
|                        | <b>2013</b>                                     | <b>2012</b> |
| Office                 | \$ 146,296                                      | \$ 135,180  |
| Retail                 | 60,382  | 44,920      |
| Alexander's            | 10,541  | 13,371      |
| Hotel Pennsylvania     | 318   | (519)       |
| Total New York         | \$ 217,537                                      | \$ 192,952  |

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

| (Amounts in thousands)                | <b>For the Three Months<br/>Ended March 31,</b> |             |
|---------------------------------------|---|-------------|
|                                       | <b>2013</b>                                     | <b>2012</b> |
| Strip shopping centers <sup>(a)</sup> | \$ 103,361                                      | \$ 46,908   |
| Regional malls <sup>(b)</sup>         | 218,965   | 23,835      |
| Total Retail properties               | \$ 322,326                                      | \$ 70,743   |

- (a) The three months ended March 31, 2013, includes \$59,599 of income pursuant to a settlement agreement with Stop & Shop.
  
- (b) The three months ended March 31, 2013, includes a \$202,275 net gain on sale of Green Acres Mall.



## VORNADO REALTY TRUST

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(UNAUDITED)

## 23. Segment Information - continued

## Notes to preceding tabular information - continued:

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

| (Amounts in thousands)   | For the Three Months<br>Ended March 31, |           |
|--|---|-----------|
|  | 2013                                    | 2012      |
| Our share of Real Estate Fund:   |   |           |
| Income before net realized/unrealized gains                                      | \$ 1,462                                | \$ 2,118  |
| Net unrealized gains   | 3,379                                   | 1,711     |
| Carried interest   | 2,183                                   | -         |
| Total  | 7,024                                   | 3,829     |
| LNR  | 20,443                                  | 15,562    |
| Merchandise Mart Building, 7 West 34th Street and trade shows                    | 14,713                                  | 15,300    |
| 555 California Street  | 10,629                                  | 10,315    |
| Other investments  | 11,807                                  | 18,518    |
|  | 64,616                                  | 63,524    |
| Corporate general and administrative expenses <sup>(a)</sup>                     | (22,756)                                | (22,317)  |
| Investment income and other, net <sup>(a)</sup>                                  | 11,336                                  | 12,334    |
| Impairment loss on J.C. Penney owned shares                                      | (39,487)                                | -         |
| Loss on sale of J.C. Penney common shares  | (36,800)                                | -         |
| (Loss) income from the mark-to-market of J.C. Penney derivative position         | (22,540)                                | 1,045     |
| Merchandise Mart reduction-in-force and severance costs                          | (2,612)                                 | (506)     |
| Merchandise Mart discontinued operations   | 2,141                                   | 7,900     |
| Acquisition related costs  | (601)                                   | (685)     |
| Net gain on sale of 350 West Mart Center   | -                                       | 54,911    |
| Net income attributable to noncontrolling interests in the Operating Partnership | (13,933)                                | (15,271)  |
| Preferred unit distributions of the Operating Partnership                        | (786)                                   | (3,874)   |
|  | \$ (61,422)                             | \$ 97,061 |

- (a) The amounts in these captions (for this table only) exclude the mark-to-market of our deferred compensation plan assets and offsetting liability.



**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 March 31, 2013, and the related consolidated statements of income, comprehensive income, changes in equity and cash flows for the three-month periods ended March 31, 2013 and 2012. 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, 2012, 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 26, 2013, 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, 2012 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

May 6, 2013

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

Certain statements contained in this Quarterly Report constitute forward looking statements as such term is defined in Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. Forward-looking statements are not guarantees of performance. They represent our intentions, plans, expectations and beliefs and are subject to numerous assumptions, risks and uncertainties. Our future results, financial condition and business may differ materially from those expressed in these forward-looking statements. You can find many of these statements by looking for words such as "approximates," "believes," "expects," "anticipates," "estimates," "intends," "plans," "would," "may" or other similar expressions in this Quarterly Report on Form 10-Q. Many of the factors that will determine the outcome of these and our other forward-looking statements are beyond our ability to control or predict. For further discussion of factors that could materially affect the outcome of our forward-looking statements, see "Item 1A. Risk Factors" in our Annual Report on Form 10-K for the year ended December 31, 2012. 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 months ended March 31, 2013. 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 months ended March 31, 2013 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 Morgan Stanley REIT Index (“RMS”) and the FTSE NAREIT Office REIT Index (“Office REIT”) for the following periods ended March 31, 2013.

|            | <b>Vornado</b> | <b>Total Return<sup>(1)</sup><br/>Office REIT</b> | <b>RMS</b> |
|------------|----------------|---|------------|
| Quarter    | 5.3%           | 7.8%  | 8.1%       |
| One-year   | 4.1%           | 11.2%   | 14.9%      |
| Three-year | 23.5%          | 32.9%   | 61.4%      |
| Five-year  | 16.6%          | 20.4%   | 38.8%      |
| Ten-year   | 252.5%         | 148.8%  | 219.8%     |

(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, for additional information regarding these factors.

**Overview – continued**Quarter Ended March 31, 2013 Financial Results Summary

Net income attributable to common shareholders for the quarter ended March 31, 2013 was \$231,990,000, or \$1.24 per diluted share, compared to \$233,735,000, or \$1.25 per diluted share for the quarter ended March 31, 2012. Net income for the quarters ended March 31, 2013 and 2012 include \$202,794,000 and \$56,478,000, respectively, of net gains on sale of real estate, and \$5,164,000 and \$8,875,000, respectively, of real estate impairment losses. In addition, the quarters ended March 31, 2013 and 2012 include certain items that affect comparability, which are listed in the table below. The aggregate of net gains on sale of real estate, real estate impairment losses and the items in the table below, net of amounts attributable to noncontrolling interests, increased net income attributable to common shareholders by \$159,767,000, or \$0.85 per diluted share for the quarter ended March 31, 2013 and \$186,636,000, or \$0.97 per diluted share for the quarter ended March 31, 2012.

Funds From Operations attributable to common shareholders plus assumed conversions (“FFO”) for the quarter ended March 31, 2013 was \$201,820,000, or \$1.08 per diluted share, compared to \$348,452,000, or \$1.82 per diluted share for the quarter ended March 31, 2012. FFO for the quarters ended March 31, 2013 and 2012 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 \$11,432,000, or \$0.06 per diluted share for the quarter ended March 31, 2013 and increased FFO by \$161,590,000, or \$0.84 per diluted share for the quarter ended March 31, 2012.

| (Amounts in thousands)   | <b>For the Three Months Ended March 31,</b> |             |
|--|---|-------------|
|  | <b>2013</b>                                 | <b>2012</b> |
| <b>Items that affect comparability income (expense):</b>                                   |   |             |
| Stop & Shop litigation settlement income   | \$ 59,599                                   | \$ -        |
| Toys "R" Us FFO (after a \$78,542 impairment loss in 2013)                                 | 16,684                                      | 132,288     |
| FFO from discontinued operations, including LNR and discontinued operations of Alexander's | 26,053                                      | 39,175      |
| Non-cash impairment loss on J.C Penney owned shares  | (39,487)                                    | -           |
| Loss on sale of J.C. Penney common shares  | (36,800)                                    | -           |
| (Loss) income from the mark-to-market of J.C. Penney derivative position                   | (22,540)                                    | 1,045       |
| Preferred share redemptions  | (9,230)                                     | -           |
| Merchandise Mart reduction-in-force and severance costs                                    | (2,612)                                     | (506)       |
| Other, net   | (3,773)                                     | 190         |



|  |    |          |            |
|--|----|----------|------------|
|  |    | (12,106) | 172,192    |
| Noncontrolling interests' share of above adjustments |    | 674      | (10,602)   |
| Items that affect comparability, net                 | \$ | (11,432) | \$ 161,590 |

The percentage increase (decrease) in GAAP basis and Cash basis same store EBITDA of our operating segments for the three months ended March 31, 2013 over the three months ended March 31, 2012 is summarized below.

| Same Store EBITDA:                      | New York  | Washington,<br>DC | Retail     |
|---|-----------|-------------------|------------|
|   |           |                   | Properties |
| March 31, 2013 vs. March 31,<br>2012    |           |                   |            |
| GAAP basis                              | 4.6%      | (7.4%)            | 2.8%       |
| Cash basis                              | 9.1%      | (9.4%)            | 2.2%       |
| March 31, 2013 vs. December<br>31, 2012 |           |                   |            |
| GAAP basis                              | (5.7%)(1) | 6.7%              | (2.1%)     |
| Cash basis                              | (7.7%)(1) | 3.0%              | (1.2%)     |

- (1) Excluding the Hotel Pennsylvania, same store decreased by 0.4% and 1.8% on a GAAP and Cash basis, respectively.

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**

**2013 Dispositions**

On January 24, 2013, we completed the sale of the Green Acres Mall located in Valley Stream, New York, for \$500,000,000. The sale resulted in net proceeds of \$185,000,000, after repaying the existing loan and closing costs, and a net gain of \$202,275,000.

In the second quarter of 2013, LNR was sold for \$1.053 billion. We owned 26.2% of LNR and received net proceeds of approximately \$241,000,000.

In the second quarter of 2013, we sold The Plant, a power strip shopping center in San Jose, California, for \$203,000,000. The sale resulted in net proceeds of approximately \$98,000,000, after repaying the existing loan and closing costs, and a net gain of approximately \$33,000,000, which will be recognized in the second quarter.

In the second quarter of 2013, we sold a retail property in Philadelphia, which is a part of the Gallery at Market Street, for \$60,000,000. The sale resulted in net proceeds of \$58,000,000, and a net gain of \$33,000,000, which will be recognized in the second quarter.

In the second quarter of 2013, a site located in the Downtown Crossing district of Boston was sold by a joint venture, which we owned 50% of. Our share of the net proceeds were approximately \$45,000,000, which resulted in a \$2,335,000 impairment loss that was recognized in the first quarter.

In the second quarter of 2013, we entered into an agreement to sell a parcel of land known as Harlem Park located at 1800 Park Avenue (at 125<sup>th</sup> Street) in New York City for \$65,000,000, plus additional amounts which may be received for brownfield credits. The sale will result in net proceeds of approximately \$62,000,000 and a net gain of approximately \$22,000,000. The sale, which is subject to customary closing conditions, is expected to be completed in the second quarter.

## 2013 Financings

### *Secured Debt*

On February 20, 2013, we completed a \$390,000,000 financing of the retail condominium located at 666 Fifth Avenue at 53<sup>rd</sup> Street, which we had acquired December 2012. The 10-year fixed-rate interest only loan bears interest at 3.61%. This property was previously unencumbered. The net proceeds from this financing were approximately \$387,000,000.

On March 25, 2013, we completed a \$300,000,000 financing of the Outlets at Bergen Town Center, a 948,000 square foot shopping center located in Paramus, New Jersey. The 10-year fixed-rate interest only loan bears interest at 3.56%. The property was previously encumbered by a \$282,000,000 floating-rate loan.

### *Unsecured Revolving Credit Facility*

On March 28, 2013, we extended one of our two revolving credit facilities from June 2015 to June 2017, with two six-month extension options. The interest on the extended facility was reduced from LIBOR plus 135 basis points to LIBOR plus 115 basis points. In addition, the facility fee was reduced from 30 basis points to 20 basis points.

## Overview – continued

### 2013 Financings – continued

#### *Preferred Equity*

On January 25, 2013, we sold 12,000,000 5.40% Series L Cumulative Redeemable Preferred Shares at a price of \$25.00 per share in an underwritten public offering pursuant to an effective registration statement. We retained aggregate net proceeds of \$290,710,000, after underwriters' discounts and issuance costs and contributed the net proceeds to the Operating Partnership in exchange for 12,000,000 Series L Preferred Units (with economic terms that mirror those of the Series L Preferred Shares). Dividends on the Series L Preferred Shares are cumulative and payable quarterly in arrears. The Series L Preferred Shares are not convertible into, or exchangeable for, any of our properties or securities. On or after five years from the date of issuance (or sooner under limited circumstances), we may redeem the Series L Preferred Shares at a redemption price of \$25.00 per share, plus accrued and unpaid dividends through the date of redemption. The Series L Preferred Shares have no maturity date and will remain outstanding indefinitely unless redeemed by us.

On February 19, 2013, we redeemed all of the outstanding 6.75% Series F Cumulative Redeemable Preferred Shares and 6.75% Series H Cumulative Redeemable Preferred Shares at par, for an aggregate of \$262,500,000 in cash, plus accrued and unpaid dividends through the date of redemption.

#### **Recently Issued Accounting Literature**

In February 2013, the Financial Accounting Standards Board ("FASB") issued Update No. 2013-02, *Reporting of Amounts Reclassified Out of Accumulated Other Comprehensive Income* ("ASU No. 2013-02"). ASU No. 2013-02 requires additional disclosures regarding significant reclassifications out of each component of accumulated other comprehensive income, including the effect on the respective line items of net income for amounts that are required to be reclassified into net income in their entirety and cross-references to other disclosures providing additional information for amounts that are not required to be reclassified into net income in their entirety. The adoption of this update on January 1, 2013, did not have a material impact on our consolidated financial statements, but resulted in additional disclosures.

### **Critical Accounting Policies**

A summary of our critical accounting policies is included in our Annual Report on Form 10-K for the year ended December 31, 2012 in Management's Discussion and Analysis of Financial Condition. There have been no significant changes to our policies during 2013.

**Overview - continued****Leasing Activity:**

The leasing activity in the table below is based on leases signed during the period and is not intended to coincide with the commencement of rental revenue in accordance with accounting principles generally accepted in the United States of America ("GAAP"). Tenant improvements and leasing commissions are based on our share of square feet leased during the period. Second generation relet space represents square footage that has not been vacant for more than nine months. The leasing activity for the New York segment excludes Alexander's, the Hotel Pennsylvania and residential.

| (Square feet in thousands)                   | New York |           | Washington,<br>DC | Retail Properties |          |
|--|----------|-----------|-------------------|-------------------|----------|
|  | Office   | Retail    | Office            | Strips            | Malls    |
| <b>Quarter Ended March 31, 2013:</b>         |          |           |                   |                   |          |
| Total square feet leased                     | 909      | 32        | 297               | 644               | 159      |
| Our share of square feet leased:             | 844      | 26        | 259               | 644               | 139      |
| Initial rent <sup>(1)</sup>                  | \$ 56.88 | \$ 279.95 | \$ 40.68          | \$ 14.30          | \$ 30.28 |
| Weighted average lease term (years)          | 15.2     | 7.8       | 4.8               | 5.5               | 8.4      |
| Second generation relet space:               |          |           |                   |                   |          |
| Square feet                                  | 813      | 26        | 165               | 551               | 17       |
| Cash basis:                                  |          |           |                   |                   |          |
| Initial rent <sup>(1)</sup>                  | \$ 56.64 | \$ 279.95 | \$ 38.33          | \$ 13.34          | \$ 52.87 |
| Prior escalated rent                         | \$ 56.20 | \$ 95.35  | \$ 37.03          | \$ 12.22          | \$ 51.15 |
| Percentage increase                          | 0.8%     | 193.6%    | 3.5%              | 9.2%              | 3.4%     |
| GAAP basis:                                  |          |           |                   |                   |          |
| Straight-line rent <sup>(2)</sup>            | \$ 58.63 | \$ 314.09 | \$ 37.69          | \$ 13.55          | \$ 53.89 |
| Prior straight-line rent                     | \$ 50.93 | \$ 95.88  | \$ 35.73          | \$ 12.00          | \$ 49.41 |
| Percentage increase                          | 15.1%    | 227.6%    | 5.5%              | 12.9%             | 9.1%     |
| Tenant improvements and leasing commissions: |          |           |                   |                   |          |
| Per square foot                              | \$ 65.76 | \$ 150.08 | \$ 40.53          | \$ 1.36           | \$ 14.38 |
| Per square foot per annum                    | \$ 4.33  | \$ 19.33  | \$ 8.44           | \$ 0.25           | \$ 1.71  |
| Percentage of initial rent                   | 7.6%     | 6.9%      | 20.7%             | 1.7%              | 5.6%     |

- (1) Represents the cash basis weighted average starting rent per square foot, which is generally indicative of market rents. Most leases include free rent and periodic step-ups in rent which are not included in the initial cash basis rent per square foot but are included in the GAAP basis straight-line rent per square foot.
- (2) Represents the GAAP basis weighted average rent per square foot that is recognized over the term of the respective leases, and includes the effect of free rent and periodic step-ups in rent.

## Overview – continued

## Square footage (in service) and Occupancy as of March 31, 2013:

| (Square feet in thousands)             | Number of<br>Properties | Square Feet (in service) |              | Occupancy<br>% |
|--|-------------------------|--------------------------|--------------|----------------|
|  |                         | Total<br>Portfolio       | Our<br>Share |                |
| New York:                              |                         |                          |              |                |
| Office                                 | 31                      | 19,817                   | 16,835       | 96.0%          |
| Retail                                 | 49                      | 2,209                    | 2,053        | 96.5%          |
| Alexander's                            | 6                       | 2,179                    | 706          | 99.2%          |
| Hotel Pennsylvania                     | 1                       | 1,400                    | 1,400        |                |
| Residential (1,655<br>units)           | 4                       | 1,523                    | 870          | 96.4%          |
|  |                         | 27,128                   | 21,864       | 96.1%          |
| Washington, DC:                        |                         |                          |              |                |
| Office                                 | 59                      | 15,943                   | 13,557       | 80.9%          |
| Residential (2,414<br>units)           | 7                       | 2,597                    | 2,455        | 97.7%          |
| Hotel and<br>Warehouses                | 7                       | 359                      | 359          | 100.0%         |
|  |                         | 18,899                   | 16,371       | 83.8%          |
| Retail Properties:                     |                         |                          |              |                |
| Strip Shopping<br>Centers              | 101                     | 14,488                   | 14,044       | 93.7%          |
| Regional Malls                         | 6                       | 5,246                    | 3,609        | 93.3%          |
|  |                         | 19,734                   | 17,653       | 93.6%          |
| Other:                                 |                         |                          |              |                |
| Merchandise Mart                       | 2                       | 3,991                    | 3,982        | 92.0%          |
| 555 California<br>Street               | 3                       | 1,795                    | 1,257        | 93.7%          |
| Primarily<br>Warehouses                | 5                       | 971                      | 971          | 52.9%          |
|  |                         | 6,757                    | 6,210        |                |
| Total square feet at March 31,<br>2013 |                         | 72,518                   | 62,098       |                |



**Square footage (in service) and Occupancy as of December 31, 2012:**

| (Square feet in thousands)             | Number of properties | Square Feet (in service) |           | Occupancy % |
|--|----------------------|--------------------------|-----------|-------------|
|  |                      | Total Portfolio          | Our Share |             |
| <b>New York:</b>                       |                      |                          |           |             |
| Office                                 | 31                   | 19,729                   | 16,751    | 95.9%       |
| Retail                                 | 49                   | 2,217                    | 2,057     | 96.8%       |
| Alexander's Hotel                      | 6                    | 2,179                    | 706       | 99.1%       |
| Pennsylvania Residential (1,655 units) | 1                    | 1,400                    | 1,400     |             |
|  | 4                    | 1,528                    | 873       | 96.9%       |
|  |                      | 27,053                   | 21,787    | 96.2%       |
| <b>Washington, DC:</b>                 |                      |                          |           |             |
| Office                                 | 59                   | 16,106                   | 13,637    | 81.2%       |
| Residential (2,414 units)              | 7                    | 2,599                    | 2,457     | 97.9%       |
| Hotel and Warehouses                   | 7                    | 435                      | 435       | 100.0%      |
|  |                      | 19,140                   | 16,529    | 84.1%       |
| <b>Retail Properties:</b>              |                      |                          |           |             |
| Strip Shopping Centers                 | 102                  | 14,521                   | 14,077    | 93.6%       |
| Regional Malls                         | 6                    | 5,244                    | 3,608     | 92.7%       |
|  |                      | 19,765                   | 17,685    | 93.4%       |
| <b>Other:</b>                          |                      |                          |           |             |
| Merchandise Mart                       | 2                    | 3,991                    | 3,982     | 92.6%       |
| 555 California Street                  | 3                    | 1,795                    | 1,257     | 93.1%       |
| Primarily Warehouses                   | 5                    | 971                      | 971       | 55.9%       |
|  |                      | 6,757                    | 6,210     |             |
| Total square feet at December 31, 2012 |                      |                          | 72,715    | 62,211      |

**Overview - continued****Washington, DC Segment**

In our Form 10-K for the year ended December 31, 2012, we estimated that 2013 EBITDA will be between \$5,000,000 and \$15,000,000 lower than 2012 EBITDA. As of March 31, 2013, EBITDA from continuing operations was lower than 2012 by approximately \$9,700,000.

Of the 2,395,000 square feet subject to BRAC, 348,000 square feet has been taken out of service for redevelopment and 552,000 square feet has been leased or is pending. The table below summarizes the status of the BRAC space as of March 31, 2013.

|  | Rent Per    |           | Square Feet  |         |         |
|--|-------------|-----------|--------------|---------|---------|
|  | Square Foot | Total     | Crystal City | Skyline | Rosslyn |
| Resolved:                              |             |           |              |         |         |
| Relet as of March 31, 2013             | \$ 39.80    | 528,000   | 380,000      | 88,000  | 60,000  |
| Leases pending                         | 45.00       | 24,000    | 24,000       | -       | -       |
| Taken out of service for redevelopment |             | 348,000   | 348,000      | -       | -       |
|  |             | 900,000   | 752,000      | 88,000  | 60,000  |
| To Be Resolved:                        |             |           |              |         |         |
| Vacated as of March 31, 2013           | 35.77       | 1,078,000 | 519,000      | 473,000 | 86,000  |
| Expiring in:                           |             |           |              |         |         |
| 2013                                   | 39.47       | 43,000    | -            | 43,000  | -       |
| 2014                                   | 32.72       | 304,000   | 103,000      | 201,000 | -       |
| 2015                                   | 43.06       | 70,000    | 65,000       | 5,000   | -       |
|  |             | 1,495,000 | 687,000      | 722,000 | 86,000  |
| Total square feet subject to BRAC      |             | 2,395,000 | 1,439,000    | 810,000 | 146,000 |

In 2012, due to the rising vacancy rate at the Skyline properties (43.4% at March 31, 2013), primarily from the effects of the BRAC statute; insufficient cash flows to pay current obligations, including interest payments to the lender; and the significant amount of capital required to re-tenant these properties, we requested that the mortgage loan be

transferred to the special servicer. In connection therewith, we entered into a forbearance agreement with the special servicer, that provides for interest shortfalls to be deferred and added to the principal balance of the loan and not give rise to a loan default. The forbearance agreement was amended on March 28, 2013, to extend its maturity through June 1, 2013. As of March 31, 2013, the deferred interest amounted to \$37,127,000. We continue to negotiate with the special servicer to restructure the terms of the loan.

**Net Income and EBITDA by Segment for the Three Months Ended March 31, 2013 and 2012**

As a result of certain organizational changes and asset sales in 2012, the Merchandise Mart segment no longer meets the criteria to be a separate reportable segment; accordingly, effective January 1, 2013, the remaining assets have been reclassified to our Other segment. We have also reclassified the prior period segment financial results to conform to the current year presentation. Below is a summary of net income and a reconciliation of net income to EBITDA<sup>(1)</sup> by segment for the three months ended March 31, 2013 and 2012.

(Amounts in thousands)

**For the Three Months Ended March 31, 2013**

|   | <b>Retail</b> |                 |                           |                   |             |              |
|---|---------------|-----------------|---------------------------|-------------------|-------------|--------------|
|   | <b>Total</b>  | <b>New York</b> | <b>Washington,<br/>DC</b> | <b>Properties</b> | <b>Toys</b> | <b>Other</b> |
| Property rentals                                  | \$ 499,237    | \$ 274,650      | \$ 112,272                | \$ 65,134         | \$ -        | \$ 47,181    |
| Straight-line rent adjustments                    | 18,532        | 10,326          | 2,777                     | 1,482             | -           | 3,947        |
| Amortization of acquired below-market leases, net | 16,866        | 12,089          | 506                       | 2,922             | -           | 1,349        |
| Total rentals                                     | 534,635       | 297,065         | 115,555                   | 69,538            | -           | 52,477       |
| Tenant expense reimbursements                     | 77,013        | 42,671          | 10,136                    | 20,633            | -           | 3,573        |
| Cleveland Medical Mart development project        | 12,143        | -               | -                         | -                 | -           | 12,143       |
| Fee and other income:                             |               |                 |                           |                   |             |              |
| BMS cleaning fees                                 | 16,664        | 21,022          | -                         | -                 | -           | (4,358)      |
| Signage revenue                                   | 6,481         | 6,481           | -                         | -                 | -           | -            |
| Management and leasing fees                       | 5,258         | 2,064           | 2,807                     | 479               | -           | (92)         |
| Lease termination fees                            | 60,026        | 58              | 368                       | 59,599            | -           | 1            |
| Other income                                      | 8,796         | 715             | 5,865                     | 577               | -           | 1,639        |
| Total revenues                                    | 721,016       | 370,076         | 134,731                   | 150,826           | -           | 65,383       |
| Operating expenses                                | 260,569       | 160,231         | 47,322                    | 34,695            | -           | 18,321       |
| Depreciation and amortization                     | 142,354       | 76,234          | 30,950                    | 16,990            | -           | 18,180       |
| General and administrative                        | 54,582        | 8,822           | 6,925                     | 5,415             | -           | 33,420       |
| Cleveland Medical Mart development project        | 11,374        | -               | -                         | -                 | -           | 11,374       |
| Acquisition related costs                         | 601           | -               | -                         | -                 | -           | 601          |
| Total expenses                                    | 469,480       | 245,287         | 85,197                    | 57,100            | -           | 81,896       |
| Operating income (loss)                           | 251,536       | 124,789         | 49,534                    | 93,726            | -           | (16,513)     |
| Income applicable to Toys                         | 1,759         | -               | -                         | -                 | 1,759       | -            |
| Income (loss) from partially owned entities       | 20,766        | 5,605           | (2,093)                   | 901               | -           | 16,353       |
|   | 16,564        | -               | -                         | -                 | -           | 16,564       |

|   |            |                           |           |                           |            |                            |
|---|------------|---------------------------|-----------|---------------------------|------------|----------------------------|
| Income from Real Estate Fund  |            |                           |           |                           |            |                            |
| Interest and other investment (loss) income, net                                | (49,074)   | 1,165                     | 76        | 52                        | -          | (50,367)                   |
| Interest and debt expense   | (121,888)  | (40,618)                  | (28,250)  | (11,641)                  | -          | (41,379)                   |
| Net loss on disposition of wholly owned and partially owned assets              | (36,724)   | -                         | -         | -                         | -          | (36,724)                   |
| Income (loss) before income taxes   | 82,939     | 90,941                    | 19,267    | 83,038                    | 1,759      | (112,066)                  |
| Income tax expense  | (1,073)    | (272)                     | (378)     | -                         | -          | (423)                      |
| Income (loss) from continuing operations  | 81,866     | 90,669                    | 18,889    | 83,038                    | 1,759      | (112,489)                  |
| Income from discontinued operations   | 207,061    | -                         | -         | 206,642                   | -          | 419                        |
| Net income (loss)   | 288,927    | 90,669                    | 18,889    | 289,680                   | 1,759      | (112,070)                  |
| Less net income attributable to noncontrolling interests in:                    |            |                           |           |                           |            |                            |
| Consolidated subsidiaries   | (11,286)   | (1,581)                   | -         | (96)                      | -          | (9,609)                    |
| Operating Partnership Preferred unit distributions of the Operating Partnership | (13,933)   | -                         | -         | -                         | -          | (13,933)                   |
|   | (786)      | -                         | -         | -                         | -          | (786)                      |
| Net income (loss) attributable to Vornado                                       | 262,922    | 89,088                    | 18,889    | 289,584                   | 1,759      | (136,398)                  |
| Interest and debt expense <sup>(2)</sup>  | 188,780    | 49,689                    | 31,753    | 14,223                    | 43,182     | 49,933                     |
| Depreciation and amortization <sup>(2)</sup>                                    | 194,185    | 78,413                    | 35,148    | 18,519                    | 37,674     | 24,431                     |
| Income tax expense <sup>(2)</sup>   | 60,759     | 347                       | 454       | -                         | 59,346     | 612                        |
| EBITDA <sup>(1)</sup>   | \$ 706,646 | \$ 217,537 <sup>(3)</sup> | \$ 86,244 | \$ 322,326 <sup>(4)</sup> | \$ 141,961 | \$ (61,422) <sup>(5)</sup> |

EBITDA for the Retail Properties segment above includes income from discontinued operations and other gains and losses that affect comparability that are described in the "Overview," aggregating \$269,059. Excluding these items, EBITDA for the Retail Properties segment was \$53,267.-----

See notes on page 47.



## Net Income and EBITDA by Segment for the Three Months Ended March 31, 2013 and 2012 - continued

| (Amounts in thousands)                            | For the Three Months Ended March 31, 2012 |            |                   |                      |         |           |
|---|---|------------|-------------------|----------------------|---------|-----------|
|   | Total                                     | New York   | Washington,<br>DC | Retail<br>Properties | Toys    | Other     |
| Property rentals                                  | \$ 474,989                                | \$ 233,936 | \$ 122,804        | \$ 65,150            | \$ -    | \$ 53,099 |
| Straight-line rent adjustments                    | 21,348                                    | 17,129     | 1,857             | 1,333                | -       | 1,029     |
| Amortization of acquired below-market leases, net | 13,774                                    | 7,695      | 523               | 4,188                | -       | 1,368     |
| Total rentals                                     | 510,111                                   | 258,760    | 125,184           | 70,671               | -       | 55,496    |
| Tenant expense reimbursements                     | 70,793                                    | 36,712     | 10,008            | 21,272               | -       | 2,801     |
| Cleveland Medical Mart development project        | 55,059                                    | -          | -                 | -                    | -       | 55,059    |
| Fee and other income:                             |   |            |                   |                      |         |           |
| BMS cleaning fees                                 | 15,510                                    | 22,647     | -                 | -                    | -       | (7,137)   |
| Signage revenue                                   | 4,590                                     | 4,590      | -                 | -                    | -       | -         |
| Management and leasing fees                       | 4,754                                     | 1,108      | 2,783             | 836                  | -       | 27        |
| Lease termination fees                            | 411                                       | 23         | -                 | -                    | -       | 388       |
| Other income                                      | 8,013                                     | 1,757      | 5,590             | 341                  | -       | 325       |
| Total revenues                                    | 669,241                                   | 325,597    | 143,565           | 93,120               | -       | 106,959   |
| Operating expenses                                | 246,746                                   | 145,672    | 46,202            | 35,250               | -       | 19,622    |
| Depreciation and amortization                     | 131,541                                   | 53,759     | 42,553            | 17,907               | -       | 17,322    |
| General and administrative                        | 55,290                                    | 8,587      | 6,950             | 6,333                | -       | 33,420    |
| Cleveland Medical Mart development project        | 52,761                                    | -          | -                 | -                    | -       | 52,761    |
| Acquisition related costs                         | 685                                       | -          | -                 | -                    | -       | 685       |
| Total expenses                                    | 487,023                                   | 208,018    | 95,705            | 59,490               | -       | 123,810   |
| Operating income (loss)                           | 182,218                                   | 117,579    | 47,860            | 33,630               | -       | (16,851)  |
| Income applicable to Toys                         | 116,471                                   | -          | -                 | -                    | 116,471 | -         |
| Income (loss) from partially owned entities       | 19,660                                    | 4,185      | (1,870)           | 404                  | -       | 16,941    |
| Income from Real Estate Fund                      | 11,762                                    | -          | -                 | -                    | -       | 11,762    |
| Interest and other investment income, net         | 15,665                                    | 1,052      | 44                | 14                   | -       | 14,555    |
| Interest and debt expense                         | (130,059)                                 | (36,141)   | (29,098)          | (16,352)             | -       | (48,468)  |
| Income (loss) before income taxes                 | 215,717                                   | 86,675     | 16,936            | 17,696               | 116,471 | (22,061)  |

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|   |            |                           |            |                          |            |                          |
|---|------------|---------------------------|------------|--------------------------|------------|--------------------------|
| Income tax expense  | (6,825)    | (601)                     | (450)      | -                        | -          | (5,774)                  |
| Income (loss) from continuing operations                            | 208,892    | 86,074                    | 16,486     | 17,696                   | 116,471    | (27,835)                 |
| Income (loss) from discontinued operations                          | 71,372     | (608)                     | 1,586      | 10,220                   | -          | 60,174                   |
| Net income  | 280,264    | 85,466                    | 18,072     | 27,916                   | 116,471    | 32,339                   |
| Less net (income) loss attributable to noncontrolling interests in: |            |                           |            |                          |            |                          |
| Consolidated subsidiaries   | (9,597)    | (2,176)                   | -          | 114                      | -          | (7,535)                  |
| Operating Partnership   | (15,271)   | -                         | -          | -                        | -          | (15,271)                 |
| Preferred unit distributions of the Operating Partnership           | (3,874)    | -                         | -          | -                        | -          | (3,874)                  |
| Net income attributable to Vornado                                  | 251,522    | 83,290                    | 18,072     | 28,030                   | 116,471    | 5,659                    |
| Interest and debt expense <sup>(2)</sup>                            | 193,082    | 47,058                    | 33,657     | 20,438                   | 31,569     | 60,360                   |
| Depreciation and amortization <sup>(2)</sup>                        | 191,173    | 61,911                    | 48,260     | 22,275                   | 34,706     | 24,021                   |
| Income tax expense <sup>(2)</sup>                                   | 51,440     | 693                       | 523        | -                        | 43,203     | 7,021                    |
| EBITDA <sup>(1)</sup>   | \$ 687,217 | \$ 192,952 <sup>(3)</sup> | \$ 100,512 | \$ 70,743 <sup>(4)</sup> | \$ 225,949 | \$ 97,061 <sup>(5)</sup> |

EBITDA for the New York, Washington, DC and Retail Properties segments above include income from discontinued operations and other gains and losses that affect comparability that are described in the "Overview," aggregating \$2,478, \$4,539 and \$18,596, respectively. Excluding these items, EBITDA for the New York, Washington, DC and Retail Properties segments was \$190,474, \$95,973 and \$52,147, respectively.-----

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See notes on the following page.



**Net Income and EBITDA by Segment for the Three Months Ended March 31, 2013 and 2012 - continued****Notes to preceding tabular information:**

- (1) EBITDA represents "Earnings Before Interest, Taxes, Depreciation and Amortization." We consider EBITDA a supplemental 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.

| (Amounts in thousands)   | <b>For the Three Months Ended March 31,</b> |             |
|--|---|-------------|
|  | <b>2013</b>                                 | <b>2012</b> |
| Office   | \$ 146,296                                  | \$ 135,180  |
| Retail   | 60,382                                      | 44,920      |
| Alexander's (decrease due to sale of Kings Plaza in November 2012) | 10,541                                      | 13,371      |
| Hotel Pennsylvania   | 318   | (519)       |
| Total New York   | \$ 217,537                                  | \$ 192,952  |

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

| (Amounts in thousands)                | <b>For the Three Months Ended March 31,</b> |             |
|---------------------------------------|---|-------------|
|                                       | <b>2013</b>                                 | <b>2012</b> |
| Strip shopping centers <sup>(a)</sup> | \$ 103,361                                  | \$ 46,908   |
| Regional malls <sup>(b)</sup>         | 218,965                                     | 23,835      |
| Total Retail properties               | \$ 322,326                                  | \$ 70,743   |

- (a) Includes income from discontinued operations and other gains and losses that affect comparability, aggregating \$65,937 and \$10,317 for the three months ended March 31, 2013 and 2012, respectively. Excluding these items, EBITDA was \$37,424 and \$36,591, respectively.
- (b) Includes income from discontinued operations and other gains and losses that affect comparability, aggregating \$203,122 and \$8,279 for the three months ended March 31, 2013 and 2012, respectively. Excluding these items, EBITDA was \$15,843 and \$15,556, respectively.



**Net Income and EBITDA by Segment for the Three Months Ended March 31, 2013 and 2012 - continued****Notes to preceding tabular information - continued:**

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

| (Amounts in thousands)   | <b>For the Three Months Ended March 31,</b> |             |
|--|---|-------------|
|  | <b>2013</b>                                 | <b>2012</b> |
| Our share of Real Estate Fund:   |   |             |
| Income before net realized/unrealized gains                                      | \$ 1,462                                    | \$ 2,118    |
| Net unrealized gains   | 3,379                                       | 1,711       |
| Carried interest   | 2,183                                       | -           |
| Total  | 7,024                                       | 3,829       |
| LNR  | 20,443                                      | 15,562      |
| Merchandise Mart Building, 7 West 34th Street and trade shows                    | 14,713                                      | 15,300      |
| 555 California Street  | 10,629                                      | 10,315      |
| Other investments  | 11,807                                      | 18,518      |
|  | 64,616                                      | 63,524      |
| Corporate general and administrative expenses <sup>(a)</sup>                     | (22,756)                                    | (22,317)    |
| Investment income and other, net <sup>(a)</sup>                                  | 11,336                                      | 12,334      |
| Impairment loss on J.C. Penney owned shares                                      | (39,487)                                    | -           |
| Loss on sale of J.C. Penney common shares  | (36,800)                                    | -           |
| (Loss) income from the mark-to-market of J.C. Penney derivative position         | (22,540)                                    | 1,045       |
| Merchandise Mart reduction-in-force and severance costs                          | (2,612)                                     | (506)       |
| Merchandise Mart discontinued operations   | 2,141                                       | 7,900       |
| Acquisition related costs  | (601)                                       | (685)       |
| Net gain on sale of 350 West Mart Center   | -   | 54,911      |
| Net income attributable to noncontrolling interests in the Operating Partnership | (13,933)                                    | (15,271)    |
| Preferred unit distributions of the Operating Partnership                        | (786)                                       | (3,874)     |
|  | \$ (61,422)                                 | \$ 97,061   |

(a) The amounts in these captions (for this table only) exclude the mark-to-market of our deferred compensation plan assets and offsetting liability.

**EBITDA by Region**

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Below is a summary of the percentages of EBITDA by geographic region (excluding discontinued operations and other gains and losses that affect comparability), from our New York, Washington, DC and Retail Properties segments.

| <b>Region:</b>                                       | <b>For the Three Months<br/>Ended March 31,</b> |             |
|--|---|-------------|
|  | <b>2013</b>                                     | <b>2012</b> |
| New York City metropolitan area                      | 72%   | 67%         |
| Washington, DC / Northern Virginia metropolitan area | 25%   | 29%         |
| Puerto Rico  | 1%  | 2%          |
| California   | 1%  | 1%          |
| Other geographies                                    | 1%  | 1%          |
|  | 100%  | 100%        |

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**Results of Operations – Three Months Ended March 31, 2013 Compared to March 31, 2012****Revenues**

Our revenues, which consist of property rentals, tenant expense reimbursements, hotel revenues, trade shows revenues, amortization of acquired below-market leases, net of above-market leases and fee income, were \$721,016,000 for the three months ended March 31, 2013, compared to \$669,241,000 in the prior year's three months, an increase of \$51,775,000. Below are the details of the increase (decrease) by segment:

(Amounts in thousands)

| Increase (decrease) due to:                       | <b>Total</b>            | <b>New York</b> | <b>Washington,<br/>DC</b> | <b>Retail<br/>Properties</b> | <b>Other</b>            |
|---|-------------------------|-----------------|---------------------------|------------------------------|-------------------------|
| <b>Property rentals:</b>                          |                         |                 |                           |                              |                         |
| Acquisitions                                      | \$ 25,607               | \$ 26,184       | \$ -                      | \$ (577)                     | \$ -                    |
| Development (out of service)                      | (3,674)                 | (152)           | (2,348)                   | (1,156)                      | (18)                    |
| Hotel Pennsylvania                                | 2,257                   | 2,257           | -                         | -                            | -                       |
| Trade Shows                                       | (4,305)                 | -               | -                         | -                            | (4,305)                 |
| Amortization of acquired below-market leases, net | 3,092                   | 4,394           | (17)                      | (1,266)                      | (19)                    |
| Leasing activity (see page 42)                    | 1,547                   | 5,622           | (7,264) <sup>(1)</sup>    | 1,866                        | 1,323                   |
|   | 24,524                  | 38,305          | (9,629)                   | (1,133)                      | (3,019)                 |
| <b>Tenant expense reimbursements:</b>             |                         |                 |                           |                              |                         |
| Acquisitions/development                          | (645)                   | 2,068           | (508)                     | (2,108)                      | (97)                    |
| Operations  | 6,865                   | 3,891           | 636                       | 1,469                        | 869                     |
|   | 6,220                   | 5,959           | 128                       | (639)                        | 772                     |
| <b>Cleveland Medical Mart development project</b> | (42,916) <sup>(2)</sup> | -               | -                         | -                            | (42,916) <sup>(2)</sup> |
| <b>Fee and other income:</b>                      |                         |                 |                           |                              |                         |
| BMS cleaning fees                                 | 1,154                   | (1,625)         | -                         | -                            | 2,779 <sup>(3)</sup>    |
| Signage revenue                                   | 1,891                   | 1,891           | -                         | -                            | -                       |
| Management and leasing fees                       | 504                     | 956             | 24                        | (357)                        | (119)                   |

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|                                       |           |           |            |                       |             |
|---------------------------------------|-----------|-----------|------------|-----------------------|-------------|
| Lease termination fees                | 59,615    | 35        | 368        | 59,599 <sup>(4)</sup> | (387)       |
| Other income                          | 783       | (1,042)   | 275        | 236                   | 1,314       |
|                                       | 63,947    | 215       | 667        | 59,478                | 3,587       |
| Total increase (decrease) in revenues | \$ 51,775 | \$ 44,479 | \$ (8,834) | \$ 57,706             | \$ (41,576) |

- (1) Results primarily from a decrease in occupancy.
- (2) This decrease in income is offset by a decrease in development costs expensed in the period. See note (3) on page 50.
- (3) Represents the elimination of intercompany fees from operating segments upon consolidation. See note (2) on page 50.
- (4) Represents income recognized in the current period in connection with the settlement of the Stop & Shop litigation.

**Results of Operations – Three Months Ended March 31, 2013 Compared to March 31, 2012 - continued**Expenses

Our expenses, which consist primarily of operating, depreciation and amortization and general and administrative expenses, were \$469,480,000 for the three months ended March 31, 2013, compared to \$487,023,000 in the prior year's three months, a decrease of \$17,543,000. Below are the details of the increase (decrease) by segment:

(Amounts in thousands)

| Increase (decrease) due to:   | Total     | New York  | Washington,<br>DC | Retail<br>Properties | Other                |
|---|-----------|-----------|-------------------|----------------------|----------------------|
| <b>Operating:</b>   |           |           |                   |                      |                      |
| Acquisitions  | \$ 10,922 | \$ 11,184 | \$ -              | \$ (262)             | \$ -                 |
| Development (out of service)  | (3,974)   | (660)     | (600)             | (2,158)              | (556)                |
| Non-reimbursable expenses, including                                  |           |           |                   |                      |                      |
| bad debt reserves   | 271       | (371)     | 825               | (576)                | 393                  |
| Hotel Pennsylvania  | 1,397     | 1,397     | -                 | -                    | -                    |
| Trade Shows   | (3,309)   | -         | -                 | -                    | (3,309)              |
| BMS expenses  | 1,917     | (862)     | -                 | -                    | 2,779 <sup>(2)</sup> |
| Operations  | 6,599     | 3,871     | 895               | 2,441                | (608)                |
|   | 13,823    | 14,559    | 1,120             | (555)                | (1,301)              |
| <b>Depreciation and amortization:</b>                                 |           |           |                   |                      |                      |
| Acquisitions/development  | 4,420     | 18,078    | (12,524)          | (1,052)              | (82)                 |
| Operations  | 6,393     | 4,397     | 921               | 135                  | 940                  |
|   | 10,813    | 22,475    | (11,603)          | (917)                | 858                  |
| <b>General and administrative:</b>                                    |           |           |                   |                      |                      |
| Mark-to-market of deferred compensation plan liability <sup>(1)</sup> | (681)     | -         | -                 | -                    | (681)                |
| Reduction-in-force and severance costs                                | 2,106     | -         | -                 | -                    | 2,106                |
| Operations  | (2,133)   | 235       | (25)              | (918)                | (1,425)              |
|   | (708)     | 235       | (25)              | (918)                | -                    |

Revenues

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|   |                         |           |             |            |                         |
|---|-------------------------|-----------|-------------|------------|-------------------------|
| <b>Cleveland Medical Mart development project</b> | (41,387) <sup>(3)</sup> | -         | -           | -          | (41,387) <sup>(3)</sup> |
| <b>Acquisition related costs</b>                  | (84)                    | -         | -           | -          | (84)                    |
| Total (decrease) increase in expenses             | \$ (17,543)             | \$ 37,269 | \$ (10,508) | \$ (2,390) | \$ (41,914)             |

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



**Results of Operations – Three Months Ended March 31, 2013 Compared to March 31, 2012 - continued**Income Applicable to Toys

In the three months ended December 31, 2012 we recorded a \$40,000,000 non-cash impairment loss with regards to our investment in Toys and disclosed, that if current facts don't change, our share of Toys' undistributed income, which in accordance with the equity method of accounting, would increase the carrying amount of our investment above fair value, would require an offsetting impairment loss.

In the three months ended March 31, 2013, we recognized our 32.5% share of Toys' fourth quarter net income of \$78,542,000 and a corresponding non-cash impairment loss of the same amount. Our income applicable to Toys after the impairment loss was \$1,759,000, representing management fees earned and received.

In the three months ended March 31, 2012, we recognized net income of \$116,471,000 from our investment in Toys, comprised of \$114,184,000 for our 32.7% share of Toys' net income and \$2,287,000 of management fees.

Income from Partially Owned Entities

Summarized below are the components of income (loss) from partially owned entities for the three months ended March 31, 2013 and 2012.

| (Amounts in thousands)              | <b>Percentage<br/>Ownership at<br/>March 31,<br/>2013</b> | <b>For the Three Months Ended<br/>March 31,</b> |             |
|-------------------------------------|---|---|-------------|
|                                     |   | <b>2013</b>                                     | <b>2012</b> |
| <b>Equity in Net Income (Loss):</b> |   |   |             |
| Alexander's                         | 32.4%   | \$ 6,076  | \$ 8,021    |
| Lexington <sup>(1)</sup>            | n/a   | (979)   | 930         |
| LNR (see page 40)                   | 26.2%   | 18,731  | 13,250      |
| India real estate ventures          | 4.0%-36.5%  | (767)   | (793)       |
| Partially owned office buildings:   |   |   |             |
| 280 Park Avenue                     | 49.5%   | (2,569)   | (5,595)     |
| Warner Building                     | 55.0%   | (2,346)   | (3,010)     |

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|  |             |           |           |
|--|-------------|-----------|-----------|
| 666 Fifth Avenue Office                  |             |           |           |
| Condominium                              | 49.5%       | 2,019     | 1,715     |
| 330 Madison Avenue                       | 25.0%       | 1,304     | 794       |
| One Park Avenue                          | 30.3%       | 457       | 331       |
| Rosslyn Plaza                            | 43.7%-50.4% | (446)     | 158       |
| 1101 17th Street                         | 55.0%       | 384       | 683       |
| West 57th Street Properties              | 50.0%       | 172       | 313       |
| Fairfax Square                           | 20.0%       | (45)      | (12)      |
| Other partially owned office buildings   | Various     | 488       | 527       |
| Other investments:                       |             |           |           |
| Downtown Crossing, Boston <sup>(2)</sup> | 50.0%       | (2,374)   | (334)     |
| Monmouth Mall                            | 50.0%       | 859       | 362       |
| Independence Plaza <sup>(3)</sup>        | n/a         | -         | 1,682     |
| Other investments <sup>(4)</sup>         | Various     | (198)     | 638       |
|  |             | \$ 20,766 | \$ 19,660 |

(1)

In the first quarter of 2013, we began accounting for our investment in Lexington as a marketable equity security - available for sale.

(2)

On April 24, 2013, the joint venture sold the site in Downtown Crossing, Boston, and we received approximately \$45,000 for our 50% interest. In connection therewith we recognized a \$2,335 impairment loss in the first quarter.

(3)

In December 2012, we acquired a 58.75% interest in Independence Plaza and began to consolidate the accounts of the property into our consolidated financial statements.

(4)

Includes interests in 85 10th Avenue, Fashion Centre Mall, 50-70 West 93rd Street and others.

**Results of Operations – Three Months Ended March 31, 2013 Compared to March 31, 2012 - continued**Income from Real Estate Fund

Below are the components of the income from our Real Estate Fund for the three months ended March 31, 2013 and 2012.

| (Amounts in thousands)  | <b>For the Three Months Ended March 31,</b> |             |
|---|---|-------------|
|   | <b>2013</b>                                 | <b>2012</b> |
| Operating income  | \$ 3,048                                    | \$ 4,918    |
| Net unrealized gains  | 13,516                                      | 6,844       |
| Income from Real Estate Fund  | 16,564                                      | 11,762      |
| Less (income) attributable to noncontrolling interests              | (9,540)                                     | (7,933)     |
| Income from Real Estate Fund attributable to Vornado <sup>(1)</sup> | \$ 7,024                                    | \$ 3,829    |

(1) Excludes management, leasing and development fees of \$682 and \$703 for the three months ended March 31, 2013 and 2012, respectively, which are included as a component of "fee and other income" on our consolidated statements of income.

Interest and Other Investment (Loss) Income, net

Interest and other investment (loss) income, net (comprised of impairment losses on marketable equity securities, the mark-to-market of derivative positions in marketable equity securities, interest income on mortgage and mezzanine loans receivable and other interest and dividend income) was a loss of \$49,074,000 in the three months ended March 31, 2013, compared to income of \$15,665,000 in the prior year's three months, a decrease in income of \$64,739,000. This decrease resulted from:

|   |             |
|---|-------------|
| (Amounts in thousands)  |             |
| Non-cash impairment loss on J.C. Penney owned shares in 2013  | \$ (39,487) |
| J.C. Penney derivative position (\$22,540 mark-to-market loss in 2013, compared to a \$1,045 mark-to-market gain in 2012) | (23,585)    |

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|   |   |             |
|---|---|-------------|
| Decrease in the value of investments in our deferred compensation plan (offset by a corresponding |   |             |
|   | increase in the liability for plan assets in general and administrative expenses) | (681)       |
| Other, net  |   | (986)       |
|   |   | \$ (64,739) |

Interest and Debt Expense

Interest and debt expense was \$121,888,000 in the three months ended March 31, 2013, compared to \$130,059,000 in the prior year's three months, a decrease of \$8,171,000. This decrease was primarily due to \$8,244,000 of higher capitalized interest in the current period.

Net Loss on Disposition of Wholly Owned and Partially Owned Assets

Net loss on disposition of wholly owned and partially owned assets was \$36,724,000 in the three months ended March 31, 2013, and resulted primarily from the sale of 10,000,000 J.C. Penney common shares.

Income Tax Expense

Income tax expense was \$1,073,000 in the three months ended March 31, 2013, compared to \$6,825,000 in the prior year's three months, a decrease of \$5,752,000. This decrease resulted primarily from a \$4,277,000 income tax provision in the prior year's three months applicable to a taxable REIT subsidiary that was liquidated in the fourth quarter of 2012.

**Results of Operations – Three Months Ended March 31, 2013 Compared to March 31, 2012 - continued**Income from Discontinued Operations

We have reclassified the revenues and expenses of the properties that were sold and that are currently held for sale to “income from discontinued operations” and the related assets and liabilities to “assets related to discontinued operations” and “liabilities related to discontinued operations” for all the periods presented in the accompanying financial statements. The table below sets forth the combined results of assets related to discontinued operations for the three months ended March 31, 2013 and 2012.

| (Amounts in thousands)                   | <b>For the Three Months Ended March 31,</b> |             |
|--|---|-------------|
|  | <b>2013</b>                                 | <b>2012</b> |
| Total revenues                           | \$ 23,686                                   | \$ 59,934   |
| Total expenses                           | 17,440                                      | 44,379      |
|  | 6,246                                       | 15,555      |
| Net gain on sale of Green Acres Mall     | 202,275                                     | -           |
| Net gain on sale of 350 West Mart Center | -   | 54,911      |
| Impairment loss                          | (1,514)                                     | -           |
| Net gains on sale of other real estate   | 54  | 906         |
| Income from discontinued operations      | \$ 207,061                                  | \$ 71,372   |

Net Income Attributable to Noncontrolling Interests in Consolidated Subsidiaries

Net income attributable to noncontrolling interests in consolidated subsidiaries was \$11,286,000 in the three months ended March 31, 2013, compared to \$9,597,000 in the prior year’s three months, an increase of \$1,689,000. This increase resulted primarily from a \$1,607,000 increase in income allocated to the noncontrolling interests of our Real Estate Fund.

Net Income Attributable to Noncontrolling Interests in the Operating Partnership

Net income attributable to noncontrolling interests in the Operating Partnership was \$13,933,000 in the three months ended March 31, 2013, compared to \$15,271,000 in the prior year's three months, a decrease of \$1,338,000. This decrease resulted primarily from lower net income subject to allocation to unitholders.

#### Preferred Unit Distributions of the Operating Partnership

Preferred unit distributions of the Operating Partnership were \$786,000 in the three months ended March 31, 2013, compared to \$3,874,000 in the prior year's three months, a decrease of \$3,088,000. This decrease resulted from the redemption of the 7.0% Series D-10 and 6.75% Series D-14 cumulative redeemable preferred units in July 2012.

#### Preferred Share Dividends

Preferred share dividends were \$21,702,000 in the three months ended March 31, 2013, compared to \$17,787,000 in the prior year's three months, an increase of \$3,915,000. This increase resulted primarily from the issuance of \$300,000,000 of 5.70% Series K cumulative redeemable preferred shares in July 2012, and \$300,000,000 of 5.40% Series L cumulative redeemable preferred shares in January 2013, partially offset by the redemption of \$262,500,000 of 6.75% Series F and Series H cumulative redeemable preferred shares in February 2013 and \$75,000,000 of 7.0% Series E cumulative redeemable preferred shares in August 2012.

#### Preferred Share Redemptions

In the three months ended March 31, 2013, we recognized \$9,230,000 of expense in connection with the redemption of the 6.75% Series F and Series H cumulative redeemable preferred shares.

**Results of Operations – Three Months Ended March 31, 2013 Compared to March 31, 2012 - continued**Reconciliation of EBITDA to Same Store EBITDA

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

Below are same store EBITDA results on a GAAP and cash basis for each of our segments and a reconciliation of EBITDA to same store EBITDA for the three months ended March 31, 2013 and 2012.

| (Amounts in thousands)  | <b>New York</b> | <b>Washington,<br/>DC</b> | <b>Retail<br/>Properties</b> |
|---|-----------------|---------------------------|------------------------------|
| EBITDA for the three months ended March 31, 2013  | \$ 217,537      | \$ 86,244                 | \$ 322,326                   |
| Add-back: non-property level overhead expenses included above   | 8,822           | 6,925                     | 5,415                        |
| Less: EBITDA from acquisitions, dispositions and other non-operating income or expenses                             | (24,046)        | (2,274)                   | (268,598)                    |
| GAAP basis same store EBITDA for the three months ended March 31, 2013  | 202,313         | 90,895                    | 59,143                       |
| Less: Adjustments for straight-line rents, amortization of below-market leases, net, and other non-cash adjustments | (26,212)        | (3,944)                   | (3,114)                      |
| Cash basis same store EBITDA for the three months ended March 31, 2013  | \$ 176,101      | \$ 86,951                 | \$ 56,029                    |
| EBITDA for the three months ended March 31, 2012  | \$ 192,952      | \$ 100,512                | \$ 70,743                    |
| Add-back: non-property level overhead expenses included above   | 8,587           | 6,950                     | 6,333                        |
| Revenues  |                 |                           | 111                          |

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|  |            |            |           |
|--|------------|------------|-----------|
| Less: EBITDA from acquisitions, dispositions and other non-operating           |            |            |           |
| income or expenses   | (8,051)    | (9,288)    | (19,571)  |
| GAAP basis same store EBITDA for the three months ended March 31, 2012         | 193,488    | 98,174     | 57,505    |
| Less: Adjustments for straight-line rents, amortization of below-market        |            |            |           |
| leases, net, and other non-cash adjustments                                    | (32,030)   | (2,189)    | (2,664)   |
| Cash basis same store EBITDA for the three months ended March 31, 2012         | \$ 161,458 | \$ 95,985  | \$ 54,841 |
| <br>   |            |            |           |
| Increase (decrease) in GAAP basis same store EBITDA for the three months ended |            |            |           |
| March 31, 2013 over the three months ended March 31, 2012                      | \$ 8,825   | \$ (7,279) | \$ 1,638  |
| <br>   |            |            |           |
| Increase (decrease) in Cash basis same store EBITDA for the three months ended |            |            |           |
| March 31, 2013 over the three months ended March 31, 2012                      | \$ 14,643  | \$ (9,034) | \$ 1,188  |
| <br>   |            |            |           |
| % increase (decrease) in GAAP basis same store EBITDA                          | 4.6%       | (7.4%)     | 2.8%      |
| % increase (decrease) in Cash basis same store EBITDA                          | 9.1%       | (9.4%)     | 2.2%      |

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## SUPPLEMENTAL INFORMATION

**Reconciliation of EBITDA to Same Store EBITDA - Three Months Ended March 31, 2013 vs. December 31, 2012**

Below are the same store EBITDA results on a GAAP and cash basis for each of our segments and a reconciliation of EBITDA to Same Store EBITDA for the three months ended March 31, 2013 and December 31, 2012.

| (Amounts in thousands)  | <b>New York</b> | <b>Washington,<br/>DC</b> | <b>Retail<br/>Properties</b> |
|---|-----------------|---------------------------|------------------------------|
| EBITDA for the three months ended March 31, 2013  | \$ 217,537      | \$ 86,244                 | \$ 322,326                   |
| Add-back: non-property level overhead expenses included above   | 8,822           | 6,925                     | 5,415                        |
| Less: EBITDA from acquisitions, dispositions and other non-operating income or expenses                             | (23,775)        | (2,274)                   | (268,598)                    |
| GAAP basis same store EBITDA for the three months ended March 31, 2013  | 202,584         | 90,895                    | 59,143                       |
| Less: Adjustments for straight-line rents, amortization of below-market leases, net, and other non-cash adjustments | (26,212)        | (3,944)                   | (3,114)                      |
| Cash basis same store EBITDA for the three months ended March 31, 2013  | \$ 176,372      | \$ 86,951                 | \$ 56,029                    |
| <br>  |                 |                           |                              |
| EBITDA for the three months ended December 31, 2012 <sup>(1)</sup>  | \$ 407,823      | \$ 118,021                | \$ (20,074)                  |
| Add-back: non-property level overhead expenses included above   | 8,073           | 7,388                     | 4,851                        |
| Less: EBITDA from acquisitions, dispositions and other non-operating income or expenses                             | (201,038)       | (40,209)                  | 75,643                       |
| GAAP basis same store EBITDA for the three months ended December 31, 2012   | 214,858         | 85,200                    | 60,420                       |
| Less: Adjustments for straight-line rents, amortization of below-market   | (23,781)        | (775)                     | (3,738)                      |
| <br>  |                 |                           |                              |
| Revenues  |                 |                           | 113                          |

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|  |             |           |            |
|--|-------------|-----------|------------|
| leases, net, and other<br>non-cash adjustments<br>Cash basis same store EBITDA for the three months<br>ended December 31, 2012                       | \$ 191,077  | \$ 84,425 | \$ 56,682  |
| (Decrease) increase in GAAP basis same store<br>EBITDA for the three months<br>ended March 31, 2013 over the three<br>months ended December 31, 2012 | \$ (12,274) | \$ 5,695  | \$ (1,277) |
| (Decrease) increase in Cash basis same store<br>EBITDA for three months<br>ended March 31, 2013 over the three<br>months ended December 31, 2012     | \$ (14,705) | \$ 2,526  | \$ (653)   |
| % (decrease) increase in GAAP basis same store<br>EBITDA   | (5.7%)      | 6.7%      | (2.1%)     |
| % (decrease) increase in Cash basis same store<br>EBITDA   | (7.7%)      | 3.0%      | (1.2%)     |

(1) Below is the reconciliation of net income (loss) to EBITDA for the three months ended December 31, 2012.

| (Amounts in thousands)   | New York   | Washington,<br>DC | Retail<br>Properties |
|--|------------|-------------------|----------------------|
| Net income (loss) attributable to Vornado for the<br>three months ended<br>December 31, 2012 | \$ 295,411 | \$ 48,642         | \$ (56,641)          |
| Interest and debt expense  | 47,561     | 34,139            | 15,789               |
| Depreciation and amortization  | 63,777     | 34,829            | 20,778               |
| Income tax expense   | 1,074      | 411               | -                    |
| EBITDA for the three months ended December 31,<br>2012                                       | \$ 407,823 | \$ 118,021        | \$ (20,074)          |

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## Liquidity and Capital Resources

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

We anticipate that cash flow from continuing operations over the next twelve months will be adequate to fund our business operations, cash distributions to unitholders of the Operating Partnership, cash dividends to shareholders, debt amortization and recurring capital expenditures. Capital requirements for development expenditures and acquisitions (excluding Fund acquisitions) may require funding from borrowings and/or equity offerings. Our Real Estate Fund has aggregate unfunded commitments of \$257,956,000 for acquisitions, including \$64,489,000 from us.

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

### *Cash Flows for the Three Months Ended March 31, 2013*

Our cash and cash equivalents were \$585,823,000 at March 31, 2013, a \$374,496,000 decrease over the balance at December 31, 2012. Our consolidated outstanding debt was \$10,421,179,000 at March 31, 2013, a \$770,155,000 decrease over the balance at December 31, 2012. As of March 31, 2013 and December 31, 2012, \$0 and \$1,170,000,000, respectively, was outstanding under our revolving credit facilities. During the remainder of 2013 and 2014, \$654,713,000 and \$237,784,000, respectively, of our outstanding debt matures; we may refinance this maturing debt as it comes due or choose to repay it.

Cash flows provided by operating activities of \$414,927,000 was comprised of (i) net income of \$288,927,000, (ii) the net change in operating assets and liabilities of \$65,010,000, including \$13,668,000 related to Real Estate Fund investments, (iii) return of capital from Real Estate Fund investments of \$56,664,000, and (iv) distributions of income from partially owned entities of \$10,627,000, partially offset by (v) \$6,301,000 of non-cash adjustments, which include depreciation and amortization expense, the effect of straight-lining of rental income, equity in net income of partially owned entities and net gains on sale of real estate.

Net cash provided by investing activities of \$527,685,000 was comprised of (i) \$499,369,000 of proceeds from sales of real estate and related investments, (ii) \$160,300,000 of proceeds from the sale of marketable securities, (iii) \$38,900,000 from the return of the J.C. Penney derivative collateral, (iv) \$14,149,000 of changes in restricted cash, (v) \$5,544,000 of capital distributions from partially owned entities, and (vi) \$631,000 of proceeds from repayments of mezzanine loans, partially offset by (vii) \$58,522,000 for the funding of the J.C. Penney derivative collateral, (viii) \$57,460,000 of additions to real estate, (ix) \$39,892,000 of investments in partially owned entities, and (x) \$35,334,000 of development costs and construction in progress.

Net cash used in financing activities of \$1,317,108,000 was comprised of (i) \$2,529,836,000 for the repayments of borrowings, (ii) \$262,500,000 for purchases of outstanding preferred units and shares, (iii) \$172,142,000 of distributions to noncontrolling interests, (iv) \$136,342,000 of dividends paid on common shares, (v) \$23,161,000 of dividends paid on preferred shares, (vi) \$9,080,000 of debt issuance and other costs, and (vii) \$305,000 for the repurchase of shares related to stock compensation agreements and related tax holdings, partially offset by (viii) \$1,499,375,000 of proceeds from borrowings, (ix) \$290,710,000 of proceeds from the issuance of preferred shares, (x) \$24,566,000 of contributions from noncontrolling interests in consolidated subsidiaries, and (xi) \$1,607,000 of proceeds from exercise of employee share options.

**Liquidity and Capital Resources – continued***Capital Expenditures in the three months ended March 31, 2013*

Capital expenditures consist of expenditures to maintain assets, tenant improvement allowances and leasing commissions. Recurring capital expenditures include expenditures to maintain a property's competitive position within the market and tenant improvements and leasing commissions necessary to re-lease expiring leases or renew or extend existing leases. Non-recurring capital improvements include expenditures to lease space that has been vacant for more than nine months and expenditures completed in the year of acquisition and the following two years that were planned at the time of acquisition, as well as tenant improvements and leasing commissions for space that was vacant at the time of acquisition of a property. Below is a summary of capital expenditures, leasing commissions and a reconciliation of total expenditures on an accrual basis to the cash expended in the three months ended March 31, 2013.

| (Amounts in thousands)   | <b>Total</b> | <b>New York</b> | <b>Washington,<br/>DC</b> | <b>Retail<br/>Properties</b> | <b>Other</b> |
|--|--------------|-----------------|---------------------------|------------------------------|--------------|
| Expenditures to maintain assets                                    | \$ 5,267     | \$ 3,636        | \$ 1,496                  | \$ 103                       | \$ 32        |
| Tenant improvements  | 55,505       | 39,517          | 12,931                    | 2,296                        | 761          |
| Leasing commissions  | 21,026       | 18,418          | 2,023                     | 585                          | -            |
| Non-recurring capital expenditures                                 | 1,576        | 1,576           | -                         | -                            | -            |
| Total capital expenditures and leasing commissions (accrual basis) | 83,374       | 63,147          | 16,450                    | 2,984                        | 793          |
| Adjustments to reconcile to cash basis:                            |              |                 |                           |                              |              |
| Expenditures in the current year                                   |              |                 |                           |                              |              |
| applicable to prior periods  | 37,330       | 9,192           | 7,718                     | 2,019                        | 18,401       |
| Expenditures to be made in future periods for the current period   | (45,265)     | (30,579)        | (14,539)                  | (2,881)                      | 2,734        |
| Total capital expenditures and leasing commissions (cash basis)    | \$ 75,439    | \$ 41,760       | \$ 9,629                  | \$ 2,122                     | \$ 21,928    |
| <i>Tenant improvements and leasing commissions:</i>                |              |                 |                           |                              |              |
| <i>Per square foot per annum</i>                                   | \$ 3.83      | \$ 4.56         | \$ 8.44                   | \$ 0.61                      | \$ -         |
| <i>Percentage of initial rent</i>                                  | 9.2%         | 7.2%            | 20.7%                     | 3.6%                         | -            |

*Development and Redevelopment Expenditures in the three months ended March 31, 2013*

Development and redevelopment expenditures consist of all hard and soft costs associated with the development or redevelopment of a property, including tenant improvements, leasing commissions, capitalized interest and operating costs until the property is substantially completed and ready for its intended use. Below is a summary of development and redevelopment expenditures incurred in the three months ended March 31, 2013.

| (Amounts in thousands)                    | <b>Total</b> | <b>New York</b> | <b>Retail</b>             |                   |              |
|---|--------------|-----------------|---------------------------|-------------------|--------------|
|   |              |                 | <b>Washington,<br/>DC</b> | <b>Properties</b> | <b>Other</b> |
| Springfield Mall                          | \$ 8,792     | \$ -            | \$ -                      | \$ 8,792          | \$ -         |
| 1290 Avenue of the Americas               | 6,105        | 6,105           | -                         | -                 | -            |
| 220 Central Park South                    | 3,914        | -               | -                         | -                 | 3,914        |
| 1540 Broadway                             | 2,707        | 2,707           | -                         | -                 | -            |
| Marriott Marquis Times Square -<br>retail |              |                 |                           |                   |              |
| and signage                               | 2,695        | 2,695           | -                         | -                 | -            |
| LED Signage                               | 2,228        | 2,228           | -                         | -                 | -            |
| North Plainfield, New Jersey              | 1,071        | -               | -                         | 1,071             | -            |
| Other                                     | 7,822        | 1,621           | 5,205                     | 807               | 189          |
|   | \$ 35,334    | \$ 15,356       | \$ 5,205                  | \$ 10,670         | \$ 4,103     |

We are in the process of a renovation of the Springfield Mall, which is expected to be substantially completed in 2014. The estimated cost of this project is approximately \$225,000,000, of which \$21,500,000 was expended prior to 2013 and \$100,000,000 is expected to be expended in 2013 and the balance is to be expended in 2014. There can be no assurance that this project will be completed on schedule or within budget.

**Liquidity and Capital Resources – continued**

*Cash Flows for the Three Months Ended March 31, 2012*

Our cash and cash equivalents were \$614,359,000 at March 31, 2012, a \$7,806,000 increase over the balance at December 31, 2011. This increase was primarily due to cash flows from operating and investing activities, partially offset by cash flows from financing activities, as discussed below.

Cash flows provided by operating activities of \$307,103,000 was comprised of (i) net income of \$280,264,000, (ii) distributions of income from partially owned entities of \$14,194,000, and (iii) the net change in operating assets and liabilities of \$95,004,000, including \$28,980,000 related to Real Estate Fund investments, partially offset by (iv) \$82,359,000 of non-cash adjustments, which include depreciation and amortization expense, the effect of straight-lining of rental income, equity in net income of partially owned entities and net gains on sale of real estate.

Net cash provided by investing activities of \$172,095,000 was comprised of (i) \$306,022,000 of proceeds from sales of real estate and related investments, (ii) \$4,203,000 of capital distributions from partially owned entities, (iii) \$13,123,000 of proceeds from the repayment of loan to officer, and (iv) \$554,000 of proceeds from sales and repayments of mezzanine loans, partially offset by (v) \$46,732,000 of investments in partially owned entities, (vi) \$44,052,000 of additions to real estate, (vii) \$20,614,000 of development costs and construction in progress, (viii) \$21,054,000 of acquisitions of real estate, and (ix) \$19,355,000 of changes in restricted cash.

Net cash used in financing activities of \$471,392,000 was comprised of (i) \$884,679,000 for the repayments of borrowings, (ii) \$127,973,000 of dividends paid on common shares, (iii) \$34,092,000 of distributions to noncontrolling interests, (iv) \$30,034,000 for the repurchase of shares related to stock compensation agreements and related tax holdings, (v) \$17,789,000 of dividends paid on preferred shares, and (vi) \$9,822,000 of debt issuance and other costs, partially offset by (vii) \$625,000,000 of proceeds from borrowings and (viii) \$7,997,000 of proceeds from exercise of employee share options.

**Liquidity and Capital Resources – continued***Capital Expenditures in the three months ended March 31, 2012*

| (Amounts in thousands)   | <b>Total</b> | <b>New York</b> | <b>Retail</b>             |                   |              |
|--|--------------|-----------------|---------------------------|-------------------|--------------|
|  |              |                 | <b>Washington,<br/>DC</b> | <b>Properties</b> | <b>Other</b> |
| Expenditures to maintain assets                                    | \$ 7,728     | \$ 4,234        | \$ 1,195                  | \$ 428            | \$ 1,871     |
| Tenant improvements  | 38,512       | 14,198          | 16,374                    | 5,840             | 2,100        |
| Leasing commissions  | 12,712       | 7,719           | 3,892                     | 1,087             | 14           |
| Non-recurring capital expenditures                                 | 799          | 185             | -                         | -                 | 614          |
| Total capital expenditures and leasing commissions (accrual basis) | 59,751       | 26,336          | 21,461                    | 7,355             | 4,599        |
| Adjustments to reconcile to cash basis:                            |              |                 |                           |                   |              |
| Expenditures in the current year                                   |              |                 |                           |                   |              |
| applicable to prior periods  | 40,067       | 14,685          | 10,946                    | 3,595             | 10,841       |
| Expenditures to be made in future periods for the current period   | (43,359)     | (16,004)        | (18,720)                  | (5,620)           | (3,015)      |
| Total capital expenditures and leasing commissions (cash basis)    | \$ 56,459    | \$ 25,017       | \$ 13,687                 | \$ 5,330          | \$ 12,425    |
| <i>Tenant improvements and leasing commissions:</i>                |              |                 |                           |                   |              |
| <i>Per square foot per annum</i>                                   | \$ 3.71      | \$ 4.95         | \$ 5.28                   | \$ 1.55           | \$ -         |
| <i>Percentage of initial rent</i>                                  | 9.0%         | 7.6%            | 13.1%                     | 7.7%              | -            |

*Development and Redevelopment Expenditures in the three months ended March 31, 2012*

| (Amounts in thousands) | <b>Total</b> | <b>New York</b> | <b>Retail</b>             |                   |              |
|------------------------|--------------|-----------------|---------------------------|-------------------|--------------|
|                        |              |                 | <b>Washington,<br/>DC</b> | <b>Properties</b> | <b>Other</b> |
| Bergen Town Center     | \$ 3,979     | \$ -            | \$ -                      | \$ 3,979          | \$ -         |

Revenues

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|                        |           |          |          |           |        |
|------------------------|-----------|----------|----------|-----------|--------|
| Beverly Connection     | 3,437     | -        | -        | 3,437     | -      |
| 510 Fifth Avenue       | 2,294     | 2,294    | -        | -         | -      |
| Poughkeepsie, New York | 1,108     | -        | -        | 1,108     | -      |
| Other                  | 9,796     | 2,990    | 3,945    | 2,262     | 599    |
|                        | \$ 20,614 | \$ 5,284 | \$ 3,945 | \$ 10,786 | \$ 599 |

## **Liquidity and Capital Resources – continued**

### *Other Commitments and Contingencies*

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

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

Our mortgage loans are non-recourse to us. However, in certain cases we have provided guarantees or master leased tenant space. These guarantees and master leases terminate either upon the satisfaction of specified circumstances or repayment of the underlying loans. As of March 31, 2013, the aggregate dollar amount of these guarantees and master leases is approximately \$305,000,000.

At March 31, 2013, \$22,167,000 of letters of credit were outstanding under one of our revolving credit facilities. Our 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 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.

Two of our wholly owned subsidiaries that are contracted to develop and operate the Cleveland Medical Mart and Convention Center, in Cleveland, Ohio, are required to fund \$11,500,000, primarily for tenant improvements, and they are responsible for operating expenses and are entitled to the net operating income, if any, upon the completion of development and the commencement of operations. As of March 31, 2013, our subsidiaries have funded approximately \$4,000,000 of the commitment.

As of March 31, 2013, we expect to fund additional capital to certain of our partially owned entities aggregating approximately \$169,000,000.

**Funds From Operations (“FFO”)**

FFO is computed in accordance with the definition adopted by the Board of Governors of the National Association of Real Estate Investment Trusts (“NAREIT”). NAREIT defines FFO as GAAP net income or loss adjusted to exclude net gain from sales of depreciated real estate assets, real estate impairment losses, depreciation and amortization expense from real estate assets, extraordinary items and other specified non-cash items, including the pro-rata share of such adjustments of unconsolidated subsidiaries. FFO and FFO per diluted share are used by management, investors and analysts to facilitate meaningful comparisons of operating performance between periods and among our peers because it excludes the effect of real estate depreciation and amortization and net gains on sales, which are based on historical costs and implicitly assume that the value of real estate diminishes predictably over time, rather than fluctuating based on existing market conditions. FFO does not represent cash generated from operating activities and is not necessarily indicative of cash available to fund cash requirements and should not be considered as an alternative to net income as a performance measure or cash flows as a liquidity measure. FFO may not be comparable to similarly titled measures employed by other companies. The calculations of both the numerator and denominator used in the computation of income per share are disclosed in footnote 21 – *Income per Share*, in the notes to our consolidated financial statements on page 30 of this Quarterly Report on Form 10-Q.

*FFO for the Three Months Ended March 31, 2013 and 2012*

FFO attributable to common shareholders plus assumed conversions was \$201,820,000, or \$1.08 per diluted share for the three months ended March 31, 2013, compared to \$348,452,000, or \$1.82 per diluted share, for the prior year’s quarter. Details of certain items that affect comparability are discussed in the financial results summary of our “Overview.”

| (Amounts in thousands, except per share amounts)   | <b>For The Three Months<br/>Ended March 31,</b> |             |
|--|---|-------------|
|  | <b>2013</b>                                     | <b>2012</b> |
| <b>Reconciliation of our net income to FFO:</b>  |   |             |
| Net income attributable to Vornado   | \$ 262,922                                      | \$ 251,522  |
| Depreciation and amortization of real property   | 132,513   | 132,558     |
| Net gains on sale of real estate   | (202,329)                                       | (55,817)    |
| Real estate impairment losses  | 1,514   | -           |
| Proportionate share of adjustments to equity in net income<br>of Toys, to arrive at FFO: |   |             |
| Depreciation and amortization of real<br>property  | 19,325  | 17,288      |
| Real estate impairment losses  | 3,650   | 7,026       |
| Income tax effect of above adjustments   | (8,050)   | (8,497)     |
| Proportionate share of adjustments to equity in net income of                            |   |             |

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partially owned entities, excluding Toys, to arrive at FFO:

|  |            |            |
|--|------------|------------|
| Depreciation and amortization of real property                   | 21,830     | 21,376     |
| Net gains on sale of real estate                                 | (465)      | (661)      |
| Real estate impairment losses                                    | -          | 1,849      |
| Noncontrolling interests' share of above adjustments             | 1,814      | (7,060)    |
| FFO  | 232,724    | 359,584    |
| Preferred share dividends  | (21,702)   | (17,787)   |
| Preferred share redemptions                                      | (9,230)    | -          |
| FFO attributable to common shareholders                          | 201,792    | 341,797    |
| Interest on 3.88% exchangeable senior debentures                 | -          | 6,626      |
| Convertible preferred share dividends                            | 28         | 29         |
| FFO attributable to common shareholders plus assumed conversions | \$ 201,820 | \$ 348,452 |

**Reconciliation of Weighted Average Shares**

|  |         |         |
|--|---------|---------|
| Weighted average common shares outstanding         | 186,752 | 185,370 |
| Effect of dilutive securities:                     |         |         |
| Employee stock options and restricted share awards | 727     | 730     |
| Convertible preferred shares                       | 50      | 50      |
| 3.88% exchangeable senior debentures               | -       | 5,736   |
| Denominator for FFO per diluted share              | 187,529 | 191,886 |

|  |         |         |
|--|---------|---------|
| FFO attributable to common shareholders plus assumed conversions per diluted share | \$ 1.08 | \$ 1.82 |
|--|---------|---------|

**Item 3. Quantitative and Qualitative Disclosures About Market Risk**

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

(Amounts in thousands, except per share amounts)

|  | 2013          |               | Effect of | 2012          |               |
|--|---------------|---------------|-----------|---------------|---------------|
|  | Weighted      |               | 1%        | Weighted      |               |
|  | Average       | Change        | In        | Average       | Change        |
|  | March 31,     | In            | Base      | December      | In            |
|  | Balance       | Interest Rate | Rates     | Balance       | Interest Rate |
| Consolidated debt:   |               |               |           |               |               |
| Variable rate  | \$ 1,601,651  | 2.18%         | \$ 16,017 | \$ 3,062,325  | 1.85%         |
| Fixed rate   | 8,819,528     | 5.05%         | -         | 8,129,009     | 5.18%         |
|  | \$ 10,421,179 | 4.61%         | 16,017    | \$ 11,191,334 | 4.27%         |
| Pro-rata share of debt of non-consolidated entities (non-recourse):              |               |               |           |               |               |
| Variable rate – excluding Toys   | \$ 287,240    | 2.99%         | 2,872     | \$ 264,531    | 2.88%         |
| Variable rate – Toys   | 644,176       | 6.19%         | 6,442     | 703,922       | 5.69%         |
| Fixed rate (including \$1,078,676 and \$1,148,407 of Toys debt in 2013 and 2012) | 2,758,709 (1) | 7.25%         | -         | 3,030,476     | 7.04%         |
|  | \$ 3,690,125  | 6.73%         | 9,314     | \$ 3,998,929  | 6.53%         |
| Noncontrolling interests' share of above   |               |               | (1,419)   |               |               |
| Total change in annual net income  |               |               | \$ 23,912 |               |               |
| Per share-diluted  |               |               | \$ 0.13   |               |               |

(1) Excludes \$23.7 billion for our 26.2% pro rata share of LNR's liabilities related to consolidated CMBS and CDO trusts which are non-recourse to LNR and its equity holders, including us.

We may utilize various financial instruments to mitigate the impact of interest rate fluctuations on our cash flows and earnings, including hedging strategies, depending on our analysis of the interest rate environment and the costs and risks of such strategies. As of March 31, 2013, we have one interest rate cap with a principal amount of \$60,000,000 and an interest rate of 2.36%. This cap is based on a notional amount of \$60,000,000 and caps LIBOR at a rate of 7.00%. In addition, we have one interest rate swap on a \$425,000,000 mortgage loan that swapped the rate from LIBOR plus 2.00% (2.20% at March 31, 2013) to a fixed rate of 5.13% for the remaining five-year term of the loan.

As of March 31, 2013, we have investments in mezzanine loans with an aggregate carrying amount of \$150,149,000 that are based on variable interest rates which partially mitigate our exposure to a change in interest rates on our variable rate debt.

*Fair Value of Debt*

The estimated fair value of our consolidated debt is calculated based on current market prices and discounted cash flows at the rate at which similar loans could be made currently to borrowers with similar credit ratings, for the remaining term of such debt. As of March 31, 2013, the estimated fair value of our consolidated debt was \$10,673,000,000.

*Derivative Instruments*

We have, and may in the future enter into, derivative positions that do not qualify for hedge accounting treatment, including our economic interest in J.C. Penney common shares. Because these derivatives do not qualify for hedge accounting treatment, the gains or losses resulting from their mark-to-market at the end of each reporting period are recognized as an increase or decrease in “interest and other investment income, net” on our consolidated statements of income. In addition, we are, and may in the future be, subject to additional expense based on the notional amount of the derivative positions and a specified spread over LIBOR. Because the market value of these instruments can vary significantly between periods, we may experience significant fluctuations in the amount of our investment income or expense in any given period. In the three months ended March 31, 2013 and 2012, we recognized a loss of \$22,540,000 and income of \$1,045,000, respectively, from derivative instruments.

**Item 4. Controls and Procedures**

Disclosure Controls and Procedures: The Company's management, with the participation of the Company's Chief Executive Officer and Chief Financial Officer, has evaluated the effectiveness of the Company's disclosure controls and procedures (as such term is defined in Rule 13a-15(e) under the Securities Exchange Act of 1934, as amended) as of the end of the period covered by this report. Based on such evaluation, the Company's Chief Executive Officer and Chief Financial Officer have concluded that, as of March 31, 2013, such disclosure controls and procedures were effective.

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



**PART II. OTHER INFORMATION**

**Item 1. Legal Proceedings**

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

**Item 1A. Risk Factors**

There were no material changes to the Risk Factors disclosed in our Annual Report on Form 10-K for the year ended December 31, 2012.

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

During the first quarter of 2013, we issued 1,069 common shares upon the redemption of Class A units of the Operating Partnership held by persons who received units, in private placements in earlier periods, in exchange for their interests in limited partnerships that owned real estate. The common shares were issued without registration under the Securities Act of 1933 in reliance on Section 4 (2) of that Act.

Information relating to compensation plans under which our equity securities are authorized for issuance is set forth under Part III, Item 12 of the Annual Report on Form 10-K for the year ended December 31, 2012, and such information is incorporated by reference herein.

**Item 3. Defaults Upon Senior Securities**

None.

**Item 4. Mine Safety Disclosures**

Not applicable.

**Item 5. Other Information**

None.

**Item 6. Exhibits**

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

## SIGNATURES

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

**VORNADO REALTY TRUST**  
(Registrant)

Date: May 6, 2013

By: /s/ Joseph Macnow  
Joseph Macnow, Executive Vice President –Finance  
and Administration and Chief Financial Officer  
(duly authorized officer and principal financial and  
accounting officer)

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**EXHIBIT INDEX****Exhibit No.**

|       |    |  |   |
|-------|----|--|---|
| 3.3   | -  | Articles Supplementary, 5.40% Series L Cumulative Redeemable Preferred Shares of Beneficial Interest, liquidation preference \$25.00 per share, no par value – Incorporated by reference to Exhibit 3.6 to Vornado Realty Trust’s Registration Statement on Form 8-A (File No. 001-11954), filed on January 25, 2013 | * |
| 3.49  | -  | Forty-Fifth Amendment to Second Amended and Restated Agreement of Limited Partnership, dated as of January 25, 2013 – Incorporated by reference to Exhibit 3.1 to Vornado Realty L.P.’s Current Report on Form 8-K (File No. 001-34482), filed on January 25, 2013   | * |
| 10.46 | ** | - Letter Agreement between Vornado Realty Trust and Michael D. Fascitelli, dated February 27, 2013. Incorporated by reference to Exhibit 99.1 to Vornado Realty Trust’s Current Report on Form 8-K (File No. 001-11954), filed on February 27, 2013  | * |
| 10.47 | ** | - Waiver and Release between Vornado Realty Trust and Michael D. Fascitelli, dated February 27, 2013. Incorporated by reference to Exhibit 99.2 to Vornado Realty Trust’s Current Report on Form 8-K (File No. 001-11954), filed on February 27, 2013  | * |
| 10.48 | -  | Amendment to June 2011 Revolving Credit Agreement dated as of March 28, 2013, by and among Vornado Realty L.P., as Borrower, the banks listed on the signature pages, and J.P. Morgan Chase Bank N.A., as Administrative Agent   |   |
| 10.49 | -  | Amendment to November 2011 Revolving Credit Agreement dated as of March 28, 2013, by and among Vornado Realty L.P., as Borrower, the banks listed on the signature pages, and J.P. Morgan Chase Bank N.A., as Administrative Agent   |   |
| 10.50 | ** | - Form of Vornado Realty Trust 2013 Outperformance Plan Award Agreement  |   |

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|         |   |  |
|---------|---|--|
| 15.1    | - | Letter regarding Unaudited Interim Financial                 |
| 31.1    | - | Rule 13a-14 (a) Certification of the Chief Executive Officer |
| 31.2    | - | Rule 13a-14 (a) Certification of the Chief Financial Officer |
| 32.1    | - | Section 1350 Certification of the Chief Executive Officer    |
| 32.2    | - | Section 1350 Certification of the Chief Financial Officer    |
| 101.INS | - | XBRL Instance Document                                       |
| 101.SCH | - | XBRL Taxonomy Extension Schema                               |
| 101.CAL | - | XBRL Taxonomy Extension Calculation Linkbase                 |
| 101.DEF | - | XBRL Taxonomy Extension Definition Linkbase                  |
| 101.LAB | - | XBRL Taxonomy Extension Label Linkbase                       |
| 101.PRE | - | XBRL Taxonomy Extension Presentation Linkbase                |

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\* Incorporated by reference  
\*\* Management contract or compensation agreement